

e-file is easy from PC or preparer

Maryland will begin to accept the first 1998 Maryland state and local tax returns filed directly from taxpayers' personal computers on January 12, 1999. If you filed a 1997 Maryland return, whether on paper or electronically through a tax preparer, you will be eligible to file your 1998 return online, using information available on the comptroller's website at www.marylandtaxes.com. You can use either approved off-the-shelf commercial software or the software developers' websites to file your return.

A special e-file page on the comptroller's website will guide taxpayers through the process, providing links to approved software providers and information on e-file exclusions, required paper documents, and more. PC filers must complete and submit a new signature form, Form 502OL, with accompanying W-2s.

The e-file page will also feature resources for preparers, including an

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Inside

- Important telephone numbers
- expanded tax credits to help businesses
- e-file questions answered

William Donald Schaefer is elected Maryland comptroller

On November 3, Marylanders elected former governor William Donald Schaefer to serve as the state's next comptroller.

Mr. Schaefer, one of Maryland's best known public figures, will take the oath of office on January 25. He will succeed Comptroller Robert L. Swann, who was appointed to the post in July after the death of long-time Comptroller Louis L. Goldstein.

Comptroller-elect Schaefer's public service began in the Baltimore City

Council, where he served as a council member from 1955 to 1967 and as council president from 1967 to 1971. As mayor of Baltimore from 1971 to 1987, he oversaw the renaissance of the city's inner harbor area, which included the construction of two of its best-known attractions, Harborplace and the National Aquarium.

During his two terms as Maryland's governor, from 1987 to 1995, Mr. Schaefer became known for his commit-

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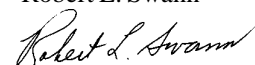
FYI Economic outlook remains good

Maryland has seen healthy economic growth for several years, and while that growth rate will slow in 1999 and 2000, the slowdown won't be enough to send our state's strong economy into recession. That was the consensus of the Board of Revenue Estimates' Business Advisory Panel, which includes representatives from 23 businesses and industries from across Maryland, including utilities, transportation, construction, banking and finance, high-tech, health care, retailing, education, and agriculture.

Maryland's economy has created 220,000 new jobs since late 1992 - 60,000 of those in 1997. Total non-agricultural employment increased by 2.6% in 1997 and is expected to grow by 2.4% this year. While that growth will slow to 1.2% for 1999 and 1.4% in 2000, it's still building on a strong foundation of good jobs in a variety of sectors. The chart on page 3 illustrates job growth. Personal income, supported by strong wage growth, is estimated to increase 5.3% in 1998, 4.9% in 1999, and 5.2% in 2000.

The panel met on November 12 to offer its assessment of Maryland's business outlook as part of the Board of Revenue Estimates' preparations for its 18-month revenue projections. The board, of which I am chairman and which also includes State Treasurer Richard Dixon and Budget Secretary Fred Puddester, will meet December 15, 1998, to present estimates to Governor Parris Glendening for the rest of fiscal year 1998 and for fiscal year 1999. And, as always, we'll continue to monitor revenues throughout the year to take account of any changes in the economic climate.

Robert L. Swann



Comptroller of Maryland

Briefly noted

Tax CDs, forms, in the mail

Tax preparers who ordered 1998 tax forms and instructions on CD ROM or paper will start to receive their orders beginning the week of December 7, 1998. This year's free CD will contain Maryland income tax forms for tax years 1998, 1997, and 1996. Other items businesses, tax preparers, and taxpayers have or should be receiving soon include:

- **New income tax withholding guides.** The state and local withholding guides for local rates from 48% to 60% were mailed to employers on November 19, 1998, while the guides for the 20% and 35% rates will be mailed in early December. The new withholding guides and instruction reflect the next phase of the state tax cut for 1999. These changes don't affect tax year 1998 returns, which are due April 15, 1999.
- **Employer withholding coupon books.** To be mailed December 31, 1998.
- **Individual estimated income tax coupon books.** To be mailed January 15, 1999.
- **Maryland personal income tax booklets.** To be mailed between Christmas and New Year's Day.

State pick-up amount will apply to more taxpayers

Because of changes in the pension system that affect thousands of state employees, Maryland teachers, and other government employees, more taxpayers than ever will see a special notation on their W-2 that impacts the way the state and local income tax is calculated.

Since January 1, 1989, mandatory employee contributions to certain state retirement programs have been deferred from federal income tax but not from Maryland state and local income tax or Social Security (FICA) tax. Since July 1, 1998, the pension system that most state employees and public school teachers belong to also began to require a mandatory contribution.

At the bottom of W-2 forms issued for affected employees, you will find the phrase "state pick-up amount" and a dollar value. This is the portion of wages deferred for federal but not for state and local purposes. Because the Maryland tax calculation starts with the federal adjusted gross income, taxpayers must add the amount of the pension contribution (pick-up) on Line 5 of Form 502 or Line 19 of Maryland Nonresident Form 505.

Preparers and taxpayers with questions about the state pick-up amount can call 410-260-7980 in Central Maryland or 1-800-MD TAXES toll-free from elsewhere. They can also refer to Administrative Release #21 by calling the comptroller's Forms-by-Fax number at 410-974-FAXX and requesting form 5121 from Index 2.

William Donald Schaefer is elected Maryland comptroller

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ment to economic development and for his "do it now" philosophy of government service.

He currently holds the Schaefer Chair at the University of Maryland's School of Public Affairs in conjunction with the Johns Hopkins University Institute for Policy Studies and is of counsel at the law firm of Gordon, Feinblatt, Rothman, Hoffberger & Hollander. In 1997, Governor Parris

Delinquent tax interest rate is set for 1999

For calendar year 1999, the interest rate for delinquent taxes will be 13%, the same rate as in 1998 and the lowest rate allowed by law. The annual rate of interest paid on refunds for 1999, where interest is required by law to be paid, will be 8%.

Statewide caterer's license

Alcohol and tobacco tax regulation 03.02.01.18 has been implemented to define requirements for holders of the new statewide caterer's license, which went into effect October 1, 1998. The regulation covers records the license holder needs to maintain, requires catering certificates for each event where the caterer serves alcoholic beverages, and explains other requirements.

Copies of the regulation are available on the comptroller's website at www.marylandtaxes.com, or by calling the Forms-by-Fax line at 410-974-FAXX, or by calling the Alcohol & Tobacco Tax Unit at 410-260-7314 in Central Maryland or 1-888-784-0145 toll-free from elsewhere.

Glendening appointed Mr. Schaefer Chairman of the Maryland Commission for Celebration 2000, the state's official organization to plan and implement an observance of the millennium.

Mr. Schaefer received his J.D. degree in 1942 and his Master of Law degree in 1954 from the University of Baltimore School of Law. He served in the U.S. Army during World War II.

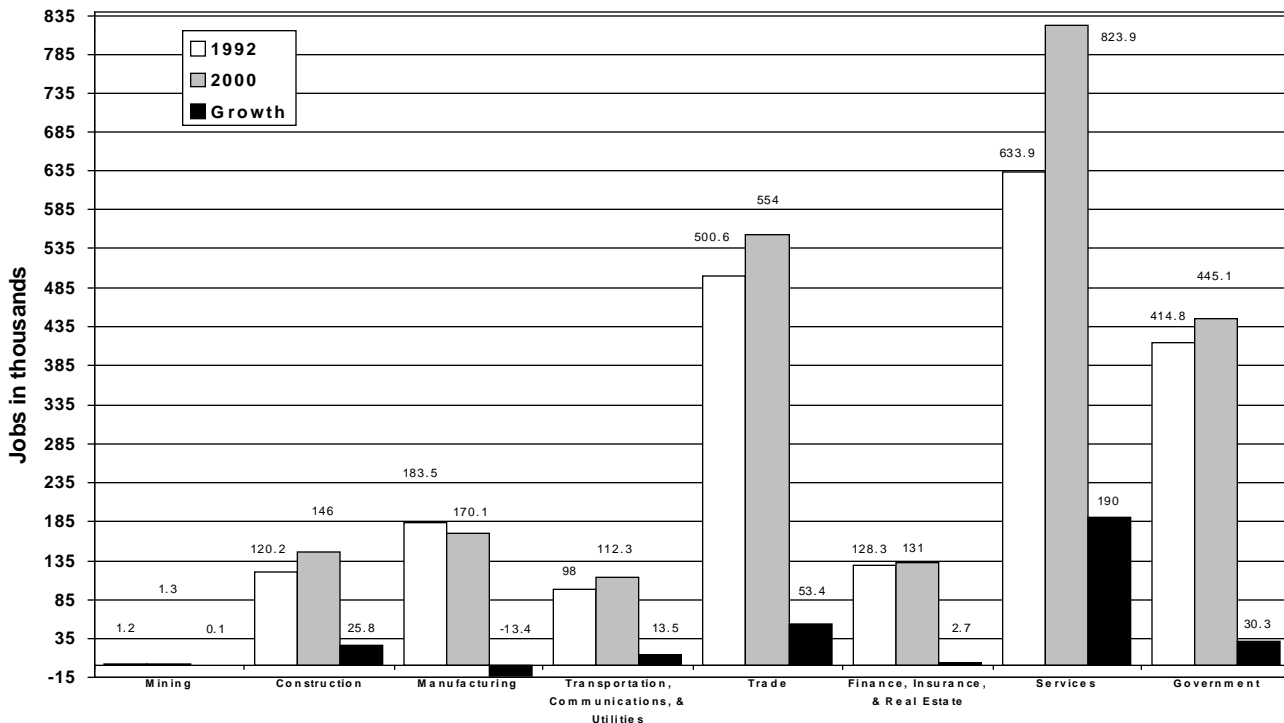
Important phone numbers

Because of telephone number changes in the Annapolis complex of the State Comptroller's Office, many of the important numbers tax practitioners and taxpayers use during the filing season have changed. So throw away last year's phone list and substitute the one below:

- Income Tax Help:** 410-260-7980 from Central Maryland
1-800-MD TAXES (1-800-638-2937) from elsewhere
- 24-Hour Refund Line:** 410-260-7701 from Central Maryland
1-800-218-8160 from elsewhere
- Electronic Filing Help Desk:** 410-260-7753
- Tax Practitioner Hotline:** 410-260-7424
- Forms by Fax:** 410-974-FAXX (3299)
- Forms by phone:** 410-260-7951
- Business Tax Help:** 410-767-1300 in the Baltimore area or
1-800-492-1751 from elsewhere in Maryland
- Tax Clearance Certificates:** 410-260-7813

And don't forget - you can get tax forms and instructions - register a new business - see if you're the owner of unclaimed property - and much more on the comptroller's website at www.marylandtaxes.com.

Maryland Employment by Industry 1992 - 2000*



* Projected
Sources: MD Department of Labor, Licensing, and Regulation
MD Comptroller of the Treasury, Bureau of Revenue Estimates

The courts decide...



Income tax

Determining operational function. On September 1, 1998, the Court of Appeals of Maryland rejected the comptroller's efforts to tax an apportioned share of a \$1.3 billion capital gain the taxpayer recognized when it sold its interest in an affiliate it had created four years earlier. In *Hercules Incorporated v. Comptroller of the Treasury* (see *ReveNews* Vol. 19, No. 3, Summer 1997), the Court of Appeals overturned rulings of the Court of Special Appeals, Circuit Court for Baltimore City, and Maryland Tax Court, all of which had upheld the comptroller's right to impose the tax.

The court agreed with Hercules that its interest in the affiliate, HIMONT Corporation, served an investment purpose unrelated to Hercules's business activities, rather than an operational purpose. Hercules had created HIMONT and was initially a 50% stockholder.

However, the court rejected the comptroller's argument that HIMONT's creation to extricate Hercules from a segment of its business showed that HIMONT'S later sale served an operational function of Hercules. The court held that strategic, long range decisions of a company were not encompassed within its operational functions.

Similarly, the court held that the fact that HIMONT was created by Hercules rather than purchased on the open market was irrelevant; in determining the taxability of the gain, an event that occurred four years earlier did not illuminate the nature of the relationship at the time of the sale.

Finally, the court held that HIMONT did not serve as a source of product for Hercules at less than arm's length and, therefore, that a "flow of value" that might have demonstrated the operational nature of Hercules' holdings in HIMONT was not present.

Tax preparer gets jail for false returns. Sean O'Neil Brooks, a Carroll County man who operated a tax preparation service in Baltimore and prepared hundreds of false tax returns for his clients, was sentenced to two years each on three counts of filing false returns or false claims for refunds. Judge Laurence Rushworth of the Anne Arundel County Circuit Court suspended all but six months on each count, to run concurrently.

The judge denied Mr. Brooks's request for work release or home detention and his request for a week to put his affairs in order before remanding him to the Anne Arundel County Detention Center. Upon his release, he will have five years of supervised probation.

Mr. Brooks operated S & A Tax Preps, Inc. from an office on Edmondson Avenue in Baltimore. He prepared fraudulent amended and original returns inflating itemized deductions with no input from the taxpayers and even provided some of them with false receipts to present when they were audited. The state paid more than \$57,000 in false refunds and intercepted false returns requesting an additional \$350,000 in refunds. Adjustments were made to the returns prepared by Mr. Brooks, and the taxpayers have either returned the amount of false refunds they received or have made arrangements for repayment.

Tax theft scheme nets home detention. A Laurel woman who created more than ten fictitious tax returns to generate state refund checks was sentenced, on November 16, 1998, to one year of home detention and was ordered to repay the state almost \$19,000 (plus interest) she netted from her fraud scheme.

Evelina C. Hodge had pleaded guilty to the charges in Anne Arundel County Circuit Court on September 22. Ms. Hodge used the names of various relatives on the fraudulent returns. She also reported false information on her 1994 and 1995 returns. The Comptroller's Office uncovered the scheme when an employee noticed an unusual pattern of returns linked to the same address.

Use correct info to avoid backup withholding

If you've received a Form W-9, Request to Provide TIN, from our office, please don't put it on the bottom of the pile. If you do, your business could be subject to backup withholding of 31% on your payments from the state, as required by IRS.

IRS regulations require preparers of federal 1099 information returns - like the Comptroller's Office - to report correct Taxpayer Identification Numbers (TINs)

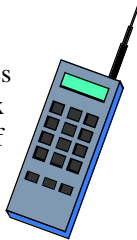
and names. Our office prepares federal 1099 information returns each calendar year which are distributed to both the vendor and the IRS. Vendor TINs and names are captured as part of the payment process, since Maryland law requires vendors to provide their TIN on all payment invoices.

Please see backup on page 7

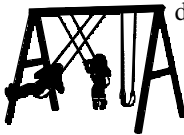
Businesses to benefit from added, expanded tax credits

Businesses will benefit from one new tax credit and several expanded credits available on the 1998 Maryland return. Unless otherwise noted, these credits are claimed using Form 500CR.

- Public utilities that are telecommunication companies are allowed a new income tax credit based on the amount of property tax paid on certain real property located in Maryland.



- Businesses that employ persons receiving Aid to Families With Dependent Children (AFDC) can now receive a tax credit for expenses incurred for transportation that enables the qualified employee to travel to and from work. For more information, you can refer to Administrative Release #27, "Work, not Welfare Tax Incentive Act of 1998" by calling the comptroller's Forms-by-Fax number at 410-974-FAXX and requesting item number 5127 from index 2.



- For tax year 1998, the Neighborhood and Community Assistance Program Tax Credit is extended to individuals acting as business entities - S corporations, partnerships, and sole proprietorships.



For 1997 this credit was only available to corporations. Now, other qualified businesses can get a tax credit for contributions to Neighborhood and Community Assistance Programs approved by the Department of Housing and Community Development.

The credit is limited to 50% of the approved contributions not to exceed \$125,000. For more information, contact the Department of Housing and Community Development at 410-514-7241.

- The Employment Opportunity Tax Credit and the Employment of Individuals with Disabilities Tax Credit are available for the first time to tax exempt organizations for tax year 1998. Tax exempt

organizations may apply these credits to unrelated business taxable income and to state and local income tax withheld from employees' wages. Organizations will use Form MW508 Annual Reconciliation to claim the credit for 1998. The tax credit will be based on the number of qualified employees hired on or after July 1, 1998, and applied against the total withholding tax to be paid. For tax year 1999, the tax-exempt organization may estimate the amount of the tax credit and divide it evenly over the number of withholding filing periods.



Each period payment to the comptroller would be reduced by the amount of the credit. For more information on this tax credit, contact James Arnie at 410-260-7445 (toll-free 800-638-2937) or Diane Daffin at 410-260-7451 (toll-free 800-638-2937). You may also refer to Administrative Release #34 by calling the comptroller's Forms-by-Fax number at 410-974-FAXX and requesting item number 5127 from Index 2.

Refundable earned income credit available to thousands

Volunteers vital part of outreach

The expansion of the Maryland earned income credit (EIC) to include taxpayers who can now get a cash payment but who otherwise wouldn't have to file a Maryland return could help thousands of Maryland families. Many of them will depend on volunteer or professional tax preparers to help them claim this benefit.

Previously, the EIC was refundable on the federal return, while taxpayers

could use it only to reduce or eliminate their Maryland tax burden but not to generate a refund beyond the taxes they paid. A major effort is underway to reach the estimated 150,000 low-income Maryland workers who do not file tax returns and are unaware of the cash benefits they can receive from either the federal or state program.

The Volunteer Income Tax Assistance program (VITA), sponsored by IRS and

run by volunteers to help low income workers complete their income tax returns, will increase its number of sites by 10% while offering more specialized centers with electronic filing, handi-capped access, and bilingual staff.

Last year, VITA volunteers in 120 centers in the Maryland-Delaware district prepared more than 15,000 returns. The

Please see VITA on page 6



Want to be a VITA volunteer?



Call Norman Rifkin of IRS at 410-962-2402.
Free training will be offered on Saturdays in January in Baltimore, Maryland; Washington, D.C.; and Wilmington, Delaware.

How to answer taxpayers' most frequently asked questions about electronic filing

Why should I file electronically?

It's a convenient, safe and fast way to file and *get cash within a couple of days* - not 10 days or more as a result of paper filing.

How fast can I get my refund?

If a taxpayer selects direct deposit, their refund can be deposited directly into their bank account within *48 hours!*

What's the convenience in electronic filing?

There are no forms to gather - no envelopes to address - and no trips to the post office.

No mistakes, too, since errors are corrected immediately by the computers. Taxpayers won't have to worry about the chance of errors delaying their refunds. The Comptroller's Office acknowledges receipt of electronically filed returns, so you can be sure it arrived.

If your clients select direct deposit, their refunds will be deposited into their bank accounts...within 48 hours.

What if I wait until April 15 to file electronically?

Electronic returns are processed overnight - even at the tax deadline. So taxpayers still avoid the delays caused by the last-minute paper crunch on April 15.



Where can I find a tax professional who can file electronically?

More than 1,000 commercial tax preparers are approved by the Internal Revenue Service and the Maryland State Comptroller's Office to file your federal and Maryland tax return electronically.

Be sure to look for the *e file* logo - and just ask for electronic filing! To find a qualified preparer nearest you, call 1-800-MD TAXES.

Is it safe to file my tax information electronically?

Yes! The tax return data is transmitted through a secure channel and processed in our Annapolis headquarters.

Taxpayers also get an acknowledgment that their return was accepted, so there's no need to worry about it getting lost in the mail.

Can I file electronically if I owe additional tax?

Sure! Taxpayers can file electronically and, if they like, wait until the April 15 deadline to pay the additional tax.

Another advantage of filing electronically is that taxpayers can learn exactly how much they owe. So there's no chance of being surprised by a large tax bill down the road.

Need more information?

Check our website
www.marylandtaxes.com
for all the details!

Refundable earned income credit available to thousands

VITA from page 5

Maryland Comptroller's Office works closely with IRS and county coordinators to train about 1,400 tax preparation volunteers each year.

The income cap for EIC eligibility for tax year 1998 is \$30,095 for families with

two or more children. A family with one child may have up to \$26,473 in income, and individuals between ages 25 and 64 are eligible with incomes up to \$10,030. Taxpayers must have one or more dependents to be eligible for the *refundable* Maryland earned income credit. Qualified taxpayers without dependents

are eligible for the nonrefundable Maryland earned income credit.

The revised tax tip, *Families and Maryland income taxes*, gives more information about the EIC. It will be available on the comptroller's Forms-by-Fax system as item 5000 on Index 2.

Focus on

Business tax tip #9 - Sales and use tax exemptions for production activities

Continued from page 8

The good news for businesses is that the definition of this kind of property has expanded, effective July 1, 1998.

Under the new law, all existing exemptions for manufacturing and production equipment remain in effect. The new credit is phased in over two years and is fully implemented in the third year.

Newly revised business tax tip #9, *Sales and*

Under the new law, all existing exemptions for manufacturing and production equipment remain in effect.

use tax exemptions for production activities, gives a detailed description of categories of equipment which qualify for the new credit, as well as information on

Use correct info to avoid backup withholding

Backup from page 4

If either a vendor's TIN or the name are incorrect, our office must withhold 31% of their state payments. When our office sees a questionable TIN and name combination, or when instructed by the IRS, we send the vendor a Form W-9. Vendors must be complete and return the Form W-9 to the Comptroller's Office with the corrected information to avoid backup withholding.

If you have questions about the TIN information maintained in the state's central payment name and address file, about federal 1099 information returns, or about IRS backup withholding, please contact the General Accounting Division at 410-260-7350 or 410-260-7812, by fax at 410-974-3979, or by e-mail at gad@comp.state.md.us.

existing exemptions. It also explains how to claim the credit during the phase-in period.

You can download a free copy of the current edition of business tax tip #9, *Sales and use tax exemptions for production activities*, from our website at www.marylandtaxes.com.

If you have a fax machine, you can call our Forms-by-Fax number at 410-974-FAXX (410-974-3299) -

and have business tax tip #9 faxed to you directly. It's item # 4009 from index number 2.

You can also call the Taxpayer Service Section in the Baltimore metropolitan area at 410-767-1300 or toll-free 1-800-492-1751 from elsewhere in Maryland to receive your free copy of business tax tip #9.

e-file is easy from PC or preparer

E-file from page 1

online version of the Electronic Filing handbook. The Comptroller's Office will pay all fees associated with the transmission of the electronic return through the state's contractor once again this year.

Preparers will still be required to have taxpayers sign the Form 502EL. However, the preparer will not be required to mail the forms to the comptroller but must keep them for audit purposes.

Technology brings "BLIS" to businesses

A joint effort of 13 Maryland state agencies

Continued from page 8

provides check lists, tips, and sample business plans for people thinking about starting their own business.

BLIS also provides a direct link to the comptroller's one-stop interactive combined registration application, which allows businesses to set up various tax accounts from the comptroller's website.

Customers have responded enthusiastically to the new service, as more than 7,250 business people from as far away as Japan, Australia, and the United Kingdom have already generated 200,000 hits on BLIS. The federal Small Business Administration is also awarding BLIS its *Innovations in Government Award*.

Businesses can access BLIS on the web at www.blis.state.md.us. The comptroller's website at www.marylandtaxes.com also provides a link to BLIS.

ReveNews....

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Technology brings "BLIS" to businesses

A joint effort of 13 Maryland state agencies

Since it was launched on September 1, Maryland's Business License Information System website - descriptively dubbed BLIS - has spared thousands of businesses from the aggravation of looking for business license information and services in dozens of different places.

The site, which is a joint effort of 13 Maryland state agencies, including the Comptroller's Office, helps businesses access information on permits and licenses needed to start, relocate, or expand a business in Maryland. In addition to guiding businesses through the steps they need to get a variety of business and occupational licenses and permits, the site

"I would just like to thank everyone involved with the production of this website. I use the web to do 80% of the research and information gathering which I would have to do...through courthouses and many trips out of town."

A satisfied customer

Please see BLIS on page 7

Focus on

Business tax tip #9 - Sales and use tax exemptions for production activities

Few sales and use tax topics are of greater concern to businesses than exemptions for production activities. Basically, the Maryland sales and use tax *does not* apply to: sales of machinery and equipment used in production activities, sales of property for consumption in production activities, or sales of property for resale or incorporation as a material or part of other tangible personal property produced for sale.

Please see tax tip on page 7

Important telephone numbers inside

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