An Overview of Revenue Estimating and Data Availability

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Revenue Estimates
Board of Revenue Estimates

• Comptroller Peter Franchot
• Treasurer Nancy Kopp
• Budget Secretary David Brinkley

• Andrew Schaufele, Executive Secretary
# Revenue Monitoring Committee

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Consensus Estimates

- Process set in statute
- Staff for major State government financial entities participate
- Strong working relationship
- Diversity of opinion
- Rigorous analysis and corrective feedback
- Process consistently praised by 3 major debt rating agencies
General Fund Background

1. Personal Income Tax - ~50% of all GFs
2. Sales Tax - ~ 28% of all GFs
3. Corporate Income Tax - ~5% of all GFs

• Fiscal Year 2014, Current GF = $15.017 Billion
  – For Perspective:
    • 0.5% miss is $75 million
    • 1.0% miss is $150 million
    • 1.5% miss is $225 million
    • Note: we only missed our final estimate by -0.2%
    • Average absolute revenue estimate change is 0.7%
Estimate Cycle

- Estimate for current fiscal year as well as forthcoming “budget” year
- Maryland must pass **balanced budget**

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Three Estimates Annually

1. September
   - Supports Governor’s draft development of budget

2. December
   - Estimate for which the Governor’s budget that will be introduced to the Legislature must comply

3. March
   - Updated estimate to which the Legislature & Governor must balance the final budget
Process

• RMC agrees to consensus economic outlook, including estimated growth rates for principal economic variables (employment, income, etc...)
• Bureau and other RMC members develop preliminary estimates by revenue source, sometimes various scenarios
• Those estimates are then presented to RMC and placed under high level of scrutiny
• Eventually arrive at consensus estimate for each revenue source
• Executive Secretary and staff provide feedback loop with Board members throughout the process
Current Challenge – Great Recession

Historic National Recessions -- Quarters to Regain Prior Peak Real GDP

- Mid 1970's
- 1980's DoubleDip
- Early 1990's
- Early 2000's
- Great Recession

For Prior Recessions, Beginning to Cross Into Subsequent Recession

Source: U.S. Bureau of Economic Analysis; Bureau of Revenue Estimates
Current Challenge – Wealth Concentration & Progressivity

Year-Over-Year Growth in Net Maryland Tax for Maryland Residents

Notes
Taxpayers with Income >= $250K make up an average 2% of returns and represent an average 24% of tax

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<th>&gt;= $250K</th>
<th>&lt; $250 K</th>
<th>All</th>
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<tr>
<td>Avg Growth</td>
<td>5.9%</td>
<td>2.3%</td>
<td>3.0%</td>
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<td>Median Growth</td>
<td>13.1%</td>
<td>2.8%</td>
<td>5.1%</td>
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<td>Standard Deviation</td>
<td>16.8%</td>
<td>2.2%</td>
<td>5.5%</td>
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Source: Bureau of Revenue Estimates
Ongoing Challenge – Taxpayer Behavior & Budget Timing

Payments With Tax Returns (Concentrated Between April & June)

Basic Statistics
- Average: 9.4%
- Median: 11.8%
- Standard Deviation: 19.7%
- Model Standard Error: 6.5%
- Total Dollars: ~ $1.6 Billion

Source: Bureau of Revenue Estimates
Data Availability and Capabilities
Why We Collect Tax Data

- Fulfill statutory and constitutional responsibilities with regard to tax administration
- Enable tax enforcement/compliance
- Support revenue estimating and decision making processes
- Statutory reporting requirements
How We Can Support You

• Capabilities
  – Data Warehouse & Compliment of Reporting and Analytic Applications
  – Provide Summaries and Tabulations (DLS ahead of game)
  – Run Simulations

• Limitations
  – Time and Data Knowledge
  – Data Availability
  – Disclosure Adjustments (min 3 TPs @ State level & 30 TPs @ County level)
Taxes Administered

• Personal Income Tax
• Corporate Income Tax
• Sales and Use Tax
• Admissions & Amusement Tax
• Death Taxes
• Motor Fuel Tax
• Alcohol & Tobacco Taxes
Data Source – Processing System

• Major taxes administered through SMART tax processing system (*deployed circa 1993*)

• SMART retains fields “captured” on tax return
  – Processing system not capable of retaining all data points (germane for personal income tax)
  – Additionally, captured fields require more human interaction

• Captured data generally available in data warehouse
Data Source – Electronic Filing

• Electronic filings are not limited to captured fields
  – Most helpful for personal income tax
• All of tax year 2013 and year-to-date tax year 2014 available in data warehouse
• Corporate electronic filings not yet available in data warehouse
Personal Income Tax

- State piggy backs on federal income tax return and definitions of income
  - Starting point for Maryland return is Federal Adjusted Gross Income
    - Generally all income earned by individuals, including income earned by pass through entities (PTEs)
- Myriad addition and subtraction modifications; including certain decoupling provisions
- Exemptions and Deductions
- Generally progressive State tax rate structure (5.75% top rate)
- Flat local tax rate (3.20% top rate)
- Various credits available
Federal Adjusted Gross Income

• We do not have components of income until IRS sends us a file with data for Maryland taxpayers; raw data file comes in increments
  – First file available September of processing year (e.g., for tax year 2014, prelim available 9/2015)
  – Complete file available subsequent September (e.g., for tax year 2014, available 9/2016)

• Use outside contractors to “clean” data and marry with State data to create a single picture of a taxpayer; thereby creating a database
  – Use to produce the statutorily required Personal Statistics of Income Report (SOI)

• Note: Federal files also include all other data that the IRS captures
PTE Defined

• Pass-through entity (PTE): a legal entity for which the entity’s income “passes through” to the owners based on the owner’s share of the income or loss; the entity itself is not taxable
  – Includes partnerships, subchapter S corporations, limited liability companies, and businesses trusts
  – Does not include sole proprietorships
  – PTE owners can be individuals, other PTEs, fiduciaries, or corporations
PTE Data Availability

• Although PTE income flows through to individual tax returns, there is a Maryland PTE tax return (Form 510)
  – The return does not place a tax on the PTE
  – It does require the PTE to submit estimated tax payments for individual non-resident members as well as corporate non-nexus entities
  – **Supports compliance for non-resident taxpayers**
  – Does not include single member LLCs – they file same federal form as a sole proprietor (cannot distinguish)
• Does provide limited information on Maryland PTEs
  – Principal Business Activity Codes (PBAC); similar to NAICS
  – Total federal income as well as income apportioned to Maryland
  – Does not have apportionment details (payroll, sales, property)
  – Do not know location of operations, payroll, sales, or property
PTE Networks and Data Impact

- PTEs owned by PTEs owned by Corporations owned by Trusts owned by PTEs etc......
PTE Networks and Data Impact

• Difficult, at best, to link owners with PTE income, PTE income modifications, or tax credits to original source

• Able to link for audit purposes in a one-off manual fashion
  – Impossible to generate broad based programming rules that enable such data sets
  – Many software and analytics companies working on a solution, so far with limited to no success
Corporate Income Tax

• State piggy backs on federal income tax return and definitions of income
  – Starting point for Maryland return is Federal Taxable Income
  – Separate entity taxation – in Maryland each legal corporate entity is taxed individually, they are not combined into one unitary entity
• Myriad addition and subtraction modifications; including certain decoupling provisions
• Income apportioned according to statute
  – Certain industries’ apportionment formulas differ from the broad based three factor double weighted sales formula
• Flat State tax rate – 8.25%
• No local tax rate
• Various credits available
Corporate Data Availability

• Most fields on the tax form are captured (Form 500)
  – Use to produce the statutorily required Corporate Statistics of Income Report (SOI)
• Detail data for apportionment is limited
  – Available for all multistate corporations that use the general apportionment formula
  – Not available for unistate corporations or multistate corporations that use industry specific formulas (e.g., for manufacturers, we know sales in Maryland and national, but do not know payroll or property
• Do not know location of operations, payroll, sales, or property
• We are not able to programmatically link Maryland corporate returns to a unitary entity – distorts actual size of a business
• Statutorily required study of unitary corporate taxation (Combined Reporting) performed for tax years 2006 through 2010, available here
PTE versus Corporate

- Corporate income is “double taxed,” once at the entity level and then again when distributed to individual as a dividend
  - PTE only taxed at individual level
- Myriad other criteria for organizational choice (e.g., liability exposure, access to capital, type of asset ownership, regulation, industry, etc...)
Income Tax Credits

- For tax year 2014, business entities could qualify for up to 23 separate business tax credits
- Approximately $40 million per tax year, but varies with business climate and law changes
- Many cannot exceed the State tax liability, but may be carried forward for a specified period (5 to 15 years); all or a portion of 6 are refundable
- Business income tax credits are claimed on Form 500CR; beginning with tax year 2013, this form, and the return upon which the credit is claimed, must be filed electronically
- Credits earned by PTEs are claimed on the returns of its members, most ultimately on personal income tax returns
- The cost of business tax credits, in the aggregate, can be determined with certainty once the statute of limitations for that tax year has expired
Data Capture for Tax Credits

• Starting with tax year 1998, data manually collected for each line in 500CR
• Credits claimed by corporate entities is fairly straightforward
• Credits earned by PTEs are difficult to tie to credits claimed by members (many with members in the tens of thousands)
• Business entities’ taxes change frequently due to audits, amendments, net operating loss carrybacks, etc., frequently changing the non-refundable credit amounts allowed for a given tax year
• Credit carryforwards by type cannot be identified from Form 500CR
• Lack of a statutory hierarchy for credits claimed makes quantifying the cost of each credit separately impossible on many returns
• Due to difficulties with filing the 500CR electronically, collecting the data is still largely a manual process (and doesn’t solve the problems addressed above)
Measuring Tax Credit Effectiveness

• The only information we know is how many dollars were claimed and by how many taxpayers
• We do not have any information related to credits authorized
• The certifying agency is generally tasked with awarding the credit and both requiring and maintaining the information necessary to review credit effectiveness
Comptroller Paper on Tax Credit Measurement Issues

Using Tax Data to Measure the Effectiveness of Income Tax Credits

David F. Roose
Bureau of Revenue Estimates
Comptroller of Maryland

May 5, 2010
Sales and Use Tax

• Generally 6.0% rate applied to the purchase price of most tangible property purchased within Maryland from a company with nexus in Maryland
  – 9.0% for alcohol, 8.0% or 11.5% for certain vehicle rentals
  – Certain services taxable (mobile phone service the largest by revenue)
  – Various exemptions allowed either by statutory definition or statutory exemption
    • Largest exemption is food for off premise consumption
    • Budget & Management has full list of exemptions available in Tax Expenditures Report

• Taxpayers permitted tax discount for timely filing
Sales Tax Data Availability

• Tabulated by “COM” Industry Code
  – Internally created, very old, not related to NAICS, but does provide broad industry classifications

• One return for business, not one per location

• Data captured at tax rate level (Regular, Alcohol, Vehicle Rental) as well as for use tax

• Estimate for Maryland remote sales tax loss available [here](#) (pre-Amazon nexus)
Helpful Links

• Personal Income Tax – Statistics of Income
• Corporate Income Tax – Statistics of Income
• Personal Income Tax – Summary Report
• Board of Revenue Estimates Artifacts
• Corporate Combined Reporting Study
• Maryland Business Tax Reform Commission
• Maryland Tax Expenditures Report
• Maryland Tax Incidence Study
• Maryland Remote Sales Tax Loss Study
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