

ReveNews



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Maryland Tax Information

William Donald Schaefer
Comptroller of Maryland

www.marylandtaxes.com

Comptroller's Comments

Predicting revenues no easy task



A great deal of hard work by a group of very talented economists and policy experts goes into forecasting

Maryland's economic outlook. Here are my thoughts on the exceptional efforts that go into our revenue projections.

State revenue is comparable to income in an individual's household budget. It tells us how much we can plan to spend. In serving as chair on the Board of Revenue Estimates, I work with the State Treasurer and Secretary of Budget and Management. Together, along with our staffs and those of the General Assembly, we work to provide the governor with consensus revenue estimates.

For the most part, this report and how we go about producing it goes largely unnoticed, which means we're getting the job done and without controversy.

The reports are based on a wide range of factors, including past rev-

enue collections, the employment rate, the consumer price index and the gross domestic product.

Gauging the state's economy is an ongoing process and doesn't begin or end with publishing deadlines. For example, projections for our current fiscal year began more than five years ago. This year, the Board will make preliminary estimates for general fund revenues in 2011.

As with the weather, no forecast is exactly right, but over the past five years the Board has estimated revenues to within an average of 2.92 percent of actual revenues. That's forecasting correctly more than 97 cents on every dollar, an important reason why Maryland is able to maintain its AAA bond rating. Without the high rating, it would cost the state a lot more to fund major projects.

It's by working together and setting politics aside that our three offices are able to provide timely and accurate information to the people who need to plan their budgets. I commend everyone who works on this very difficult and critical effort.

William Donald Schaefer
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\$12.8 Billion for Fiscal Year 2007

The Maryland Board of Revenue Estimates has informed Governor Robert L. Ehrlich, Jr. that the state can expect general fund revenues to top \$12.8 billion in fiscal year 2007, an increase of more than 5 percent over the current fiscal year. The increase is largely due to continued growth in income and sales tax collections.

Overall, income tax revenues in FY 2007 are forecasted to increase by 6.8 percent over FY 2006, with personal income tax revenue increasing by 6.7 percent and corporate income tax revenue increasing by 7.6 percent. Sales and use tax revenue is projected to increase by 5.1 percent in FY 07. Lottery revenues are expected to increase by 2.6 percent.

Personal and corporate income taxes, sales and use taxes, as well as lottery revenues represent 87.3 percent of total Maryland general fund revenues. Franchise, excise, licenses and other miscellaneous fees repre-

(see \$12.8 BILLION, back page)

ReveNews..

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What's New for Tax Season

Here are some of the most important changes and benefits affecting 2005 Maryland income tax returns to be filed by April 17, 2006:

- **Simplified process for six-month filing extension** - If you need more time to file your return, you can now obtain a full, six-month extension of time in one easy step. If you request a filing extension from the IRS and don't owe additional state tax, you automatically receive a six-month extension for your Maryland return.
- **Increased pension exclusion** - Maryland's maximum pension exclusion, which is available to qualifying taxpayers 65 or older, increased from \$20,700 to \$21,500 for tax year 2005.
- **Expanded child care tax credit** - The federal adjusted gross income ceiling for taxpayers who qualify for Maryland's state tax credit for child or dependent care expenses has been increased from \$40,000 to \$50,000 for married couples and from \$20,000 to \$25,000 for married couples filing separately. The credit is in addition to the subtraction benefit on the Maryland return for child and dependent care expenses.
- **Expanded earned income tax credit** - The income levels for Maryland's earned income tax credit have also been increased, allowing more individuals to qualify for the tax benefit.
- **Expanded direct debit option for electronic filers** - If you file electronically and owe additional tax, you can now make partial payments if you choose the direct debit payment option. When you pay by direct debit, you can also choose to have the payment deducted on any date up to the April 18 deadline.
- **Tax breaks for families hosting Katrina victims** - Taxpayers who sheltered displaced victims of Hurricane Katrina may be eligible for an additional \$2,400 tax exemption for each dependent victim (up to a maximum of four dependents). The exemption is doubled to \$4,800 if the dependent victim is 65 or older or blind.
- **Telefile no longer available** - The joint Telefile program that IRS conducted with Maryland has been discontinued. For other electronic filing options, see electronic filing information on marylandtaxes.com.

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 or 800-492-1751
Filing Extensions	410-260-7829 or 800-260-3664
Telefiling "Zero" Returns	410-260-7225
Business Tax Payments	410-260-7601

MCI Pays State \$26.8 Million

MCI has paid \$26,832,318 to the state as part of the settlement it entered into October 2005. The settlement is seen as a major victory for Maryland, one of 15 states and the District of Columbia, who made tax claims against MCI in U.S. Bankruptcy Court.

In addition to the \$26.8 million payment, MCI is required to calculate all state taxes in post-claim years (generally, 2003 and forward) as if the royalty program never existed. The settlement also restricts MCI's ability to claim tax refunds and limits its liability to reduce future taxes through net operating loss carry forwards.

MCI's predecessor, WorldCom, was in violation of Maryland tax law when it artificially shifted income to no-tax or low-tax states through payment of purported "royalties," for management foresight. The \$26.8 million represents 77 percent of the original "core" claim relating to the royalty program.

Federal Tax Refund Offset Program

Maryland continues to participate in the federal program that allows states to offset federal tax refunds to satisfy delinquent state income tax liabilities. For the calendar year 2005 Maryland captured 34,382 refunds totaling just over \$22.9 million.

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

Tanton Appointed Deputy Comptroller of Maryland

Comptroller William Donald Schaefer has announced the appointment of Linda L. Tanton as his Deputy Comptroller, replacing Stephen M. Cordi who is retiring after 31 years of state service on December 31, 2005. Tanton has served the comptroller as Director of the Compliance Division since 1994.

"Steve Cordi will be a tough act to follow, but I am confident that Linda has what it takes to maintain the excellence that our taxpayers expect from this agency," said Schaefer. "In the seven years that I've been here, she has proven to be an effective and innovative leader who knows how to balance the needs of the state with those of the individual taxpayer. She will do a great job as my deputy."

The Deputy Comptroller is primarily responsible for overseeing six operational divisions of the agency, which include Revenue Estimates, Central Payroll, Compliance, General Accounting, Information Technology, and Revenue Administration.

Prior to her appointment as Director of the Compliance Division in 1994, Tanton served as Assistant Director of the Compliance Division, a position she held from 1993-1994. Before reorganization of the Comptroller's Office, Tanton was the

Assistant to Director of the Retail Sales Tax Division/Sales and Use Tax Division from 1980 to 1993. She originally started her career in State service in 1977 as a Staff Attorney for the Retail Sales Tax Division.

Tanton is a 1968 graduate of Wake Forest University. She earned a law degree from the University of Baltimore in 1975 and later received her L.L.M. in Tax Law from Georgetown University in 1977. She was admitted to the Maryland Bar in 1975.

Stephen M. Cordi has served as Deputy Comptroller since 1994. He was the first Director of the Compliance Division following its creation in 1993. For 13 years prior to his appointment, he was the Director of the Maryland Sales and Use Tax Division.

Cordi first entered State service in 1974 as Special Assistant Attorney General for the Comptroller, representing the sales tax, motor fuel tax and tobacco tax divisions. An attorney and certified public accountant by profession, Cordi is a graduate of Haverford College and Georgetown University Law Center. He is past president of the Maryland Government Finance Officers Association, the North Eastern States Tax Officials Association and the Federation of Tax Administrators.

Loftus Appointed Compliance Director

Comptroller William Donald Schaefer announced the appointment of James T. Loftus as the director of the comptroller's Compliance Division, replacing Linda L. Tanton who has been appointed to serve as deputy comptroller. Loftus has served in the Comptroller's Office for 31 years.

"This new role is a natural fit for Jim," said Comptroller Schaefer. "I have every confidence he will lead the division with the same, continued excellence Linda Tanton has given for the past seven years that I've been here."

The director of the Compliance Division serves on the Comptroller's cabinet and oversees the division's responsibilities for accounting and systems support, business tax audits, fiscal administration, unclaimed property, collections, hearings and appeals, as well as tax compliance programs.

Jim Loftus began his career with the Comptroller's Office in 1974 as a sales and use tax field auditor. From 1978 to 1994, he was responsible for the Accounting and Fiscal Administration sections where he directed the operations and functions of those sections, while managing and preparing the division's budget. Mr. Loftus served as the assistant director of the Compliance Division from 1994 to 2004, when he was appointed to his current position as deputy director.

E-mail Scam Seeks Personal Taxpayer Information

The public has been warned by IRS of an Internet scam in which consumers receive an e-mail claiming they have a tax refund due to them. The fraudulent e-mail claims to be from the IRS and urges recipients to link to a separate page where they are asked to provide personal information, such as their Social Security number and credit card information.

No cases of the "phishing" scam have been reported to the Comptroller's Office; however, taxpayers receiving e-mail noting a state tax refund and requesting personal information are encouraged to report the incident by calling 1-800 MD TAXES. For more information on the scam reported by the IRS, visit irs.gov/newsroom.

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Agency Consolidation

Comptroller William Donald Schaefer has consolidated his Motor Fuel Tax and Regulatory and Enforcement Divisions into one office. Effective last October, the Motor Fuel Tax Division will become a bureau within the Regulatory and Enforcement Division.

The Regulatory and Enforcement Division will now be responsible for the collection of motor fuel taxes, issuance of International Fuel Tax Agreement decals and registration, regulation and enforcement of dyed fuel laws, regulating fuels sold in Maryland at retail locations, as well as regulating transport licenses. The division will continue its mission of enforcing the state's revenue laws relating to alcoholic beverages, tobacco, business licenses and the state's sales and use tax laws.

The consolidation is expected to save the state an initial \$125,000 per year. The Motor Fuel Tax Division's main office will continue to be located in the Lois L. Goldstein Treasury Building, in Annapolis, with a laboratory for fuel testing in Jessup, Maryland.

(\$12.8 BILLION *continued from front page*)

sent the remaining 12.7 percent of the general fund. These sources of state revenue are expected to decrease by 0.4 percent in fiscal year 2007, including revenue from death taxes, clerks of the court fees, as well as revenue generated from interest on investments.

For the remainder of fiscal year 2006, general funds are expected to reach more than \$12.2 billion, growing by 6.7 percent over FY2005, with personal income tax revenue forecasted to increase by 8.5 percent, corporate income tax revenue to increase by 22.3 percent, sales and use tax revenue to increase by 6.4 percent and state lottery to increase by 3.4 percent.

Comprised of State Comptroller William Donald Schaefer as chairman, State Treasurer Nancy K. Kopp and State Budget Secretary Cecilia Januszkiewicz, the Board of Revenue Estimates serves to provide the governor and state legislature with timely and accurate revenue estimates in order to plan the state's operating budget.

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