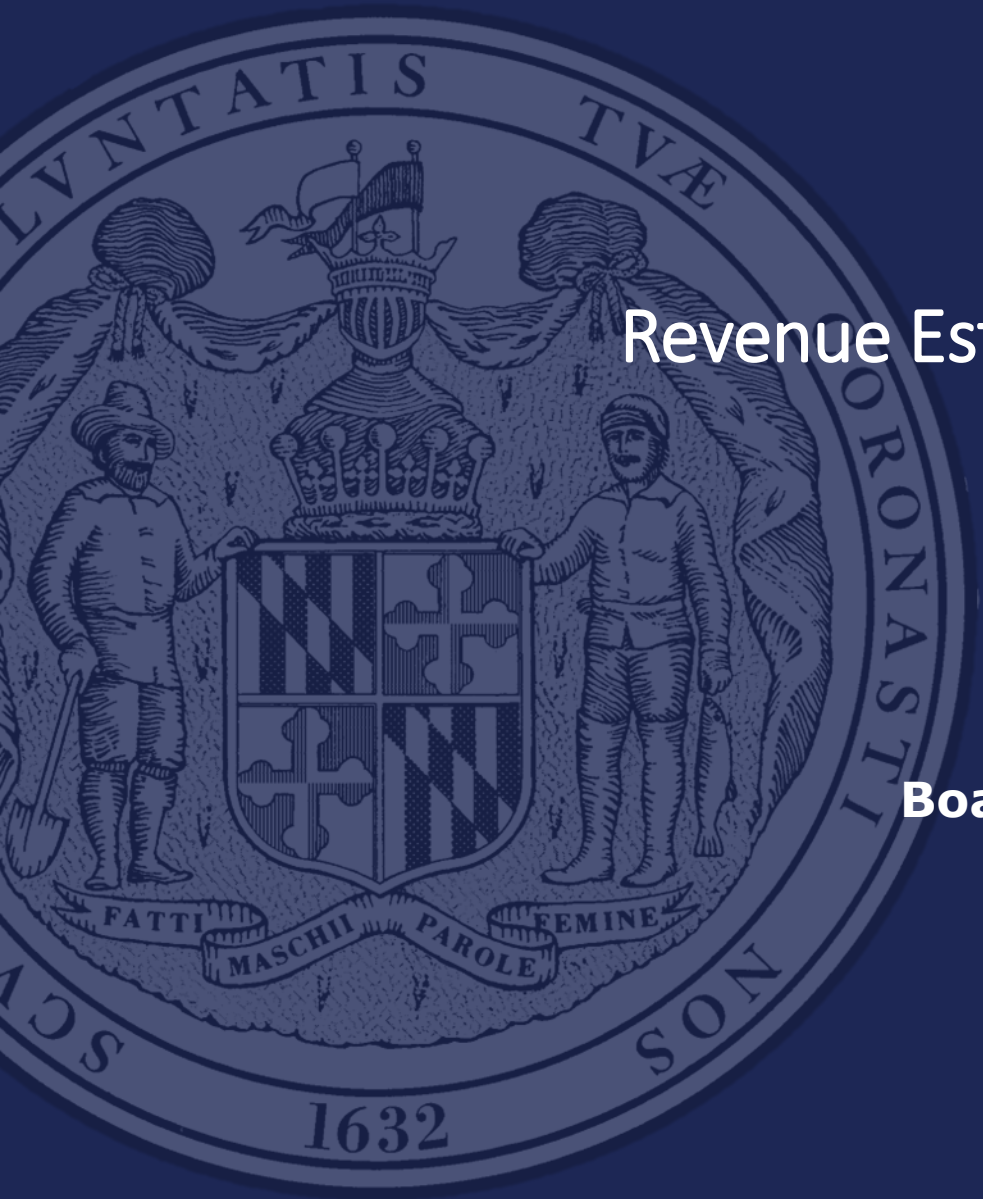



# Revenue Estimates and Economic Outlook

March 6, 2025

Robert J. Rehrmann
Executive Secretary

**Board of Revenue Estimates**

Table 4
**Maryland General Fund Revenues**
Fiscal Years 2024 - 2026

| $ Thousands | FY 2024 Actual | FY 2025 December Estimate | FY 2025 March Estimate | FY 2025 Difference | FY 2025 Growth | FY 2026 December Estimate | FY 2026 March Estimate | FY 2026 Difference | FY 2026 Growth |
|---|---|---|---|---|---|---|---|---|---|
| INCOME TAXES: | | | | | | | | | |
| Individual | 13,616,685 | 14,431,916 | 14,289,048 | (142,867) | 4.9% | 14,860,589 | 14,659,748 | (200,842) | 2.6% |
| Corporation | 1,903,957 | 1,945,179 | 1,923,632 | (21,547) | 1.0% | 1,960,852 | 1,931,942 | (28,911) | 0.4% |
| Total | 15,520,642 | 16,377,095 | 16,212,680 | (164,414) | 4.5% | 16,821,442 | 16,591,689 | (229,753) | 2.3% |
| SALES AND USE TAXES | 5,896,606 | 5,996,032 | 5,978,655 | (17,378) | 1.4% | 6,134,721 | 6,124,298 | (10,423) | 2.4% |
| STATE LOTTERY | 654,968 | 522,944 | 522,944 | - | -20.2% | 507,741 | 507,741 | - | -2.9% |
| OTHER REVENUES | | | | | | | | | |
| Business Franchise Taxes | 280,148 | 280,769 | 280,769 | - | 0.2% | 285,222 | 285,222 | - | 1.6% |
| Insurance Premium Tax | 741,837 | 749,039 | 749,039 | - | 1.0% | 737,345 | 737,345 | - | -1.6% |
| Estate and Inheritance Taxes | 213,407 | 217,016 | 217,016 | - | 1.7% | 232,404 | 232,404 | - | 7.1% |
| Tobacco Tax | 405,071 | 363,385 | 363,385 | - | -10.3% | 293,071 | 293,071 | - | -19.3% |
| Alcoholic Beverages Excise Tax | 34,102 | 34,455 | 34,455 | - | 1.0% | 34,284 | 34,284 | - | -0.5% |
| District Courts | 37,266 | 35,602 | 35,602 | - | -4.5% | 34,027 | 34,027 | - | -4.4% |
| Clerks of the Court | 26,603 | 27,193 | 27,193 | - | 2.2% | 28,006 | 28,006 | - | 3.0% |
| Hospital Patient Recoveries | 77,036 | 84,259 | 84,259 | - | 9.4% | 76,935 | 76,935 | - | -8.7% |
| Interest on Investments | 379,818 | 225,000 | 300,000 | 75,000 | -21.0% | 125,000 | 125,000 | - | -58.3% |
| Miscellaneous | 445,284 | 338,978 | 338,978 | - | -23.9% | 314,323 | 314,323 | - | -7.3% |
| Total | 2,640,573 | 2,355,696 | 2,430,696 | 75,000 | -7.9% | 2,160,617 | 2,160,617 | - | -11.1% |
| **Total Current Revenues** | 24,712,789 | 25,251,767 | 25,144,975 | (106,792) | 1.7% | 25,624,522 | 25,384,346 | (240,176) | 1.0% |
| Extraordinary Revenues [1] | 150,000 | - | - | - | -100.0% | - | - | - | |
| Revenue Volatility Cap [2] | #N/A | - | - | - | | (272,104) | (205,109) | 66,995 | |
| **GRAND TOTAL** | 24,862,789 | 25,251,767 | 25,144,975 | (106,792) | 1.1% | 25,352,418 | 25,179,237 | (173,181) | 0.1% |

[1] The fiscal 2023 GAAP audit of the local income tax reserve account determined that the account was overfunded by $316 million.
[2] Established by Chapters 4 & 550 of 2017 and amended by several succeeding Budget Reconciliation And Financing Acts.

# Summary of March Changes

## ($ in Millions)

| Revenue Source | FY 2025 | FY 2026 | Total |
|---|---|---|---|
| | | | |
| Personal Income Tax | ($142.9) | ($200.8) | ($343.7) |
| Corporate Income Tax | ($21.5) | ($28.9) | ($50.4) |
| Sales Tax | ($17.4) | ($10.4) | ($27.8) |
| Lottery | $0.0 | $0.0 | $0.0 |
| Other | $75.0 | $0.0 | $75.0 |
| **Total- Ongoing Revenues** | **($106.8)** | **($240.2)** | **($347.0)** |
| | | | |
| Revenue Volatility Cap | $0.0 | $67.0 | $67.0 |
| | | | |
| **GRAND TOTAL** | **($106.8)** | **($173.2)** | **($280.0)** |

# Revenue Growth Rates

| Revenue Source | FY 2024 | FY 2025E | FY 2026E |
|---|---|---|---|
| Personal Income Tax | 1.1% | 4.9% | 2.6% |
| Corporate Income Tax | 4.8% | 1.0% | 0.4% |
| Sales Tax | -1.8% | 1.4% | 2.4% |
| Lottery | -0.1% | -20.2% | -2.9% |
| Other | 4.5% | -7.9% | -11.1% |
| **Total- Ongoing Revenues** | **1.0%** | **1.7%** | **1.0%** |
| **GRAND TOTAL** | **5.0%** | **1.1%** | **0.1%** |

# March Forecast – Federal Uncertainty

- Given the uncertainty over federal government actions the December forecast made only technical changes to the FY 2026 forecast
  - This “hedge” against federal reductions prevented more reductions in the forecast
- Compared to what we knew in December, a worse case situation has developed
  - Quicker than expected and as bad or worse than feared
- No data yet on employment reductions or planned spending reductions
  - Court challenges may slow or blunt the impacts but most probable event is significant reduction in employment and spending that will slow Maryland’s economy
- Federal government slowdown is expected to impact withholding income taxes the most but we are also making modest reductions in the sales tax and corporate income tax
- Forecast also reduces nonwage income forecast due to weaker than expected tax year 2024 estimated payments

# Federal Government – Potential Direct Employment Impacts

- Reduction in recent “excess labor demand” for Maryland residents
- Allow attrition to take place
  - About 9,000 Maryland employees separate from federal service in each year
  - Not replacing these employees could decline withholding by 0.4%
- Terminate existing employees
  - Probationary employees (there are at least 15,000 in Maryland)
  - Reduction in Force
- Relocate agencies out of the region
- Prolonged government shutdown

# Federal Government – Other Impacts

- Reduction in federal contracts
  - Defense and nondefense contracts are equal to about 10% of Maryland's private GDP
- Reduction in other federal government spending
  - Grant funding
  - Medicaid and hospital reimbursements
- Most laid off workers will eventually be reemployed but likely at lower salaries
  - Labor market is constrained, but it will be a buyer's market
  - Average federal wage in Maryland is significantly higher than private sector
  - Layoffs could increase outmigration
- Consumer and business uncertainty

# Federal Government Employment and Wages

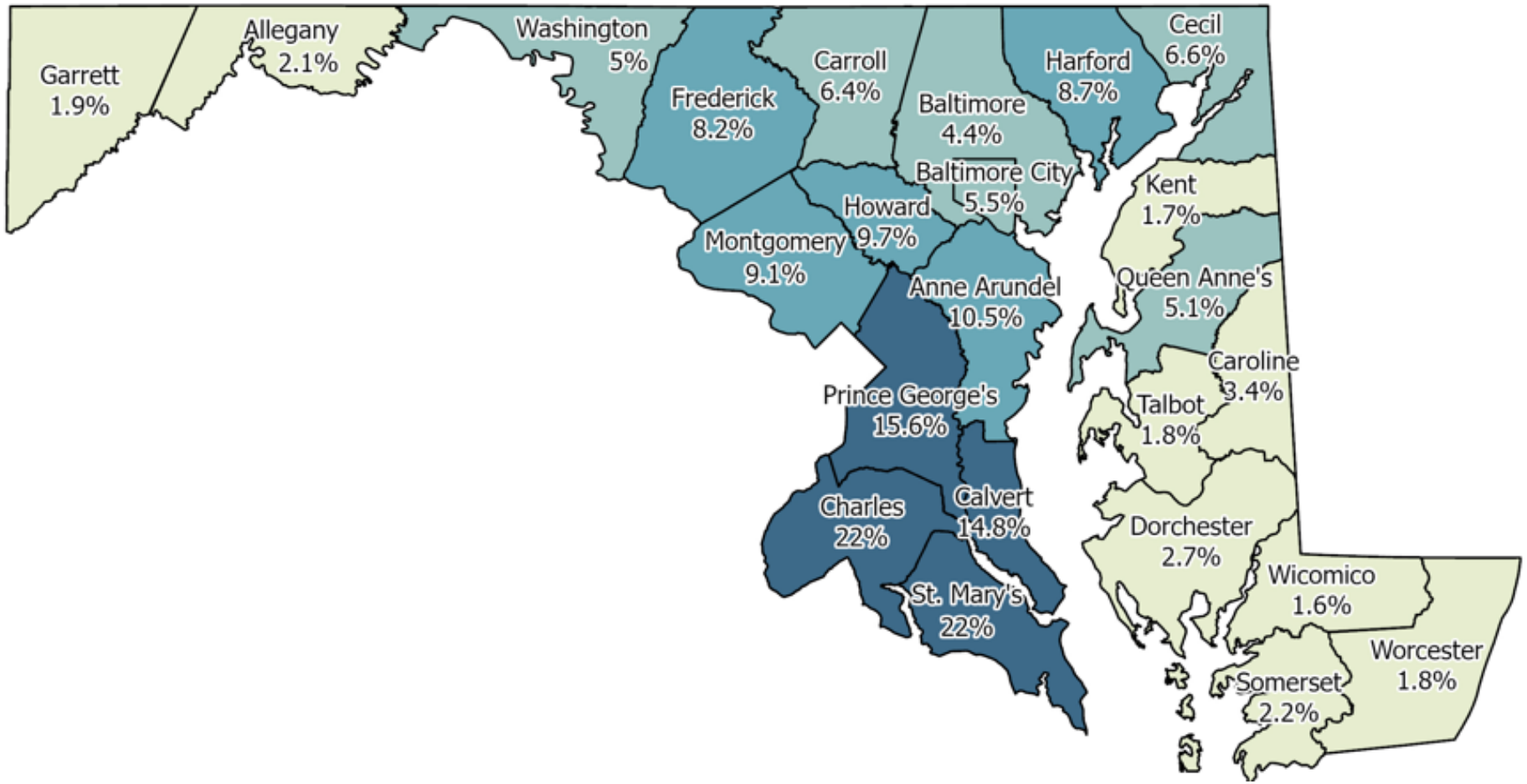
- There are a about 550,000 federal civilian jobs in Maryland, the District of Columbia, and Virginia
  - About 161,000 of these are located in Maryland
  - The District of Columbia and Virginia each have more than 190,000 jobs
  - About 250,000 Maryland residents work in the District of Columbia

- In tax year 2023, about 252,000 Maryland households reported a total of $26.9 billion in federal wages

  - Since this data includes only direct federal employment and does not include federal contractors it underestimates the importance of the federal government on Maryland's economy
    - Both federal government defense and nondefense employment and contracting has a strong presence in Maryland

# Share of Gross Income from Federal Wages

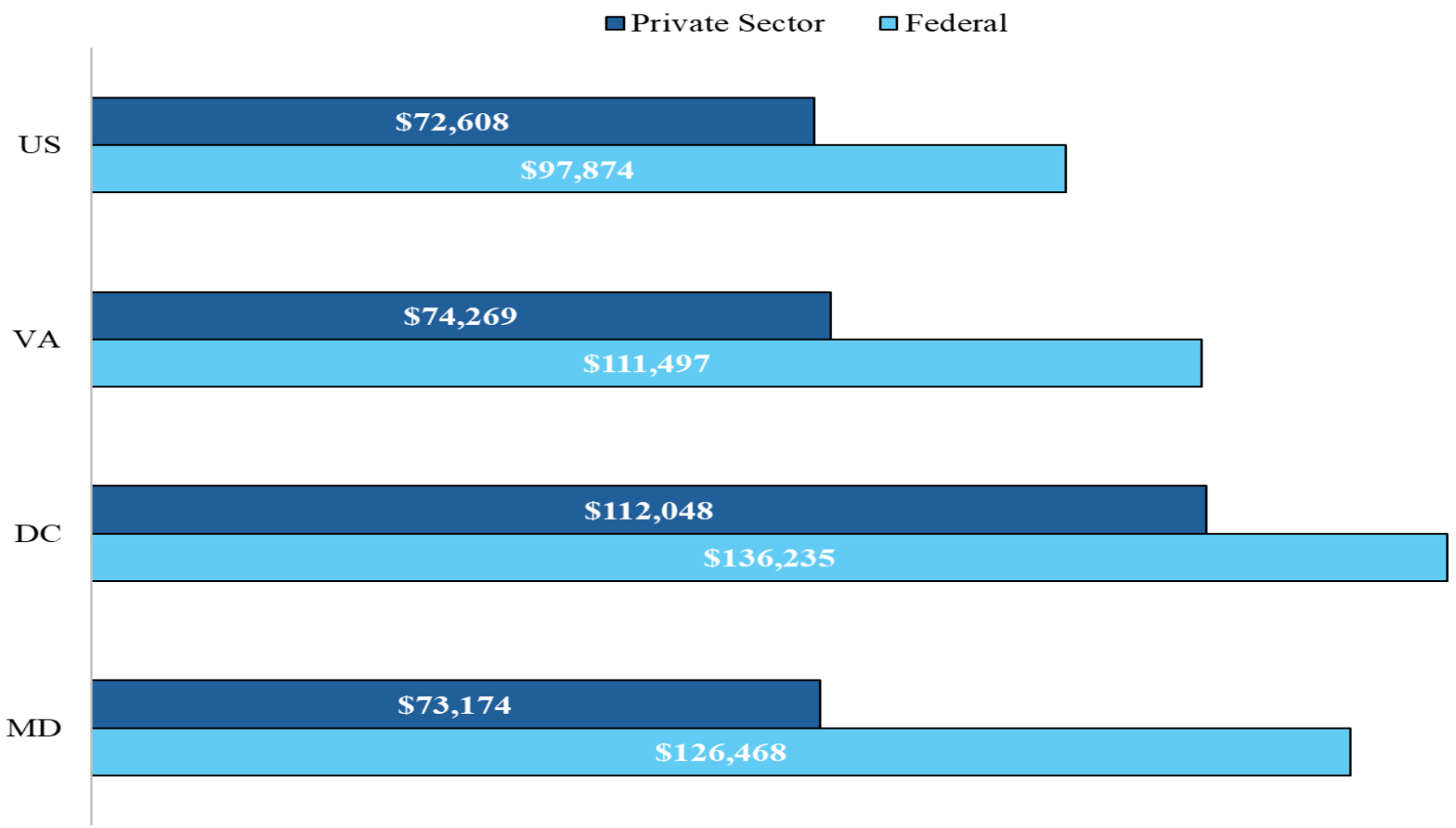
## Tax Year 2023




Source: Comptroller's Office

# Average Federal Civilian and Private Sector Salary

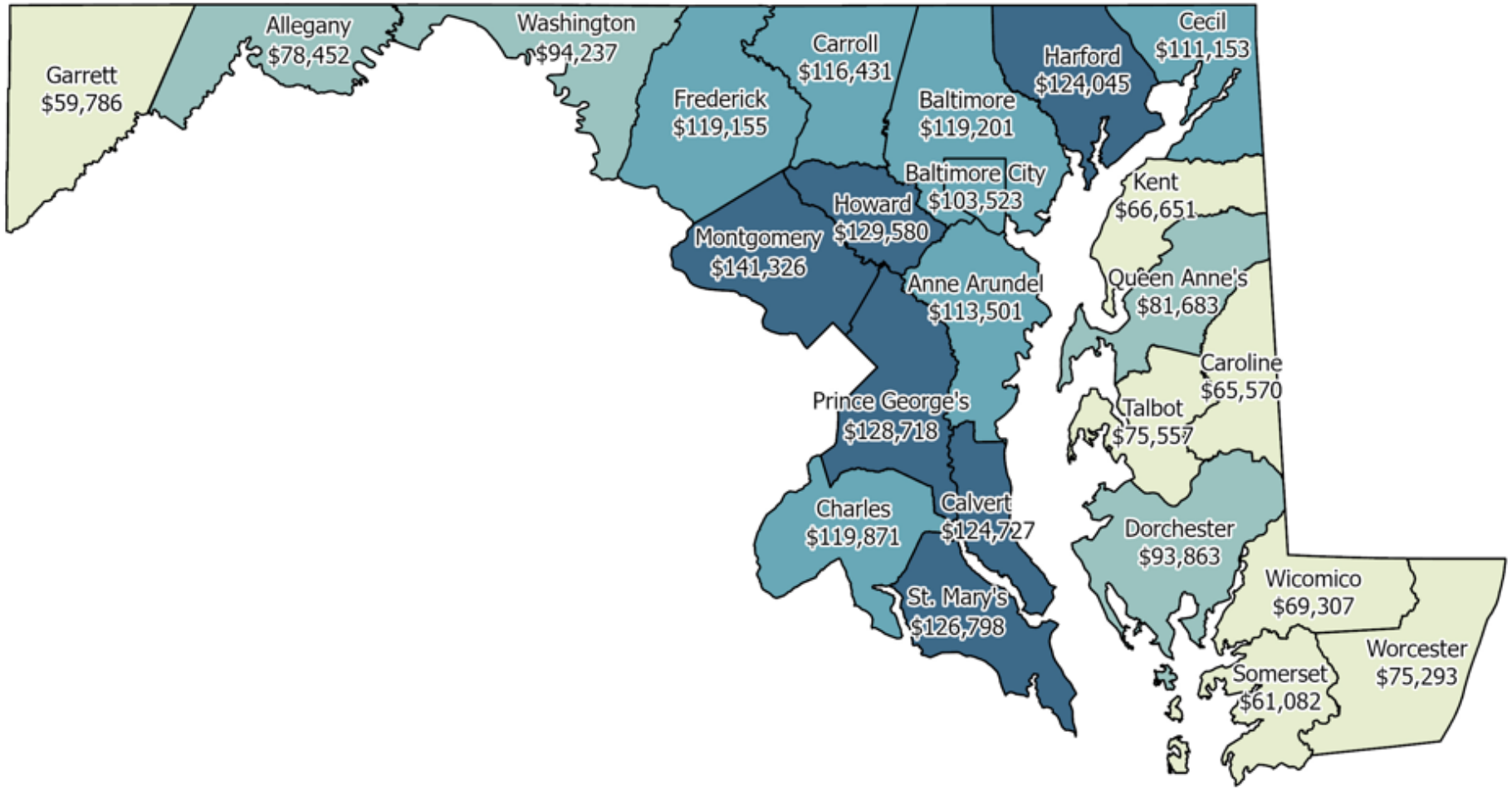
## Calendar 2023




Source: US Bureau Labor Statistics - QCEW

# Average Federal Civilian Salary by County

## Calendar 2023

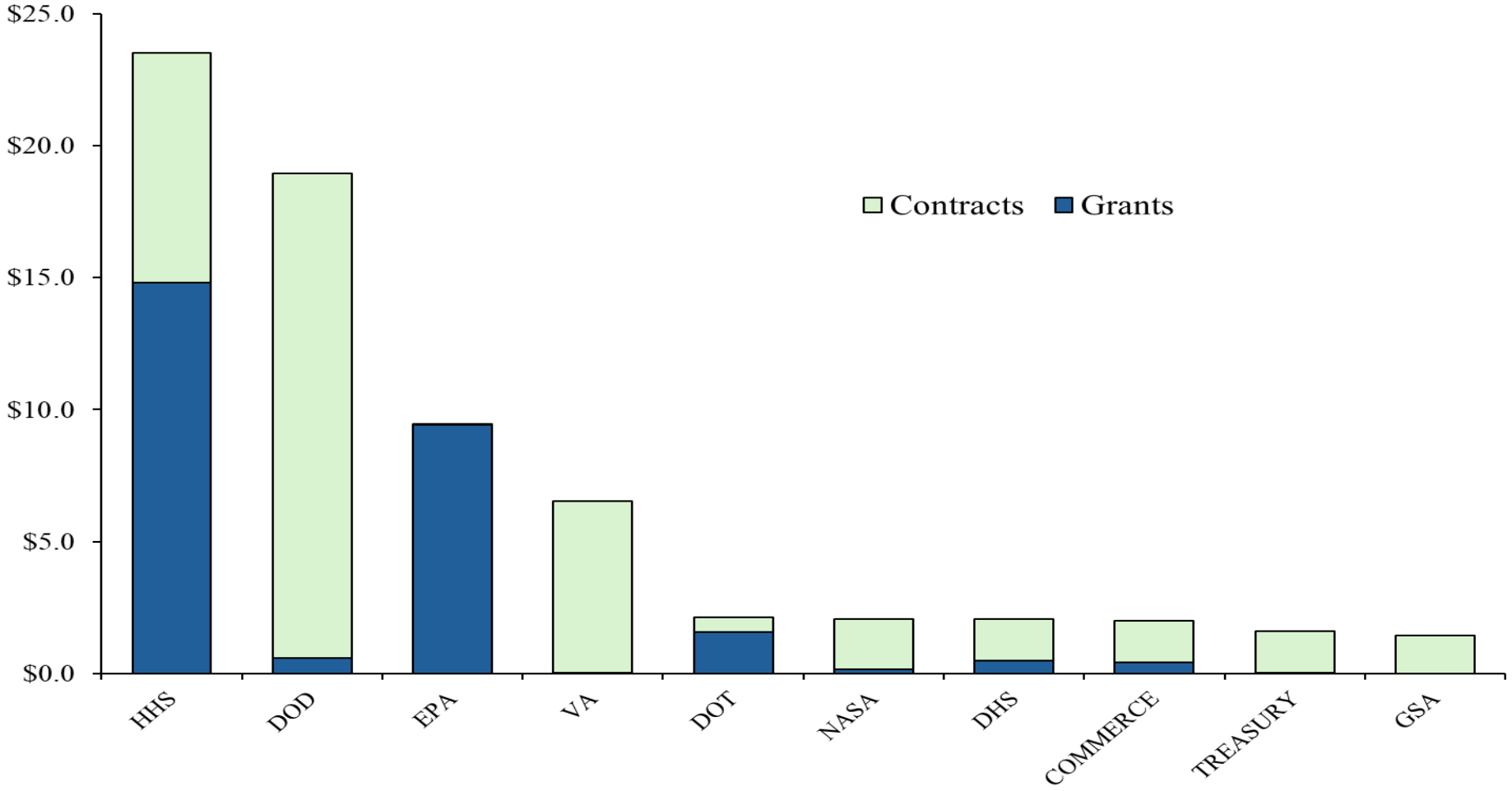



Source: US Bureau Labor Statistics - QCEW

# Top 10 Federal Government Contracts and Grants

## Maryland – FFY 2024

## ($ in Billions)




Source: usaspending.gov

# What Impact did Prior Federal Reductions Have?

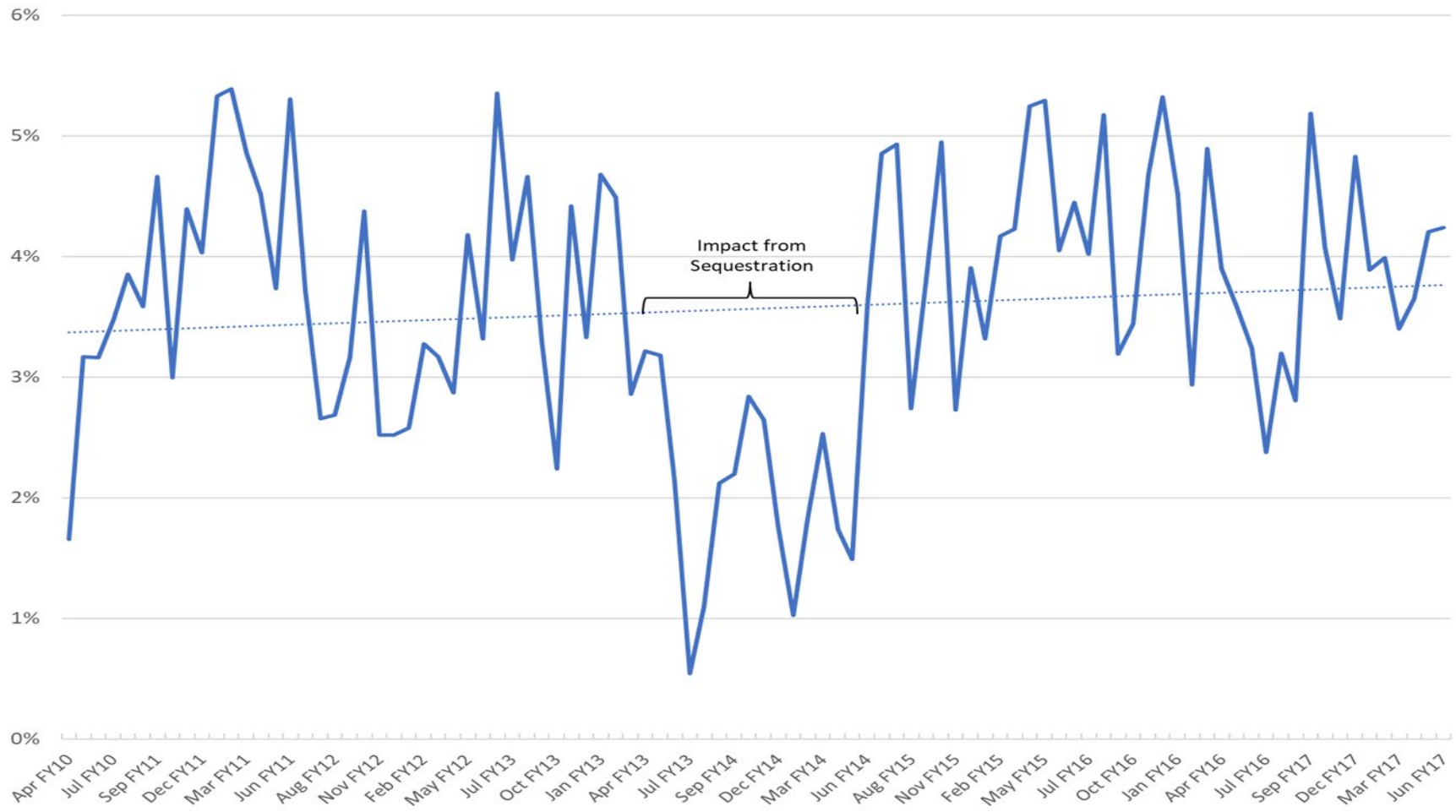
- Sequestration resulted in across-the-board reductions in federal agency budgets as well as mandatory government expenditures

| | |
|---|---|
| Federal Government Spending Reduction (FFY 11-13) | |
| Discretionary | -10.7% |
| Total | -4.1% |
| Maryland Federal Employment Loss (Dec 12-Sept 14) | (7,917) |
| Mass Layoffs Federal Government Contractors (CY 10-13) | 2,940 |

- Maryland's labor market and withholding income tax revenues slowed significant in tax year 2013
  - March forecast uses this slowdown as a guidepost
  - Indicated reductions now are much larger this time and quicker to materialize

# Sequestration Impact - Withholding Revenues

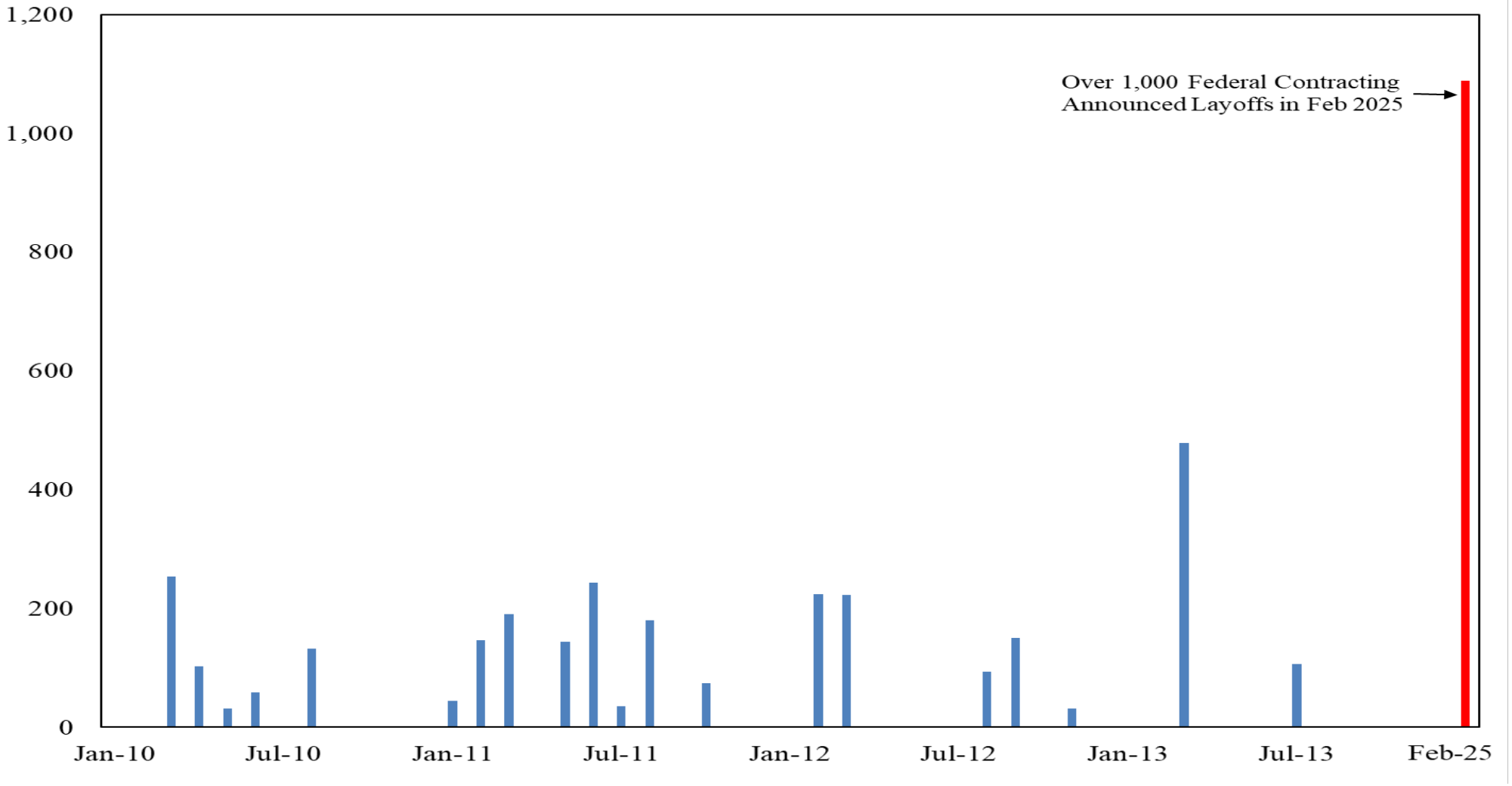
## Six-Month Moving Average




Source: Bureau of Revenue Estimates

# Initial Pace of Contracting Layoffs is Much Greater

## Federal Government Related WARN Notices in Maryland




Source: Maryland Department of Labor

# Announced Federal Job Losses

| | Announced Layoffs and Position Changes | | | | Potential Elimination of Positions in Future | | | |
|---|---|---|---|---|---|---|---|---|
| | Administrative Leave | Layoffs through February | Layoffs After February | Subtotal | Buyout Option - September | Non-Essential Workers | Subtotal | Total |
| Total Reductions | 931 | 40,392 | 64,738 | 106,061 | 77,000 | 94,115 | 171,115 | 277,176 |
| **Estimated in Maryland** | **93** | **5,052** | **6,474** | **11,619** | **7,700** | **9,412** | **17,112** | **28,730** |

Source: Bureau of Revenue Estimates

# Federal Government Impact on Withholding

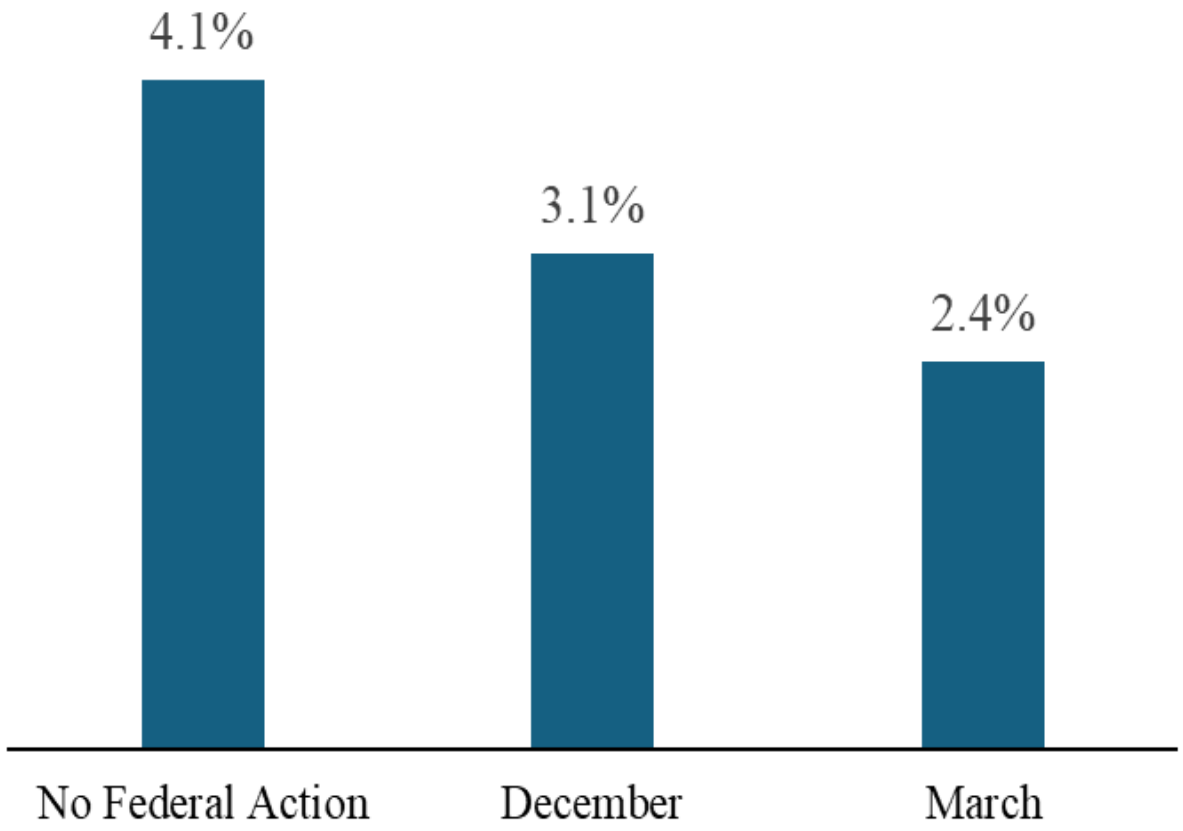
- In December, we lowered our tax year 2025 withholding forecast growth from 4.1% to 3.1% due to uncertainty over federal government actions
  - We further lower our forecast to 2.4%

- We expect that federal actions will reduce tax year 2025 State and local withholding collections by $262 million
  - This is a reduction of about $3 billion in Maryland wages and a reduction in Maryland employment of a little more than 30,000

- We will be vigilantly monitoring federal data and our tax data to estimate the impacts
  - Future forecasts will be informed by this data

# Tax Year 2025 Withholding Forecasts

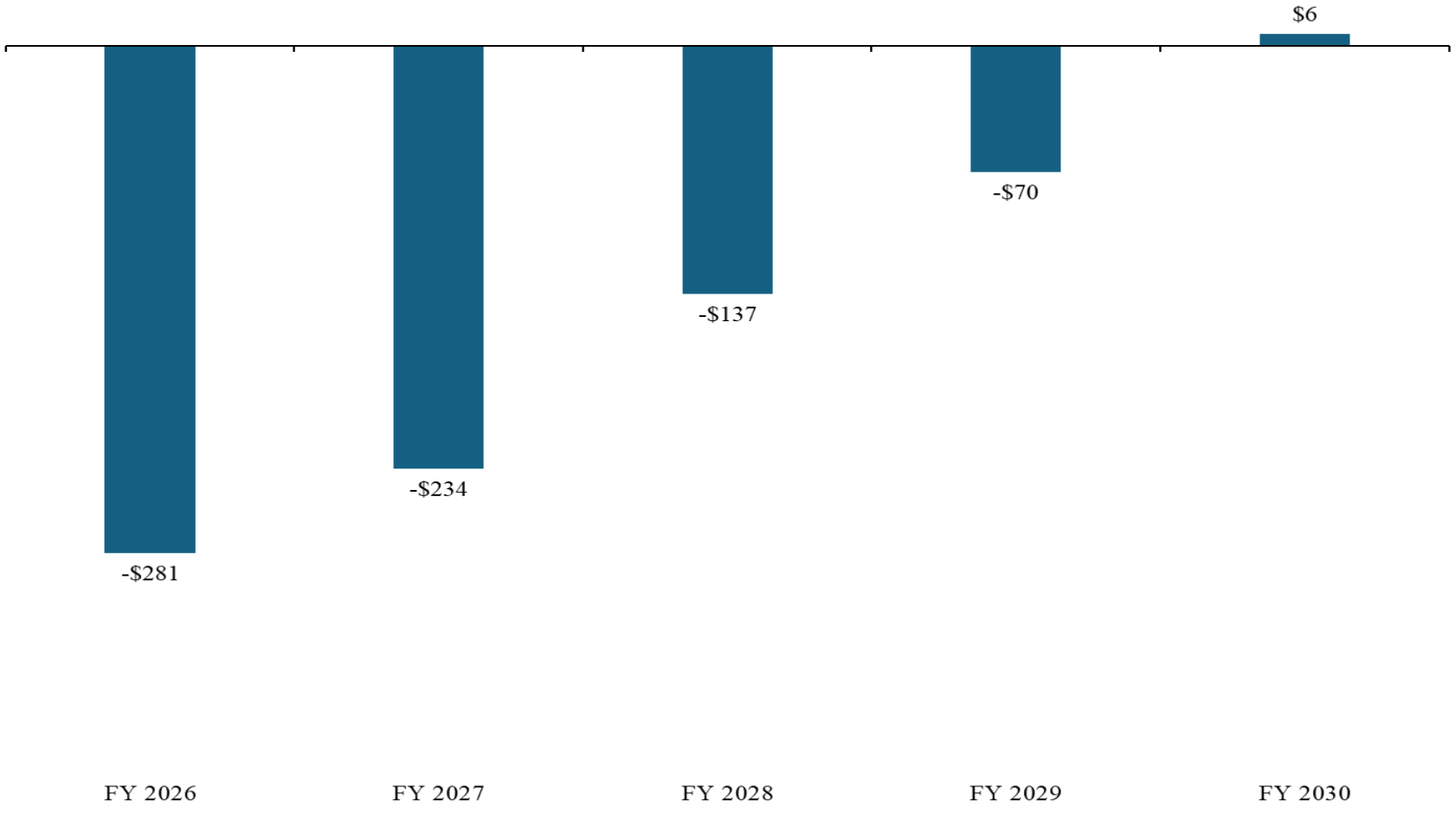
## Compared to Baseline Forecast




Source: Bureau of Revenue Estimates

# Change in Withholding Revenue Forecast Compared to no Federal Impact

## Gross Collections
## ($ in Millions)




Source: Bureau of Revenue Estimates

# Thank You

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