



COMPTROLLER
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MARYLAND WITHHOLDING TAX FACTS

January 2008 – December 2008

Notice to Taxpayers

The Governor has announced he will call the State Legislature into a Special Session on October 29, 2007 to make changes to the current tax law. It is possible that there may be major changes to the Withholding Tax calculations for 2008. Please check our Web site at www.marylandtaxes.com to see if you are impacted by any of these proposed changes.

This edition of Withholding Tax Facts offers information about filing your employer withholding tax form, reconciliation statement and other forms you'll find in your 2008 return booklet.

INCOME TAX RATE

Maryland's top marginal tax rate continues at 4.75 percent and the personal exemption is \$2,400 for tax year 2008. The local income tax is computed without regard to the impact of the state tax rate.

COUNTY RATES

Local tax is based on taxable income and not on Maryland state tax. If you use the percentage method to calculate the amount of state and local tax to be withheld, simply add the **actual** local tax rate to the state rate of 4.75 percent to get the combined state and local tax rate. The combined state and local tax rate should then be applied to the taxable income.

Listed below are the **actual** 2008 local income tax rates.

Allegany	3.05%	Howard	3.20%
Anne Arundel	2.56%	Kent	2.85%
Baltimore County	2.83%	Montgomery	3.20%
Calvert	2.80%	Prince George's	3.10%
Caroline	2.63%	Queen Anne's	2.85%
Carroll	3.05%	St. Mary's	3.00%
Cecil	2.80%	Somerset	3.15%
Charles	2.90%	Talbot	2.25%
Dorchester	2.62%	Washington	2.80%
Frederick	2.96%	Wicomico	3.10%
Garrett	2.65%	Worcester	1.25%
Harford	3.06%	Baltimore City	3.05%

We provide separate tables for the convenience of employers who do not withhold using an automated or computerized system, or who prefer to look up the amounts to be withheld manually. For these tables, we have continued our practice of grouping the local income tax rates into rate brackets. For 2008, we will use nine brackets: 1.25%, 2.25%, 2.60%, 2.65%, 2.85%, 2.95%, 3.00%, 3.10% and 3.20%. Refer to the county listing above and use the table that agrees with or is closest to without going below the actual local tax rate.

Taxpayers who make quarterly estimated tax payments should make the necessary adjustments for the 2008 tax year. They can use the estimated tax calculator on the Comptroller's Web site at www.marylandtaxes.com to help make the calculation.

Withholding tables can be downloaded from the Comptroller's Web site at www.marylandtaxes.com. If you do not have Internet access, you may call 410-260-7951 from Central Maryland or 1-800-MD TAXES from elsewhere.

FOR YOUR INFORMATION

- Employers or payors who are submitting 100 or more annual withholding statements are required to use magnetic media or other machine-readable or electronic formats. The employer or payor may request a waiver for this requirement and, if the Comptroller determines that the requirements will result in undue hardship to the employer or payor, the requirement may be waived.
- Accelerated taxpayers may request a waiver allowing monthly returns for the remainder of the calendar year. A renewal of the waiver is also available if eligibility to file federal withholding tax returns on a monthly basis is unchanged.
- Payors of distributions that are Eligible Rollover Distributions (ERDs) under IRC Section 3405 (c), subject to mandatory federal income tax withholding, are required to withhold Maryland income tax from these distributions paid to Maryland residents at the rate of 7.75%.
- Designated Distributions are only subject to Maryland income tax withholding if the payee affirmatively elects to have withholding made by the payor. The amount required to be withheld from the Designated Distributions is the amount that the payee requests using Form MW507P.

ELECTRONIC FILING

Save time and money by meeting your business tax filing obligations electronically. The payment methods listed below qualify as Electronic Fund Transfers and will meet the EFT requirement. These electronic filing and payment options are also available to taxpayers who must file and pay Maryland sales tax.

File over the Internet and pay by direct debit: Use bFile, the Comptroller's free Internet filing service for businesses, to file and pay online at www.marylandtaxes.com. bFile is a **free service**

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that allows you to file and make your payment by electronic funds withdrawal (direct debit). Zero reports may also be filed through the bFile service.

File and pay by ACH Credit: File and pay through your bank using the ACH Credit method. Contact your bank to see if it offers this service. Your bank may charge a nominal fee for an ACH Credit transaction. If you are an accelerated filer using ACH Credit, please see "For Your Information" for important information about accelerated filing via ACH Credit.

File and pay by phone: Use your telephone and the free ACH Debit Electronic Funds Transfer (EFT) service to pay your employer withholding, sales and use tax, motor fuel tax and corporation income tax payments. You must preregister for EFT payments. Visit the Comptroller's Web site at www.marylandtaxes.com or call 410-260-7601 for more information on the EFT program and registration requirements.

File and pay by credit card: Pay with your MasterCard®, VISA®, Discover® or American Express® card by calling Official Payments Corp. at 1-800-2PAYTAX or by visiting www.officialpayments.com. Official Payments Corp., a private credit card payment services provider, charges a convenience fee per transaction. The state does not receive this fee.

File zero reports by phone: If you did not withhold any Maryland income tax for a reporting period, **do not mail us your MW 506**. Instead, call 410-260-7225 to file the zero report by phone. Please have the form in front of you when you call so you will have all of the information you need to file by phone.

ANNUAL WITHHOLDING FILERS

Annual withholding tax filers receive a coupon book with four quarterly reports. Use the report with the quarter ending that corresponds with your tax end. For example, if your tax year ends between October 1 and December 31, use the fourth quarter coupon to report and pay tax withheld. The annual reconciliation Form MW508 and state copy of federal Form W-2's issued for the previous calendar year is due on the last day of February, regardless of the quarter in which your year ends.

ANNUAL REPORT DUE FEB. 28, 2009

The annual employer withholding reconciliation report (MW 508) included in the coupon book is due February 28, 2009. You must send in the MW 508, along with the state copy of Form W-2 for each person for whom income tax was withheld.

Use your account number on all correspondence and checks relating to your income tax withholding account.

FILING YOUR RETURN

- The number one error is sending in the wrong coupon. Send in the coupon marked for the correct month.
- The number two error is incorrect figures. Please double-check your entries.
- If you are filing accelerated (MW506M) you must enter the pay date (the day you pay your employees) on the MW506M.
- You must complete forms MW506, MW506A, MW506M, MW506AM, MW508 and MW508A.

- File the "final report" form in your coupon book if you are closing your business to avoid unnecessary delinquent notices and collection action.
- You must provide each employee with a wage and tax statement, federal Form W-2, on or before January 31 each year.
- If you don't have the window envelope but do have your Form MW 506, mail it with your payment to: Revenue Administration Division, P.O. Box 17132, Baltimore, MD 21297-0175.

MAGNETIC MEDIA

Important Changes For Tax Year 2007

- **Reduction in the number wage statements required to be filed in machine-readable or electronic format.** Senate Bill 94 changed the number of W-2's required to be submitted to the Comptroller of Maryland in machine-readable or electronic format from 150 to 100 for calendar year 2007.
- **New "RE" record modification.** The "RE" record has been modified to include the Maryland Central Registration Number in positions 222-229.
- **New "RS" record modification.** The "RS" record has been modified to include the Employer Identification Number in positions 328-336. Employee Withholding Allowance positions 368-369 required for 2007. Failure to provide required data in the "RS" record will require us to reject the magnetic media filing. Any rejected filing is considered to be filed and may be subject to penalties of up to \$50 per.
- **New "RV" record required.** Maryland magnetic media filers are to use the Social Security Administration reporting format specifications "EFW2", formally known as "MMREF-1". The SSA format includes a new record for calendar year 2007, the "RV" record. The new "RV" record will replace the MW508 portion of the "RE" record that was modified last year to reflect Form MW508 data. To obtain a copy of the 2007 Magnetic Media Specifications Booklet, please visit our Web site at www.marylandtaxes.com
- **Online filing option.** Employers can file electronically using our online b-File application which allows employer to key in up to 250 W2's and their MW508 Year End Reconciliation Form. Please see our Web site for additional information and details. If you should have any questions please contact the office by phone at 410-260-7150 or e-mail at www.marylandtaxes.com

FOR QUESTIONS ABOUT...

Withholding, obtaining withholding guides or forms, lost or destroyed return booklets, corporation income tax, personal income tax, nonresident shareholders' or partners' tax, e-mail taxhelp@comp.state.md.us, or call 410-260-7980 from Central Maryland or 1-800 MD TAXES from elsewhere.

If you have a delinquent withholding tax collection problem, call 410-649-0633.

For the hearing impaired: TTY users call via Maryland Relay at 711 in Maryland or 1-800-735-2258 from anywhere. If you need a reasonable accommodation for a disability, or need the information in this *Tax Facts* in an alternate format, contact the Comptroller's Office.