

Income tax filing season preview

Reduced state tax rate, increased personal exemptions and expanded online filing are among the changes taxpayers and tax preparers will see during the upcoming filing season.

Lower state tax rate

As a result of the final phase-in of the tax cuts passed during the 1997 General Assembly session, filers will benefit from a lower state income tax rate and a higher personal exemption amount on tax year 2002 returns.

The maximum tax rate for 2002 returns due by April 15, 2003, is 4.75 percent, down from 4.80 percent for tax year 2001. The change increased the personal exemption amount from \$2,100 to \$2,400.

Electronic filing updates

Maryland will accept two additional forms for electronic filing: Form 500CR (Business Tax Credits) and Form 502INJ (Injured Spouse Claim Form). In addition, returns for decedents and fiscal year returns may be filed electronically this year.

For the first time, the federal-state electronic filing program will accept Maryland-only transmissions.

Form EL102 (Income Tax Payment Voucher) will continue to be used as a universal payment document for electronic forms 123, 502, 503, 504, and 505.

Tax preparer ID

Tax preparers must enter their PTIN or Social Security number on each Maryland tax return they prepare.

This information will help us identify and contact tax preparers if we encounter processing problems in their clients' returns.

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Comptroller's Comments

Now the work begins

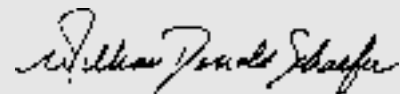
Not since the early 90s has the state faced such a formidable task – that of closing a \$1.8 billion budget gap. Everyone knows the amount because of the extensive media attention, but not everyone knows what closing the gap will mean. At this moment, I do not know what reductions will be needed.

There are many suggestions on the table. One of them is to increase the withholding tax to bring in some funds quickly to help balance this year's budget. This would bring in an estimated \$45 million, but amounts to nothing more than an interest-free loan from taxpayers. This is a bookkeeping fix and not the broad type of approach we need. At present, I will not implement this plan.

I also do not think that an across-the-board cut of all state agencies is the answer. All services are important, but some services are more important than others. In times like these, we have to delay nice-to-have programs in order to support need-to-have programs, such as health, education and public safety.

We have been in this position before, but working together, we can lessen the impact on state employees and taxpayers.

The coming months will require all the best thinking we have, but Maryland has met the challenge before and will surely do it again. I am ready to work with our new governor and the General Assembly to find the best way through a thicket of terribly difficult choices.



William Donald Schaefer
Comptroller of Maryland

Updated Business Tax Credit Guide Now Available

The third edition of the popular Guide to Business Tax Credits produced by the Comptroller's Office is now available.

The free publication outlines 19 tax credits worth potentially millions of dollars for companies providing research and development, clean air, long-term care insurance, work-based training, new jobs, and other services in Maryland. A new benefit for long-term employment of ex-felons has been added, along with changes to four existing credits.

The guide summarizes each tax credit, explains how each credit is calculated and lists government agencies to contact for information.

Changes include an increase in the Commuter Tax Credit's maximum monthly benefit from \$30 to \$50 and a decrease in the Heritage Structure Rehabilitation Credit from 25% of the total expenditure during rehabilitation to 20% along with a cap of \$3 million for each rehabilitation.

New guidelines also exist for Montgomery County companies that claim the Businesses That Create New Jobs Credit. Additionally, businesses claiming the One Maryland Economic Development Credit, with the majority of positions created



paying at 150% or more of the minimum wage, may use the excess credit against the tax on non-project income.

The Comptroller's Office also recently developed its first Guide to Personal Income Tax Credits, which describes 11 credits with instructions for calculating and claiming them.

Taxpayers can download either guide from the Comptroller's Web site at marylandtaxes.com. Copies can also be requested by e-mail at taxhelp@comp.state.md.us or by calling 410-260-7300 or 1-877-708-8866. The guides are also available at any of the Comptroller's 17 taxpayer service offices located throughout Maryland.

Tax season mailing schedule

- 2002 forms and instructions for tax preparers were mailed during the week of December 2.
- Employer withholding coupon books were mailed during the week of December 16.
- Individual estimated tax coupon books will be mailed starting January 13.
- Maryland personal income tax booklets will be mailed during December 26 - December 31.

Filing season

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Tax booklet forms

Form 123 (Special Request) and Form 502E (Automatic Extension Payment) have been removed from the Maryland tax booklet in an effort to save costs.

Both forms will continue to be available on the Comptroller's Web site at marylandtaxes.com, from the agency's Forms-by-Fax service at 410-974-FAXX (3299) or by telephone at 410-260-7951.

CD offers fill-in forms

Maryland forms on CD for tax preparers features fill-in forms for tax year 2002, which can be completed on the computer and printed out for mailing. The CD also contains forms, instructions, and booklets for tax years 1996 through 2001. Fill-in forms are available only for tax years 2002 and 2001. The CD also includes Maryland's Combined Business Registration Application.

Free online filing expanded

Marylanders can again file long Form 502 and short forms 503 and 123 online for free when using the *iFile* service available on the Comptroller's Web site at marylandtaxes.com.

Taxpayers who file their 2002 state returns online using *iFile* will also be able to *iFile* their 2002 amended return.

Unclaimed property auction nets \$29,000

The contents of 200 unclaimed bank safe deposit boxes drew \$29,300 at an auction held by the Comptroller's Office in August at the Columbia Hilton.

The office tries to hold an auction every year to liquidate the items in a way that brings the owners the most money. The rightful owners or heirs can claim the funds at any time, because there is no statute of limitations.

Each November, banks notify the Comptroller about safe deposit boxes which are unclaimed after failing to receive rent payment for four years. The banks open the boxes and send a report to the Comptroller's Unclaimed Property Section in Baltimore.



Dozens of bidders attended the recent unclaimed property auction held in Columbia to compete for coins and other items contained in 200 abandoned safe deposit boxes

Following an inventory of the contents, anything that looks good enough to sell is put on the auction block. Over the years, the auctioned items have included gold and silver coins, jewelry and even a birth

announcement for John F. Kennedy, a letter signed by Harry Truman and a note written by Stonewall Jackson.

Newspaper ads, MVA mailings and outreach events help reunite 5,300 rightful owners with unclaimed funds

Several creative efforts have upped the number of people finding unclaimed property such as bank accounts, security deposits, insurance benefits and stock dividends.

A special eight-page advertising supplement running last August in 22 newspapers, listing 9,100 owners of unclaimed funds worth \$4 million, resulted in 3,200 people finding property. Of considerable help was NBC-TV's Dateline, which featured the unclaimed property program in October, generating half of the inquiries.

A cooperative effort with the

Motor Vehicle Administration generated a mailing to 25,000 qualifying motorists, urging them to contact the Comptroller's Office. To date, 1,800 people have been reunited with their accounts as a result of this mailing.

The Maryland State Fair held in September each year offers another opportunity for people to find unclaimed property. Out of 5,400 people who showed up at the booth this year, 354 found they had \$174,500 coming to them.

At any one time, the Comptroller's Office has a total of about 356,000 unclaimed accounts



worth \$135 million. People can check the records by visiting the agency's Web site at marylandtaxes.com.

Maryland's refund offset program ranks among most successful in nation

The state of Maryland has reaped \$35 million in unpaid taxes since the Comptroller's Office began participating in an IRS tax refund offset program in January 2000.

To date this year, the Comptroller's Office has captured 27,861 federal refunds totaling \$18.3 million. Maryland's success ranks second only to New York, which collected \$25 million from 53,000 accounts during the same period.

Under the program, the Comptroller's Office sends certified letters to delinquent taxpayers, giving them 60 days to satisfy their state tax liabilities. The agency then forwards to the IRS a list of the taxpayers who still owe taxes. The IRS then notifies the taxpayers that their federal refunds are being offset to satisfy the state debts.

The IRS offset program targets only delinquent income tax liabilities of at least \$25, incurred within the last ten years and owed by current



state residents.

Maryland has captured more than 56,000 federal income tax refunds worth approximately \$35.6 million since the Comptroller's Office joined the IRS program.

Nationwide, 24 states and Washington, D.C. have offset more than 227,000 federal refunds, amounting to nearly \$111 million.

New, automated registration service for motor carriers

The Comptroller's Office introduced an automated, cost-saving registration process in December that eliminates forms for nearly 5,200 trucking companies seeking to renew their International Fuel Tax Agreement (IFTA) motor carrier licenses for 2003.

The Comptroller will automatically renew carrier licenses for licensees with clean records who have no outstanding tax liabilities.

Other motor carrier licensees can renew their licenses online free of

charge at the Comptroller's Web site marylandtaxes.com.

Maryland-based motor carriers traveling interstate must file reports and pay road taxes through IFTA, which is a compact between 48 states and 10 Canadian provinces that simplifies fuel tax compliance for interstate carriers.

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FY 2002 consumer spending posts small gain over prior year

Consumer spending generated \$2.7 billion in Maryland sales and use taxes during fiscal year 2002, representing a lackluster 1.5% gain over the previous fiscal year and fulfilling Comptroller William Donald Schaefer's earlier predictions of anemic growth.

The spending resulted in a mix of gains, losses and weak performances. Food and beverages performed better than expected, along with building and contractors. The gains, however, were largely offset by declines in furniture and utility companies, as well as lackluster growth in apparel, general merchandise and automotive sales.

- The food and beverage category, which includes restaurants and nightclubs, gained 4.3%.
- Building materials and construction equipment and other elements of the building and contractors category increased 4.7%.
- Department, discount and drug stores yielded a 1.1% gain.
- Furniture, fixtures and appliances declined 5.2%. The category includes computer hardware and software, office equipment and furniture, radios and televisions, musical equipment, household appliances and domestic furniture.
- The automotive category, which includes dealers, rentals and service stations, increased about 1.7%.
- Utilities decreased 4.2%, the apparel industry remained static, and the hardware, machinery and equipment category posted a 1.5% decline.



Streamlining services

As part of a cost-saving effort by the Comptroller's Office, three of the agency's branch offices in Easton, Ellicott City and Leonardtown were closed on December 6, 2002.

Easton residents and other taxpayers in the mid-Eastern Shore region are encouraged to visit the agency's offices in Chestertown or Salisbury for service.

The agency's taxpayer service office in Jessup provides a convenient location for residents of Ellicott City and other Howard County citizens.

Residents of Leonardtown and other parts of St. Mary's County can obtain state tax help at the Comptroller's field office in Prince Frederick.

In addition to the Comptroller's 17 offices, taxpayers can visit the agency's Web site at marylandtaxes.com for assistance or call 1-800-MD TAXES.

Random Revenues

- Tax revenues from liquor and wine sales went up 7% in fiscal year 2002.
- Tobacco taxes generated a 2% gain, reflecting the June 30 tax increase from 66 cents to \$1.00 per pack of cigarettes.
- Revenue from athletic events, movies and other forms of taxable entertainment increased 2.4%.

Courts decide

Waldorf resident convicted for failing to file Maryland income taxes



Thomas D. Johnson, of 2755 Wigeon Court, Waldorf, was convicted recently of failure to file state income tax returns, in connection with tax years 1998 and 1999. Johnson pleaded guilty and the Honorable Robert C. Nalley, Circuit Court for Charles County, sentenced Johnson to serve five years at the Maryland Division of Corrections, suspending all but six months commencing October 2, 2003.

Judge Nalley also ordered the maximum period of five-year, supervised probation for Johnson upon his release from incarceration. Johnson must also must file all of his past due income tax returns (1996 through 2001) within 90 days of his release, and make arrangements with the Comptroller's Office for payment of past due taxes.

In addition, Johnson is prohibited from engaging in the business of income tax preparation in the future, and may not engage in the credit repair and mortgage acceleration business without first obtaining the necessary state licenses.

During the mid to late 1990s, Johnson owned and operated an income tax preparation business, Thomas D. Johnson and Associates,

formerly located at 3077 Leonardtown Road, Waldorf. The Comptroller's Office noticed that a large volume of income tax returns claiming falsified deductions were prepared and filed by his business on behalf of clients. As part of an ongoing investigation into the matter, it was also determined that Johnson and his business had not filed income tax returns for several years. Based upon Johnson's gross receipts for tax years 1998 and 1999 of \$114,533.40 and \$155,927.96, respectively, less cost of goods sold, the Comptroller's Office found that Johnson was required to file state income tax returns.

The case was referred by the Compliance Division of the Comptroller's Office, and investigated by the Maryland State Police and the Office of the Attorney General, Criminal Investigations Division.

Tax protestor charged with forgery

Felony forgery charges were filed in Baltimore County Circuit Court recently against Dolores E. Scott, an Owings Mills nurse who owes over \$20,000 in back taxes.

Scott was charged with forging court and agency documents in an effort to lift garnishment orders that had been assessed against her wages in order to pay the back taxes she owed. After losing her claims of immunity from taxes during earlier litigation, Scott is accused of creating two different forged documents, which she served on her employer to get them to stop garnishing her wages. The Comptroller's Office learned about the alleged forgeries, re-instituted the garnishments, and referred the matter to the Attorney General's Office for prosecution.

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, including the Maryland Court of Special Appeals in a reported opinion, *Scott v. Comptroller of the Treasury*, 105 Md. App. 215 (1995).

The maximum sentence for forgery is 10 years incarceration and a \$1,000 fine. The charge is merely an accusation and the defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt.

Regulation roster

Sales & use tax

Detective, Guard, and Armored Car Services 03.06.01.39

This new regulation, which became effective June 24, 2002, establishes definitions for sales and use tax for armored car, security guard, and security system services. The application of this tax is controlled by the delivery point of the services. For example, an investigation that encompasses a number of states, but results in a report of the investigation being delivered to a client in Maryland is subject to the Maryland tax. But if the same report went to an out-of-state client, it would not be subject to the Maryland tax.

Vendors of armored car services subject to the Maryland tax, however, may apportion charges for out-of-state delivery. Acceptable apportion methods include distance, time, or number of stops in or out of the state.

The installation of security systems in commercial or residential property are subject to the tax on the cost of materials which are installed in such a manner as to become real property.

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Unclaimed property dormancy time changes

The dormancy period before unclaimed property must be reported to the Comptroller's Office has been lowered from five years to three years, over a two-year period, as a result of amendments to regulations on September 30, 2002.

According to the change, which became effective June 1, 2002, for reporting periods ending on or after June 30, 2002, any checking, savings, share, negotiable order of withdrawal, automatic transfer, share draft, electronic terminal account, or other similar type of account held by a banking or financial organization is presumed abandoned after four years.

This occurs if the depositor or shareholder has not actively deposited, withdrawn, or presented the passbook or the equivalent for crediting of interest, or otherwise indicated an interest in the funds or deposits as evidenced by memo-

randum or correspondence from the depositor on file with the banking or financial organization.

Effective June 1, 2003, the dormancy period is lowered to three years, for reporting periods on or after June 30, 2003, and will remain at three years thereafter.

The specific period breakdown is as follows:

- December 30, 2002, reports: **property dormant January 1, 1997, through December 31, 1998.**
- June 30, 2003, reports: **property dormant July 1, 1998, through June 30, 2000.**
- December 30, 2003, reports: **property dormant January 1, 1999, through December 31, 2000.**

For more information, contact 410-767-1700 or 1-800-782-7383.

Sourcing Cellular Telephones, Other Mobile Telecommunications Services Charges 03.06.01.40

Charges for cellular telephone and other mobile telecommunications services are subject to the Maryland sales and use tax. Effective November 11, 2002, sales and use tax will be charged on the sourcing of cellular

telephone and other mobile telecommunications services, as determined by the customer's place of primary use -- regardless of where mobile telecommunication services originate,

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terminate, or pass through.

When determining the sales and use tax on cellular telephone or other mobile telecommunication services, if a home service provider can reasonably identify nontaxable charges based on records regularly kept in the course of business, tax under this regulation may not be charged on the nontaxable charges, even if the nontaxable charges are not separately stated from the taxable charges.

The regulation provides that prepaid telephone calling arrangements are not covered by this regulation and are subject to the sales and use tax if purchased in a retail sale in the state.



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