

# ReveNews



Spring 2003

Maryland Tax Information

William Donald Schaefer  
Comptroller of Maryland

www.marylandtaxes.com

## Free Internet Filing for Businesses Now Available

The Comptroller of Maryland is offering a new free service that makes paying taxes easier for businesses. Called bFile, the service allows businesses to file withholding tax online. Only returns scheduled to be filed after December 31, 2002, are eligible.

The system mirrors the personal income tax filing service, iFile, and allows the user to review and amend the return before submitting it. Bank routing and transit numbers, and an account number are required. Paper returns should not be filed except to amend returns already submitted.

Also needed is federal employer identification number or Social Security number, and a Maryland Central Registration number, which can be obtained online at [www.marylandtaxes.com](http://www.marylandtaxes.com). For information or technical assistance, call 410-767-1300 or 800-638-2937.

### Comptroller's Comments

#### Doing more with less



Now, it's time to look ahead to the future of Maryland's budget. While we have to deal with the immediate gap, longer range planning is as important. Of course, in times like these, government officials always say this – we must look to the long range – but once the crisis is over, we typically let it drop.

My thoughts: we need to understand the state has a serious fiscal problem. I named a transition team to look at ways for the Comptroller's Office to improve efficiency, so we can function better with limited resources. We've already taken some

temporary steps: cutting out money for equipment, consolidating our print shop with that of the Department of General Services and promoting electronic filing to reduce expensive paper work.

Regarding the latter, there is something *you* can do to help. The state spends \$1.1 million each year to print and mail out the tax forms booklets to 1.8 million people. Many hit the trash can because taxpayers use professionals who already have the forms to prepare their returns. If you are one of those people, please check the box on the bottom of Form 502 that says you don't need forms mailed to you anymore. I urge you to do this and help the state reduce costs.

I'm looking for more ideas and welcome your comments. At the same time, I have to keep in mind that the Comptroller's Office is the generator of revenue for the state. With a budget of \$107 million we bring in \$10 billion to fund state programs, so I don't want to make changes that would hinder that effort.

William Donald Schaefer  
Comptroller of Maryland

## Comptroller Issues Nonfiler Notices

Notices went out in January to taxpayers who filed 2001 federal but not state income tax returns. The notices ask taxpayers to file or explain why the state return was not filed. While there are many valid reasons why this might not have been done, the Comptroller has no way of knowing unless taxpayers advise the office.

If a taxpayer does not respond, the Comptroller of Maryland issues an estimated tax assessment based on available information. Questions about these notices should be directed to 410-767-1966 or 800-648-9638.

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## Comptroller Names Top E-Filers

Comptroller William Donald Schaefer again presented certificates of recognition to the professional tax preparers in each county who had the largest percentage increase in electronic filing over last year.

During 2002, 728,000 Marylanders filed electronically, representing a 33 percent increase over the previous year. About 483,000 people filed electronically through commercial tax preparers.

"Electronic filing saves time and money for individuals and businesses, plus it helps the state keep costs down, and that benefits everyone," Comptroller Schaefer said.

Maryland spends \$5 million annually to process 1.8 million paper returns while a return filed electronically costs only a few cents.



*Cathy Young (right) from the Comptroller's Office presents Severna Park tax preparer Lezlie Jones Pratt (left) with the top e-filer award for Anne Arundel County.*

In another cost-saving measure, the Comptroller's Office is urging tax preparers to check the box at the bottom of Form 502 to indicate that there is no need to mail a tax booklet next year.

At a cost of \$1.1 million annually, the Comptroller's Office mails the booklets to taxpayers, many of whom don't use the forms because they rely on professional preparers who already have them.

## Web Site Adds Online Payment Option for Taxpayers Requesting Extensions

Taxpayers can now visit the Comptroller of Maryland's Web site at [www.marylandtaxes.com](http://www.marylandtaxes.com) and file online for an extension and pay additional taxes owed at the same time.

Taxpayers can file for the standard four-month extension, request an additional two-month extension and schedule an electronic payment to be debited directly from their bank accounts. This feature is available to all taxpayers required to file a Maryland income tax return extension request.

Extension requests filed online will be considered filed and paid in a timely manner if filed by midnight on the evening of April 15.

Any taxpayer who chooses the direct debit option will be asked to enter a bank routing number, account number and the date the taxpayer wishes to have the funds withdrawn, up until April 15, 2003.

Direct debit will still be available after April 15 and funds will be withdrawn on the date the extension request is filed. However, interest charges may be assessed.

Taxpayers can also pay any additional taxes owed by credit card for a 2.5 percent processing fee by visiting [www.officialpayments.com](http://www.officialpayments.com) or by calling 800-2PAYTAX. This fee is charged by Official Payments Corp. and is not paid to the state of Maryland.

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**Allegany County**  
Arjumand Jafri

**Anne Arundel County**  
Lezlie Jones Pratt

**Baltimore City**  
Neil Goldstein

**Baltimore County**  
Michael W. Cohen

**Calvert County**  
Herbert R. Humphreys

**Caroline County**  
Cynthia C. Barnhart

**Carroll County**  
David N. Braune

**Cecil County**  
Patsy S. Simpson

**Charles County**  
Randy A. Lakes

**Dorchester County**  
Darlene K. Alexander

**Frederick County**  
Kevin L. Baker

**Garrett County**  
Brenda L. Shank

**Harford County**  
Donna J. Schoenberger

**Howard County**  
John J. Ramsden

**Kent County**  
Ann Suskind

**Montgomery County**  
Deborah K. Prettyman

**Prince George's County**  
Odunayo C. Fakunle

**Queen Anne's County**  
Karen (Nash) Jones

**St. Mary's County**  
Diana Little

**Talbot County**  
Donald L. Short

**Washington County**  
Rosemarie Schiesel

**Wicomico County**  
Sandra L. Beyette

**Worcester County**  
Jennifer A. Lynch

*Note: No award was issued for Somerset County.*

## State Joins IRS in Offering Amnesty for Offshore Payment Schemes

**M**arylanders who used offshore payment cards and similar schemes to underreport their income can participate in a new Internal Revenue Service initiative that offers them a chance to correct their tax returns and avoid federal penalties. "Maryland will grant special consideration to those who participate in the IRS program and pay what they owe to the state," Comptroller William Donald Schaefer said.

To request participation in the IRS Offshore Voluntary Compliance Initiative, a taxpayer must notify the IRS in writing by April 15, 2003, and provide name, taxpayer identification number, current address, daytime phone number and certain information about the offshore financial arrangement and the promoter.

Qualifying participants must file or amend their federal tax returns, as well as pay all tax, interest and certain penalties by October 15, 2003, to avoid civil fraud penalties and criminal prosecution. The interest and penalties depend on the amount of the unpaid tax liability, the years involved, whether a return was inaccurate or if a return should have been filed and was not.

The affected taxpayers must also amend their Maryland tax returns and pay the additional state tax, penalties and interest by October 15, 2003. The Comptroller of Maryland will not seek civil fraud penalties or refer for criminal prosecution those Maryland taxpayers who cooperate with the IRS program.

"The IRS can now obtain records from Visa, MasterCard and other credit card companies so it can track down participants in these hidden asset schemes," Schaefer said. "IRS shares this information with Maryland and other states, and we will use it to go after any Maryland tax delinquents."

The Comptroller's Office also conducts other tax compliance efforts using federal data to identify and locate taxpayers who neglect to file or underreport income, sales or withholding taxes. The agency also participates in a federal tax refund offset program that allows states to capture federal refunds and use the funds to settle state tax debts.

For more information, taxpayers should call 410-767-1195 from Central Maryland or 888-615-0369 from elsewhere.



*Betsy Feil of an increasingly busier Ram's Head Tavern in Annapolis, Md., checks out box office receipts for upcoming shows.*

## Entertainment Spending Up

Marylanders spent \$118 million on taxable entertainment during October, November and December of 2002, 8 percent more than the same period last year.

Moviegoers spent \$28.5 million, about 10 percent higher than last year, and athletic events were up 50 percent over the \$10 million spent during the same period a year ago.

## Bay Fund Checkoff Donations Up 13%

As of March 19, 17,578 taxpayers have contributed more than \$347,300 on their Maryland income tax forms to the Chesapeake Bay and Endangered Species Trust Fund.

"The generosity of Maryland taxpayers is incredible," Comptroller William Donald Schaefer said. "I'm very impressed by the commitment of our

taxpayers, and I thank them for going the extra mile on this. The checkoff feature has helped to support programs aimed at restoring and protecting the bay."

Montgomery County taxpayers are leading the way in donations, totaling more than \$79,200. Anne Arundel County residents are in second place, with approximately \$42,600.

Statewide, donations to the bay fund are averaging \$20.

Checkoff donations reduce the amount of a taxpayer's refund or are added to any additional tax due.

Bay fund contributions on the 2002 state income tax re-



*Mouth of the Severn River, Annapolis, Md.*

turns are deductible on federal and state tax forms filed for tax year 2003 if taxpayers itemize deductions.

## Federal Tax Refund Offset Program Fills State Coffers

**M**aryland continues to benefit from a federal program that allows states to offset federal tax refunds to satisfy delinquent state income tax liabilities. During calendar year 2002, Maryland captured 28,079 refunds totaling just over \$18.5 million.

The Comptroller expects to realize even greater results from the program in the coming year due to timelier certification of debts.

Previously, the Comptroller sent notices of "intent to offset" to taxpayers once a

year in October, and certified new debts to the federal government in December.

Beginning January 2003, the Comptroller began sending notices and certifying new debts periodically throughout the year as liabilities are created. Taxpayers should be aware that if they have delinquent Maryland income tax liabilities, their federal refunds will be offset, even if they have active payment agreements.

For information, contact the Compliance Division at 410-974-2432 or 888-674-0016.



### Celebrating 6,618 Hours of Volunteering

*Comptroller William Donald Schaefer celebrates the conclusion of the agency's 150th anniversary with a reception honoring Comptroller's Office employees who volunteered more than 150 hours during the year. Revenue Administration employee Niyati Jhaveri (left) volunteered nearly 800 hours during the Comptroller's 150-Volunteer-Hour Challenge.*

## Delinquent Businesses to Lose Licenses

**T**he Compliance Division schedules revocation hearings for taxpayers who are delinquent in filing business tax returns or have outstanding business tax liabilities. This hearing can be for any of the business tax types, but only applies if the taxpayer holds a sales and use tax license.

The division sends taxpayers notices of the hearings, which are held every Monday and Wednesday.

Taxpayers may enter into a payment plan with a minimum down payment of 25 percent. Payment plans are monitored and if the taxpayer defaults or fails to attend the license hearing, a field agent is sent to pick up the license.

License holders who owe delinquent taxes can avoid problems with revocation by contacting the collections section at 410-767-1652 or 888-614-6337.

## Unclaimed Property Dormancy Time Reduced

The unclaimed property dormancy period has been reduced from five years to four years effective June 1, 2002, and will be further reduced to three years effective June 1, 2003.

As a result, the reports for periods ending in 2002 and 2003 will each include dormant property for a two-year time span and will likely include twice the amount of property normally reported. For information, call 410-767-1700 or 800-782-7383.



*Unclaimed property items as they are prepared for auction.*

## Comptroller to Monitor Liquor License Renewals

The Comptroller of Maryland will work with local liquor boards during the license renewal period to collect outstanding sales, withholding, and admissions and amusement taxes.

Retailers of alcoholic beverages are required to renew their licenses annually by April 30. Delinquent retailers can expect to have their license renewals delayed by the local liquor board, pending a release issued by the Comptroller's Office.

Retailers who owe delinquent taxes and do not have payment plans should call the collections section at 410-767-1824 or at 1-888-614-6337.

### ReveNews...

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## Filing Deadline Extension for Military Personnel Possible

The Comptroller of Maryland has reassured local families of military and support personnel stationed in the Persian Gulf region that both the state of Maryland and Internal Revenue Service may extend the income tax filing deadlines for the affected personnel by six months.

The IRS automatically extends the federal income tax filing deadline for military and certain other taxpayers serving in a combat zone or qualified hazardous duty area for six months, beginning on the last day of the combat zone service or the last day of any continuous hospitalization, whichever is longer.

In addition, the number of days that remained during the January 1 to April 15 filing period when the taxpayer entered the combat zone are added to the six-month extension to determine the taxpayer's filing deadline.

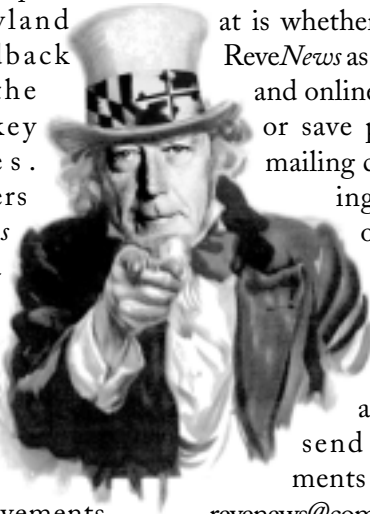
zone will automatically get the extension," said Comptroller William Donald Schaefer.

More information about the federal extension, as well as other military and combat zone concerns, is available in Publication 3, Armed Forces Tax Guide, on the IRS Web site at [www.irs.gov](http://www.irs.gov).

"If President Bush declares the region a combat zone, the military in that

## Comptroller Schaefer Wants to Hear From You

The Comptroller of Maryland wants feedback from the agency's key audiences. Since readers of ReveNews make up a key audience, we would like some of your thoughts about improvements.



One item we're looking at is whether to continue ReveNews as both a mailed and online publication, or save printing and mailing costs by making it available online only. Any ideas or thoughts on this would be appreciated. Please send your comments via e-mail to [revenews@comp.state.md.us](mailto:revenews@comp.state.md.us).



### Comptroller's Office Can-Do!

*In conjunction with the Comptroller's second inauguration, employees kicked off a partnership with the Maryland Food Bank by collecting over 800 pounds of food. The yearlong effort will include monthly food drives and technical assistance to local food pantries.*

## Fewer Extension Requests Drive Down Local Income Tax Revenue

The Comptroller of Maryland distributed \$184.5 million in local income tax revenue to Maryland's 24 jurisdictions in January, a 12.5 percent decrease from last year. The decrease is attributed to a lower average tax liability on fewer tax returns filed during the last three months of 2002.

The office received fewer returns because fewer people sought filing extensions. The 50,000 returns received during the last three months of 2002 were 5 percent less than in 2001. In addition, since capital gains declined 50 percent in 2001, many people had lower tax bills.

**Comptroller of Maryland**  
Phone Numbers for Tax Professionals

|                            |                                 |
|----------------------------|---------------------------------|
| Tax Pros Help Line         | 410-260-7424                    |
| Electronic Filing Problems | 410-260-7753                    |
| Opening a New Business     | 410-767-1313<br>or 800-492-1751 |
| Filing Extensions          | 410-260-7829<br>or 800-260-3664 |
| Telefiling "Zero" Returns  | 410-260-7225                    |
| Business Tax Payments      | 410-260-7601                    |

# Courts decide

## Tax Protestor Guilty of Forgery

Attorney General J. Joseph Curran, Jr. and Comptroller William

Donald Schaefer jointly announced that Dolores E. Scott, 61, an Owings Mills pediatric nurse who owes over \$20,000 in back taxes, pled guilty today to one count of forgery, for having forged two documents last year in order to get lifted the garnishment the comptroller had inserted against her wages. The comptroller's office found out about the alleged

forgeries, re-instituted the garnishments, and referred the matter to the Attorney General for prosecution.

According to the statement of facts, each of the forged documents were sent by fax and included a line at the top of each document that read, "From Scott Residence." Additionally, one of the forged documents Scott submitted was signed in the name of an "Elaine Batiste,"

who supposedly was a revenue agent in the compliance division of the comptroller's office. There is no such person working anywhere in the comptroller's office, however, that "Elaine" is Scott's middle name.



Anne Arundel County Court House, Annapolis, Md.

Underlying her dispute with the comptroller's office is Scott's belief that as an African American descendant of slaves brought to America against their will, she was not a citizen subject to income taxation. She has lost that argument in every court that has heard it, the most recent being the Maryland Court of Special Appeals in a re-

ported opinion, *Scott v. Comptroller of the Treasury*, 105 Md. App. 215 (1995).

Scott's battle with the taxing authorities is not limited to the Maryland comptroller's office, but included the Internal Revenue Service as well. There the problem escalated to an arrest, due to her abusive and harassing conduct involving a federal revenue officer assigned to her case. In May 1991, the U. S. Attorney's Office filed obstruction charges against Scott, charging her with threatening the life of the revenue officer and of her family. Scott entered a guilty plea to the charge in July 1991, and was sentenced to three years of supervised probation, with the special condition that she not visit the I.R.S. without permission of her probation officer or in her attorney's company.

## State Comptroller to Appeal Clyde's Case

This was an appeal, filed by the Comptroller of Maryland, of a decision of the Circuit Court of Baltimore City affirming a decision of the Maryland Tax Court. The Maryland Tax Court had reversed two admissions and amusement tax assessments issued by the Comptroller's Office against Clyde's of Chevy Chase and Clyde's of Columbia. Both assessments were based on the sale of refreshments during periods when entertainment was provided.

The essential facts of the case are as follows: Both restaurants provide entertainment two or three nights per week. This entertainment is either live musicians or a disc jockey. The restaurants do not raise the menu prices, require a minimum purchase or impose a cover charge during the periods when entertainment is provided. On most occasions, the entertainment provider is paid at the end of the evening out of the night's receipts.

Clyde's initially argued that this was not even entertainment, but a form of ambiance provided to enhance the dining experience. However, the tax court did find as a fact that this was entertainment. The tax court also found that the entertainment was paid for out of the refreshment receipts. Nonetheless, the tax court, and the appellate courts, found that this was not the type of financial nexus required by the term "in connection with" that appears in Tax General Article 4-101(b)(1)(v). The decision was based in large part on a prior Court of Special Appeals decision, *Comptroller v. Burn Brae Dinner Theatre*, 72 Md. App. 314 (1987).

The Comptroller has filed a request with the Maryland Court of Appeals to review the lower court decision.

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# Comptroller Clarifies College Investment Plan



McDowell Hall, St. John's College, Annapolis, Md.

Contributions to the College Investment Plan are limited to \$2,500 per year per account. In response to an opinion of the attorney general, the comptroller promulgated Regulation.15 under COMAR 03.04.02 that provides that the subtraction modification is limited to this amount per qualified designated beneficiary regardless of the number of investment options included in an investment account.

When the College Investment Plan was launched in December 2001, a contributor was able to invest in more than one investment

portfolio for a single beneficiary. As the plan was administered, a separate account had to be established for each portfolio. Because the law limits the subtraction modification available to an investment account, the question was raised as to the extent of the subtraction available.

Clarifying legislation was passed by the General Assembly in 2002, but was vetoed by the governor because of language extending the benefit to other states' 529 plans. In his veto letter the governor wrote that permitting the subtraction modification for contributions by one contributor to more than one investment portfolio for a single beneficiary was not the intent of the original legislation.

The comptroller requested an opinion of the state attorney general as to the proper interpretation of the state income tax deduction for contributions to the college investment plan.

The attorney general's opinion was that "a Maryland taxpayer may take a subtraction modification of up to \$2,500 each year for contributions to the investment plan on behalf of a particular beneficiary, regardless of whether those contributions are spread among one or more of the portfolios that are

part of the plan. The taxpayer may take a similar deduction for each beneficiary for whom the taxpayer makes contributions."



St. John's College, Annapolis, Md.

## Kenderdine Named Acting Pension Director

In concurrence with the board of trustees, State Pension System Chairman and Comptroller William Donald Schaefer named R. Dean Kenderdine acting executive director of the State Retirement and Pension System.

Kenderdine, who has been the Schaefer's chief of staff since 1999, replaces Peter Vaughn who resigned in December.

"The board and I believe the agency will benefit from Dean's superior administrative skills during this transition period," Schaefer said. "His 23 years of public service will help the pension system remain on firm ground until a permanent director is named."

As chief of staff, Kenderdine oversees



R. Dean Kenderdine

the agency's legislative activities, personnel services, intergovernmental relations, strategic planning and concerns relative to the state's business community and economic development.

## Seniors Switch to Electronic Filing

Senior citizens are switching to electronic filing twice as fast as the general population. Seniors are up 24 percent over last year, compared to a 13 percent increase for younger taxpayers.

"The rising popularity of electronic filing among older taxpayers can't be attributed to growing numbers of elderly taxpayers alone," said Comptroller William Donald Schaefer.

The 291,000 state returns filed by taxpayers 65 and older last year – out of 2.5 million filed statewide – exceeded the 286,700 received from elderly taxpayers during the previous year by only 1.4 percent.

## A Chance to Help the Hungry

The Comptroller of Maryland just kicked off a yearlong partnership with the Maryland Food Bank in an effort to help feed Maryland's half million hungry. Called the Can-Do campaign, the program aims to improve existing Food Bank projects, create new initiatives and help with Food Bank operations around the state.

The comptroller challenges local businesses to join in the endeavor by starting their own food drive program.

Most wanted nonperishable items include: low-salt canned meat and fish, peanut butter, macaroni and cheese, seeds, canned fruits and vegetables, and breads and cereal. Paper products and baby items are also wanted.

For more information, call 410-947-0404. Financial donations can be mailed to The Maryland Food Bank, 241 North Franklinton Road, Baltimore, MD 21223.



*Photo courtesy of the Maryland Food Bank*

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