Peter Franchot
Comptroller

January 13, 2008

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Thomas V. Miller, Jr.
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President and Speaker:

As required by Tax – General §10-108(b) of the Annotated Code of Maryland, I am submitting this report on the impact of recent changes to the Internal Revenue Code on Maryland tax revenues for three bills the President recently signed into law. No provision in any of these bills will trigger the automatic decoupling required under Tax – General §10-108.

The *Worker, Retiree, and Employer Recovery Act of 2008* has several provisions that could affect State revenues. Included are revenues losses associated with relaxed pension distribution requirements to allow workers to postpone the Required Minimum Distribution (RMD) from their IRAs for one year, allowing the value of their account to recover from the recent economic turmoil. The new law also allows beneficiaries not to receive distributions in 2009 for the purpose of implementing the five-year RMD schedule imposed on distributions received by beneficiaries after the death of an account holder. This particular provision applies only to calendar year 2009.

This provision's most significant impact on state revenues will be in fiscal year 2009, as the delayed withdrawals decrease taxable income, thus reducing income tax revenues. Revenues are expected to decrease by approximately $5.3 million in fiscal year 2009. Due to delayed filing from extension requests, revenues will continue decline again in fiscal year 2010, assuming those people who delayed their withdrawal by one year to do withdraw twice as much money the following year. However, in Fiscal Year 2013, revenues should begin to increase modestly. In the out years, revenue increases should offset the revenue losses in fiscal years 2009 and 2010.

Another provision in the bill regarding funding targets of pension plans will have a smaller impact on Maryland revenues. In determining a plan's funding shortfall for the year, only an applicable percentage of the funding target is taken into account, rather than the entire funding target. In effect, this provision lowers the pension funding targets for companies. Assuming they follow the revised funding rules, companies will be left with a greater amount of taxable income, thus increasing their tax liability to the State. In the out years, as companies catch up on funding, revenues will begin to decline. In fiscal year 2009, State revenues will increase by approximately $867,000, and will continue to increase to a maximum of $2.6 million in subsequent years until 2013, when revenues will begin to decline. Because the tax years of corporations vary from company to company, the revenue effect will be spread over several years.

I hope this information is useful to you. If you have any questions or concerns, please contact my office or David F. Roose, the Director of the Bureau of Revenue Estimates, who is responsible for this analysis.

Sincerely,

Peter Franchot

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Comptroller of Maryland