

Electronic filing update

With electronically filed returns up more than 33 percent over the same time last year by mid-March, Maryland's electronic filing program is having another banner year. While tax professionals have had a very smooth e-filing season so far, we have a few reminders to pass on to both pros and online filers.

- Only current year resident returns can be filed electronically, whether they are filed through a preparer or online.
- Preparers are no longer required to send in the signature document (502EL) for electronically filed returns. Instead, they must keep these forms for three years, along with W-2s and 1099s.
- Taxpayers who owe money can file electronically through a preparer or online and pay the balance due by April 17, 2000, using Form 502PV. This form is available in the Mary-

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Extension of time to file offered

Maryland filing season news

Taxpayers who don't owe additional tax on their Maryland returns and request an extension of time to file their federal income tax returns receive a Maryland extension automatically. If they don't owe additional tax but didn't file a federal extension, they can easily request a Maryland extension:

- On the comptroller's Web site at www.marylandtaxes.com.
- By calling 410-260-7829 from Central Maryland or 1-800-260-3664 from elsewhere.

To use the Internet or automated telephone system, taxpayers or preparers need to indicate the filing status and enter the taxpayer's Social Security number. For joint returns, enter both Social Security numbers.

Taxpayers filing for extensions who owe additional tax must file Maryland Form 502E, Individual Application for Extension of Time to File, or Form 504E, Fiduciary Application for Extension of Time to File, and include payment of the tax due by the filing deadline.

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Comptroller's Comments

E-file grows, thanks to preparers

One of my major goals as Comptroller is to increase electronic filing, because of the benefits it provides taxpayers, tax preparers, and the Comptroller's Office. From fast refunds and error-free returns for taxpayers and preparers to paperless, efficient processing for our office, electronic filing is a win-win proposition for everyone.

Electronic filing has grown dramatically since it was introduced, and this year is no exception. Through mid March, electronic filing had increased more than 33 percent over the same time last year. The number of people who filed by personal computer had already surpassed last year's total.

But the real growth in electronic filing has come from taxpayers using professional tax preparers. Last year,

of the 300,000 Marylanders who filed electronically, almost 279,000 used the services of a tax professional. Earlier this year, my office recognized preparers in each county who'd shown the greatest growth in electronic filing from tax year 1997 to 1998. We celebrated increases ranging from 14 to 235 percent, commending preparers from Lavale to Salisbury and points in between who helped us to another record year in electronic filing. And, with electronic filing through preparers running well ahead of last year, we expect another record for 1999 returns.

William Donald Schaefer
Comptroller of Maryland

Maryland income tax filing season news

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The extension of time to file is not an extension of time to pay. Taxpayers who do not pay the amount due by April 17, 2000, will owe interest and penalty. These forms are available on the comptroller's Web site at www.marylandtaxes.com or through Forms-by-Fax at 410-974-FAXX (3299).

Don't forget direct deposit

Please remind your clients about the benefits of having their refunds directly

deposited into their bank accounts. Taxpayers who file electronically and request direct deposit will have their refunds in their bank account within 48 hours after we accept and process the return. Through March 13, 2000, we processed 148,505 direct deposit refunds from both paper and electronic returns.

Underpayment of estimated tax

If you or a client paid too little in estimated tax for 1999, you may owe

interest on the underpayment. Form 502UP should help you determine if you owe interest. Generally, you *do not* owe interest for tax year 1999 if:

- You owe less than \$500 on income that is not subject to Maryland withholding;
- Each 1999 estimated payment, made quarterly as required, is equal to or more than 25 percent of the total tax liability for 1998;
- You made quarterly payments during 1999 which equal 90% of the tax liability for 1999;
- If at least 90% of your taxable income is taxable by another state and the underpayment is not greater than the local tax, not interest is due. This is done because some states don't withhold enough income to cover the local tax liability.

Questions about local income tax

For tax year 1999, taxpayers have good news on two fronts - a continued phase-in of the state income tax cut *and* a simplified local tax calculation. The local income tax changes have generated a very small number of questions to the Comptroller's Taxpayer Services Section—less than 1 percent of total tax inquiries. Those who call usually ask whether local rates and resulting local tax liabilities have increased.

Before the 1998 income tax reduction, the local income tax was calculated as a percentage of state income tax liability, with rates ranging from 20 percent to 60 percent of state income taxes.

When the state tax was reduced in 1998, the counties were held harmless; that is, the state tax cut didn't flow through to the local income tax. A local rate of 50 percent, for example, became a greater percentage of a reduced state tax liability but did not increase the dollar amount of the local tax liability. For the first year the state tax cut was in effect, taxpayers basically had to calculate the state tax

twice, once to generate the state tax liability and once to generate a starting point for the local tax liability.

In 1999, the General Assembly simplified the calculation and eliminated the need to calculate state taxes twice. The new method allowed the increase in the personal exemption to flow through to the local income tax. To make up for the resulting revenue loss, the local tax was converted to a flat percentage of taxable income and the counties were allowed to set their tax rates between 1 percent and 3.05 percent of taxable income. Within those limits they were given the authority to increase or decrease local income tax revenue or hold revenue at the level they would have received under the old tax structure.

Counties generally have adopted rates that are revenue neutral for local governments. However, establishing rates that produce the same total revenue from all taxpayers results in individual tax bills that are slightly higher for about half of a county's taxpayers and slightly lower for the other half.

Payments by voucher

To insure that individual estimated payments submitted with 502DEP vouchers are processed and posted promptly, please mail them to the following address:

State of Maryland
Revenue Administration Division
P.O. Box 17251
Baltimore, MD 21297-0502

Withholding payments submitted with vouchers provided in the coupon book should be mailed to:

State of Maryland
Revenue Administration Division
P.O. Box 17132
Baltimore, MD 21297-0175

Any payments *without* preprinted vouchers should be sent to:

Comptroller of Maryland
Revenue Administration Division
Annapolis, MD 21411-0001

Hot line, e-mail help for preparers

Answers to questions, information about clients' accounts, and other filing season help are just an e-mail or phone call away for tax practitioners. By e-mailing us at taxprohelp@comp.state.md.us or calling the Tax Practitioners hotline at 410-260-7424, you can get fast answers from tax experts who specialize in helping preparers.

So far this filing season, most hotline calls have been from preparers verifying estimated payments, asking for forms, checking to see if returns have been processed, and checking on refunds for their clients. Below are some of the questions preparers have been asking this year:

What happens if direct deposit information on the Maryland return, such as bank account number or routing number, is incorrect?

If the refund is returned to us because of incorrect information, we process a paper refund check, which we send to the taxpayer with a letter explaining that the refund couldn't be deposited electronically because of incorrect information on the return.

Who are the approved vendors for substitute forms?

Preparers can get a list of approved vendors by checking the Comptroller's Web site at www.marylandtaxes.com, through our Forms-by-Fax system at 410-974-3299, or by calling the hotline.

If a person spent seven months in Maryland in 1999 because of a temporary job assignment but had no intention of becoming a Maryland resident, does he file as a resident or non-resident for 1999? And if the job runs into 2000 for three months, does that status carry over from 1999?

Each year is treated separately for the purpose of filing as a resident or non-resident. In 1999, the taxpayer should file as a resident because he lived in Maryland more than 183 days. For tax year 2000, the taxpayer should file as a non-resident, because he would have lived in Maryland less than 183 days.

Does Maryland have a Power of Attorney form?

No. We accept the federal Power of Attorney form.

Fuel supplies, prices raise questions

If you drive a car, you know that gasoline prices have climbed steadily in recent months. You may not know that, since the end of January, fuel oil, diesel fuel, kerosene, and jet fuel prices have also climbed and that these fuels have sometimes been in short supply.

While the heating oil situation should improve with the advent of warmer weather, gasoline prices are a continuing concern for Maryland motorists. Many different factors are contributing to high fuel prices. Starting about ten years ago, major U.S. oil companies decided to adopt a practice called "just in time" inventories which reduced inventories and storage.

While this saved the companies money and reduced environmental risk, it reduces fuel supplies on hand. A major cause of the current crunch was the reduction in crude oil production by the OPEC nations. An extended cold spell in the New England states starting in mid-January which drained kerosene supplies, refinery problems on the east and gulf coasts, and frozen rivers and high winds

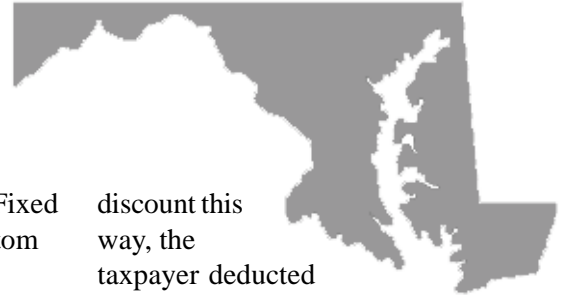
which hampered barge traffic along the east coast exacerbated the problem.

There haven't been any price controls on liquid fuels since the late 1970s, and while gasoline will be available for the spring and summer driving season, it may be more expensive. The Comptroller's Office will continue to monitor the situation, and we will continue to test gasoline and other fuels for quality to insure that Maryland motorists get what they pay for at the pump.

ReveNews.....

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The courts decide...



Sales and use tax

Custom calling, 976 telecommunications services

On December 10, 1999, the Maryland Tax Court ruled on two separate issues in *Bell Atlantic-Md., Inc. v. Comptroller*, ruling for Bell Atlantic in one and for the comptroller in the other.

One issue involved whether Bell Atlantic should have been charging and collecting sales taxes on a service called Fixed Call Forwarding. Under Maryland law, "custom calling services provided in connection with basic phone service" are taxable. The comptroller held that Fixed Call Forwarding was a type of Call Forwarding, which is clearly understood to be a custom calling service.

The comptroller also pointed out that most tariffs filed by other phone companies in other states considered Fixed Call Forwarding to be a custom calling service. The court didn't make a finding that Fixed

Call Forwarding was or was not a custom calling service. However, it found that, as a matter of fairness, it could not require Bell Atlantic to pay the tax on it because Bell Atlantic's tariff, a matter of public record, listed certain services as custom calling, not including Fixed Call forwarding. Bell Atlantic collected and remitted the tax on the services it listed.

Also, the court noted that the legislature knew of Bell Atlantic's list of custom calling services when it enacted the law and that the comptroller had not promulgated a regulation

that would have clearly included Fixed Call Forwarding as a taxable custom calling service.

The other issue was whether Bell Atlantic was a co-vendor of 976 telecommunications services along with the information providers (such as Dial-a-Prayer, Dateline, Trip Info Line, etc.) and, therefore, equally liable for remitting the sales tax. Evidence showed that Bell Atlantic imposed the sales tax on 976 calls, collected the money, and then sent the money to information providers located all over the country for them to remit to Maryland. However, Maryland never received the money.

Bell Atlantic contended that it did not sell the information services to the end users, the callers, and was therefore not liable for the tax. The court disagreed, finding that Bell Atlantic provided the 976 services in partnership with the information providers and was equally liable for the tax.

Vendor's discount

The Circuit Court for Baltimore City, affirming a Maryland Tax Court decision, held that a business filing multiple sales and use tax returns could calculate the vendor discount for collecting the tax on each return without considering the sales reported on any of the other returns.

The February 1, 2000, decision involved the comptroller's sales and use tax assessment against *Fairland Market, Inc. t/a McKays Food & Drug, et al.* The taxpayer, which operated between six and seven retail locations during the audit period filed separate sales and use tax returns for each location, calculating the discount on each return. By calculating the

discount this way, the taxpayer deducted a larger discount than it would have by filing a consolidated return. The comptroller based the assessment on the fact that the taxpayer was eligible to file a consolidated return under Maryland law and was thus required to calculate the discount as if all the sales from each store were added together.

The taxpayer contended that the comptroller didn't give it the authorization to file the consolidated return, although, in fact, the taxpayer merely had to ask to do so. The comptroller has appealed the decision.

Tax exempt sales

In a January 11, 2000, decision, the Maryland Tax Court found that some of Sodexo Marriott's purchases of non-food supplies were not taxable because the company was operating as an agent for various tax-exempt entities.

In *Sodexo Marriott management, Inc., f/k/a/ Marriott management Services Corporation and Sodexo Marriott management, Inc., f/k/a/ Saga Health Care Dietary Management, v. Comptroller*, the court upheld parts of the assessment while overturning other parts, based on the contracts between Sodexo Marriott and certain of its clients, as well as witness testimony.

The comptroller appealed the decision on one of the institutions in question on the grounds that Marriott didn't act as its agent.

The courts decide...

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Membership fees

The Maryland Tax Court has agreed with the comptroller that "membership fees" paid primarily to subscribe to a monthly newsletter are taxable. In *Nutz and Boltz, Inc. v. Comptroller*, the corporation claimed that the fees it collected were non-taxable membership fees.

However, in its February 29, 2000, decision, the court found that the main purpose of the \$22 fee was for a subscription to the corporation's monthly newsletter.

The court also found that, because the newsletter is printed material containing information in a tangible format, its sales, through subscription, is subject to tax and does not fall within the scope of the exemption for newspapers.

Electronic filing update

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land electronic filing handbook or online at www.marylandtaxes.com.

- Online filers no longer need to complete or send in the 502OL signature form. Instead, they will be asked to enter the federal adjusted gross income (line 1) from their 1998 Maryland Form 502 or line 1c from the 1998 Form 123. This will serve as a personal identification number (PIN) or electronic signature. If you filed a joint return last year, be sure to use the federal AGI number on last

Income Tax

Fraudulent W-2s

A tax fraud scheme based on self-prepared W-2s has resulted in home detention for the former chief of computer operations of the State Health Department. On January 12, 2000, Robert McGlone pleaded guilty to one count of willfully filing a false return and one count of felony theft in the Baltimore County Circuit Court.

Mr. McGlone prepared fraudulent W-2s and submitted them with both federal and state returns. Fraud examiners in the Comptroller's Office detected the scheme before the 1997 refund was issued. Mr. McGlone was sentenced to three years in prison with all but six months suspended, to be served on home detention, and to five years probation. He was also ordered to pay restitution for other years that refunds had been issued.

year's return, even if you're filing separately this year. If you filed a separate return last year but are filing a joint return this year, use the numbers from both of last year's returns on the joint return.

- Online filers should not use cents, decimals, commas, or dollar signs in their PIN numbers. They should just use whole dollar amounts using just the numbers.

If you have questions about Maryland's electronic filing program, e-mail us at efil@comp.state.md.us or call 410-260-7753.

Use tax on overseas purchases

Using information from the U.S. Customs Service, the Comptroller's Office is contacting people who buy items overseas and have them shipped to Maryland to determine if they have paid the Maryland use tax. Maryland law requires the 5% use tax be paid on the sales price of articles brought into and used in Maryland, no matter where they were purchased, unless the goods are for resale and the buyer has a valid resale certificate.

Examples of goods purchased overseas and shipped to Maryland include furniture, jewelry, and artwork. While Maryland allows a use tax credit for sales taxes paid to another state, foreign value added taxes (VAT) *do not* qualify for the credit. Some foreign countries will refund the VAT on goods shipped out of the country.

To learn more about the consumer use tax and how to pay the tax on items purchased out of state, you can download a copy of the tax tip, *What you need to know about Maryland's use tax*, and the consumer use tax form, from the comptroller's website at www.marylandtaxes.com. Or, you can call our Forms-by-Fax service at 410-974-FAXX (410-974-3299); ask for item #3018 from index 2. You can also call the Taxpayer Service Section at 410-260-7980 in central Maryland and 1-800-MDTaxes toll-free from elsewhere to receive your free copy of this tip.

Briefly noted. . .

Notices target misuse of itemized deduction

Starting in February, the Comptroller's Office has been sending notices to taxpayers who wrongly itemized on 1997 and 1998 Maryland state and local income tax returns.

Taxpayers who itemize on their federal return may either itemize or claim the standard deduction on the Maryland return. However, taxpayers claiming the standard deduction on the federal return *may not* itemize on the Maryland return.

If the taxpayers pay the tax and interest due on the first notice, no penalty will be assessed. If the Comptroller's Office makes a formal assessment, penalty will be added. If you have questions about these notices, please call the Compliance Division at 410-767-1966.

Businesses operating with revoked licenses spur court action

Business owners who continue to make taxable sales after the Comptroller's Office revokes their sales and use tax licenses could find themselves in court - and possibly in jail.

As part of a stepped-up enforcement program, the Comptroller's Office is filing court actions against merchants who've had their licenses revoked but continue to make retail sales illegally.

The affected businesses' licenses were usually revoked for failure to file and/or pay the tax they collected. In cases where these taxpayers have not cooperated with the state to arrange a payment plan or other means of settling the overdue taxes, the license is revoked.

When businesses ignore both the revocation and subsequent notices, the Comptroller's Office files Complaints for Injunctive Relief as well as Petitions to Cite Defendants for Constructive Civil Contempt.

Individuals who disobey a court order, including an order enjoining them from making retail sales without the proper license and without remitting all the tax due, can be found in contempt of court and be punished by incarceration.

Liquor license renewals

If you have a liquor license up for renewal this spring, be sure you've filed all of the returns and paid all of the taxes you owe the Comptroller's Office.

Each year before renewal time, which is May 1 in most local subdivisions, the Comptroller's Office gives local liquor boards a list of licensees who have not filed all tax returns or who have an outstanding balance for sales and use, employee withholding, or admissions and amusement taxes.

Liquor boards will hold up license renewals until all tax problems are resolved. For more information, you can call the Business Collection Section at 410-649-0633.

Corporate charter compliance program

Each year, the Comptroller's Office certifies to the Department of Assessments and Taxation delinquent taxes owed by Maryland corporations. If the corporations don't resolve the tax problems, their corporate charters will be revoked.

In early summer, we will begin to notify companies on the list to give them a chance to resolve their tax problems before we notify Assessments and Taxation. Assessments and Taxation will also notify the corporation before taking any action.

Smuggling arrests continue

A March cigarette smuggling arrest on Route 95 near Route 175 in Howard County brought the total number of arrests to 24 since the cigarette tax increased from 36 to 66 cents per pack on July 1, 1999. Since then, the comptroller's agents have seized 146,714 packs of cigarettes valued at \$472,712 and representing a tax loss to Maryland of \$96,831.

MACPA will alert members of online *ReveNews*

Thanks to the cooperation of the Maryland Association of Certified Public Accountants, association members will be notified every time a new issue of *ReveNews* is posted on the comptroller's Web site.

The organization is e-mailing interested members and sending them the link to *ReveNews* as each new

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issue is posted. If you're an MACPA member who hasn't received this notification, you can subscribe on the organization's Web site at www.macpa.org. The MACPA Web site also posts the link to *ReveNews* on its State Tax Committee Web page.

Maryland's strong economy pushes estimates upward

Stating that the economy is the best in a generation, the Board of Revenue Estimates has increased its previous estimate of state General Fund revenue by \$575 million to \$9.092 billion for the current fiscal year, 2000, which ends June 30.

In its December 14, 1999, meeting with Governor Parris Glendening, the board, consisting of Comptroller William Donald Schaefer (Chair), Treasurer Richard Dixon, and State Budget Secretary Frederick W. Puddester, also projected that General Fund revenues will grow 3.2% to \$9.386 billion for fiscal year 2001.

"Personal income and employment are two important factors responsible for the largest share of state revenues," said Comptroller Schaefer. The board estimates personal income grew 5.6% in 1999 and that it will increase 5.4% in 2000 and 5.9% in 2001. Employment was expected to increase 2.1% in 1999 and 1.6% and 2.1% in 2000 and 2001 respectively.

Prince Frederick office phone service expanded

Telephone access to the Prince Frederick taxpayer service office has been expanded to serve the growing number of calls from the Washington D.C. metropolitan area and outlying counties.

By calling 301-855-1317, residents in Washington, D.C., Prince George's County, and northern Calvert County, as well as parts of Anne Arundel, Charles, and Montgomery counties can now contact the Prince Frederick office with a local call Monday through Friday, from 8:00 a.m. to 5:00 p.m.

The old number, 410-535-8830, continues to serve callers throughout Calvert County.

Need last minute help?

Tax help for tax practitioners:

E-mail: taxprohelp@comp.state.md.us
Tax practitioners' hotline: 410-260-7424

E-file help:

E-mail: efil@comp.state.md.us
or call 410-260-7753

Taxpayer service:

410-260-7980 from Central Maryland or
1-800-MD TAXES (1-800-638-2937) from elsewhere

Extended phone hours:

Monday to Friday, 8:00 a.m. to 9:00 p.m. through
April 21, 2000

Forms and Instructions

Comptroller's Web site

www.marylandtaxes.com

e-mail:

forms@comp.state.md.us

Forms-by-Fax:

410-974-FAXX (410-974-3299)

By phone:

410-260-7951, 24 hours a day, seven days a week

Refund information:

online at www.marylandtaxes.com

By phone 24 hours a day, seven days a week

410-260-7701 from Central Maryland

1-800-218-8160 from elsewhere

Unclaimed property “amnesty” program extended

Businesses that are overdue in reporting unclaimed property to the state now have until October 31, 2000, to report that property to the Comptroller’s Office without paying penalty and fines. The original program deadline of December 31, 1999, has been extended to give holders more time to benefit from this nationwide voluntary compliance program.

Businesses holding unclaimed assets can turn them over to participating states and be exempted from penalties, interest, and/or fines, depending on what the state levies. Maryland waives penalty and interest. Holders participating in the program will also get the information they need to report properly in the

future. Since the program started, more than 1,000 holders have reported accounts worth more than \$764,000 to the Comptroller’s Office. Holders that don’t come into compliance during the program may be subject to audit as well as penalties and fines for failing to file a report of unclaimed property.

Examples of unclaimed property commonly held by businesses include bank accounts, contents of safe deposit boxes, wages, insurance benefits, security deposits, and stock dividends. Financial institutions, insurance companies, corporations and other businesses, utility companies, and government offices must report such items to the Comptroller’s Office if they are un-

claimed by their owners for five years or more (15 years for travelers’ checks).

Businesses holding unclaimed assets should contact the participating states to find out more about their programs to visit the National Association of Unclaimed Property Administrators at www.unclaimed.org. To learn more about Maryland’s amnesty program, you can get a copy of the fact sheet, *Can the Unclaimed Property “Amnesty” Program Help You?* from the Comptroller’s Web site at www.marylandtaxes.com. You can also call the Unclaimed Property Unit at 410-767-1700 in the Baltimore area or 1-800-782-7383 toll-free from elsewhere.

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