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Comptroller

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Estimates*

April 12, 2021

Honorable Lawrence J. “Larry” Hogan
Governor of Maryland
State House
Annapolis, Maryland 21404

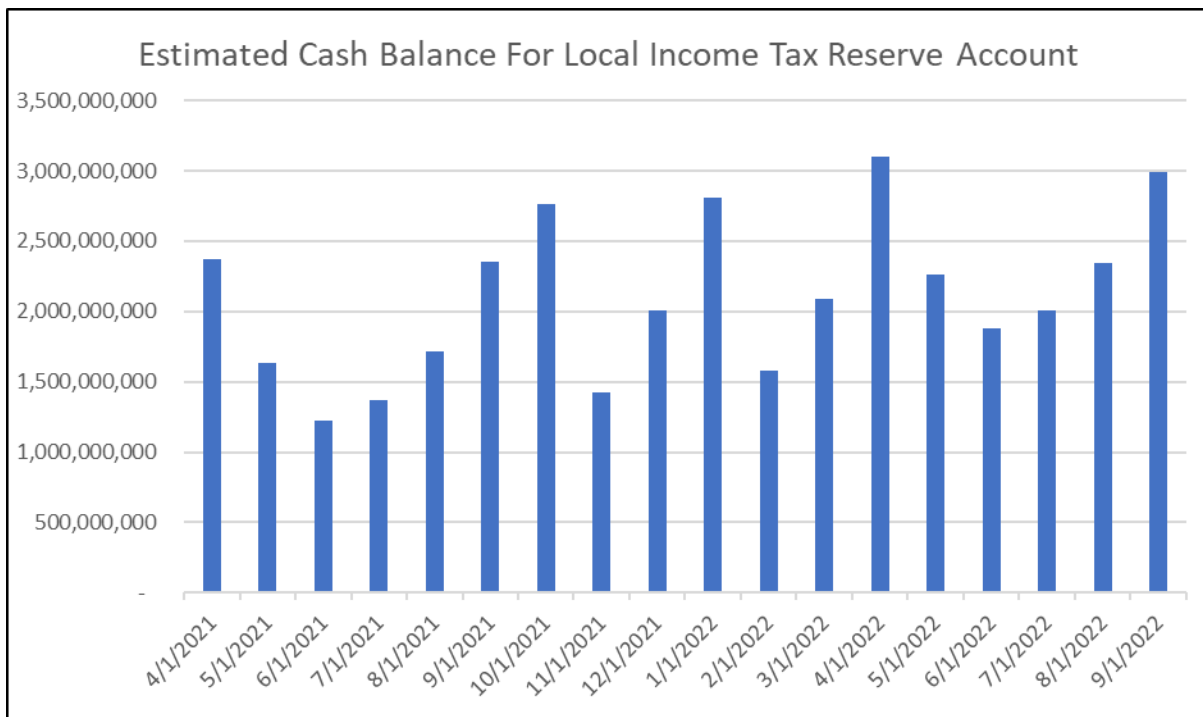
Honorable William C. Ferguson IV
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Adrienne A. Jones
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President, and Speaker:

Executive Summary

This report is submitted pursuant to Chapter 39 of the Maryland General Assembly 2021 Session. In order to complete this statutory task, we estimated cash flows and point-in-time balances for the local income tax reserve account (LITR), which we do not regularly estimate. As with any estimate we urge caution, continued income concentration and increasing reliance on non-wage sources that are dependent on capital markets and individual behavior (i.e., capital gains) makes point-in-time estimating very difficult. Furthermore, we do not assume any downturn. It is worth noting that when downturns arise, the LITR depletes rapidly, because the out-going funds are tied to the prior expansion, while incoming funds are collected in a downturn. This cash flow analysis only estimates the regular flows of the LITR, it does not include additional distributions that might result from Section 7 of the Budget Reconciliation and Financing Act of 2021 and it does not include additional distributions that might result from Section 11 of Chapter 39 as referenced above. The LITR is estimated by month in the chart below.



Cash Flow Mechanics

Inflow

The LITR is a State account which the Comptroller of Maryland (COM) deposits a share of the current net income tax collections in anticipation of deposited revenue being allocated as subdivision income tax revenue. The deposited revenue is always based on an estimate; when individuals make estimated payments or when businesses submit income tax withholding, COM does not know where the individuals live or will live at the end of the year and COM does not know what the taxpayers' final liabilities will be.

The share of collections deposited into the LITR is based on the most recently completed estimate of the personal income tax for the Board of Revenue Estimates. A percentage is reserved in a separate account in anticipation of future refunds, and a percentage of those net collections is then used for allocation to the LITR. For example: (1) Company A remits \$100,000 in income tax withholding for January 2021; (2) COM allocates 18% to a refund reserve account, leaving \$82,000; (3) COM allocates 38% of the remaining funds, totaling \$31,160 ($\$82,000 \times 38\% = \$31,160$), to the LITR. Naturally estimates of refunds and the eventual local share can be volatile – a small change in the local share can shift tens of millions of dollars from State coffers to the LITR or vice-versa.

Other non-ongoing income tax revenues are also allocated to the account on a net basis. COM is always receiving funds related to prior tax years through compliance efforts as well as late filed tax returns. Additionally, taxpayers may amend tax returns for prior years. While extremely volatile, these other net revenues are a small share of the total; current and ongoing collections are the material component of the LITR.

Outflow

Funds are also disbursed from the account prior to known residency or liability. Forward payment of income tax ensures that subdivisions do not need to wait until a taxpayer files their income tax return in order to receive the revenue. In the absence of such forward payments, a subdivision might have to wait twenty-two months to receive the funds (e.g., withholding in January 2021 might not have a timely filed processed return until October 2022). Payments are made based on the information from the most recently available tax year with reconciliations occurring when the respective tax year ends.

Cash Flow Details

Month-Year	Beginning Cash Balance	Inflow	Outflow	Ending Cash Balance
April-2021	1,435,622,066	931,906,749	-	2,367,528,815
May-2021	2,367,528,815	546,467,592	(1,284,435,015)	1,629,561,392
June-2021	1,629,561,392	576,930,592	(982,387,331)	1,224,104,652
July-2021	1,224,104,652	563,277,370	(418,944,495)	1,368,437,527
August-2021	1,368,437,527	454,230,725	(110,198,361)	1,712,469,891
September-2021	1,712,469,891	675,427,692	(30,171,545)	2,357,726,037
October-2021	2,357,726,037	577,560,447	(169,015,690)	2,766,270,794
November-2021	2,766,270,794	443,431,131	(1,789,397,045)	1,420,304,880
December-2021	1,420,304,880	586,168,717	-	2,006,473,597
January-2022	2,006,473,597	863,814,785	(58,518,750)	2,811,769,632
February-2022	2,811,769,632	499,216,239	(1,733,343,603)	1,577,642,269
March-2022	1,577,642,269	585,228,221	(78,021,377)	2,084,849,112
April-2022	2,084,849,112	1,019,171,492	-	3,104,020,604
May-2022	3,104,020,604	611,817,016	(1,457,701,984)	2,258,135,635
June-2022	2,258,135,635	683,228,993	(1,060,417,954)	1,880,946,675
July-2022	1,880,946,675	584,143,957	(455,522,709)	2,009,567,923
August-2022	2,009,567,923	458,467,544	(120,141,413)	2,347,894,055
September-2022	2,347,894,055	679,486,331	(32,091,744)	2,995,288,642

Sincerely,



Andrew Schaufele