

## Comptroller Schaefer making industry trips

Following up on his regional visits to Maryland's counties last year, Comptroller William Donald Schaefer and his directors have begun new tours focusing on critical sectors of Maryland's economy.

The comptroller will meet with leaders in industries such as defense, transportation and distribution, bio-technology, information technology, poultry, manufacturing and education.

The tours began in May at the Carderock Naval Surface Warfare Center in Montgomery County, where staff met with representatives from Pax River, Indian Head, Aberdeen Army Alliance, Southern Maryland Naval Alliance and Goddard Alliance.

Another visit this summer includes one to the Staples and DOT Foods distribution centers

in Hagerstown. Five interstate highways, an international airport and the Port of Baltimore make Maryland a major distribution center.

The comptroller will also visit the National Institutes of Health, Human Genome Sciences and Institute for Genomic Research in Montgomery County, heart of Maryland's bio-tech industry.

Near the end of summer, Comptroller Schaefer will travel to the BWI area of Anne Arundel County to meet with information technology industry officials at Games Workshop, and Northrop-Grumman.

In the fall, Maryland's poultry industry will be the focus as visits are made to Perdue, Allen Family Foods, and farms and processing plants in Dorchester County and Delaware.

### Comptroller's Column

## A closer look at taxing and spending

Restructuring a state's long-established fiscal system is not for the faint of heart, but facing the task is long overdue.

A commission to look at Maryland's tax and spending structure is being assembled as the result of legislation introduced by House Speaker Casper Taylor as HB 1. Its mandate is to review, evaluate and recommend changes to the state's budget and fiscal structure, and deliver a report by December 15, so its findings can be used by the next General Assembly.

You may remember the Linowes Commission – so named for its chair, the highly respected attorney and businessman, Robert Linowes, whom I appointed to lead a similar group when I was governor. Unfortunately, for many reasons – political and otherwise – its recommendations were rejected, although individual proposals were put into effect over the years.

Because we are facing expenses in the years to come that we already know we can't meet – human services programs, school construction, new infrastructure, and mandated programs – we have to take a look at our revenue stream and spending policies. The new governor will need this advice and the courage to implement the necessary fiscal changes.

Regarding spending, state government shouldn't spend money just because it's there, such as the \$118 million it spent this year on land for open space that's unlikely to be developed anyway. At the same time, the General Assembly "saved" \$25 million by not giving state employees a 2 percent cost of living increase, while relying on our workforce to professionally deliver increasingly complex and sophisticated programs.

I plan to be a very active member of this commission. I am particularly going to assist in making sure the voice of business is fully heard. For a complete examination of the state's fiscal structure, we need expertise from private companies and industries that are knowledgeable about the impact of taxes and spending – representatives from banking, real estate and construction, for example. I welcome any thoughts you have on carrying out this mandate to look at our fiscal process.



William Donald Schaefer  
Comptroller of Maryland

# E-filing climbs 35 percent this tax season

Maryland taxpayers' increased use of electronic filing and other technologies, along with declining taxpayer reliance on traditional services, shaped another successful filing season.

The two charts below show what the workload looked like in Maryland's Revenue Administration and Information Technology through May 17, 2002. These charts also provide figures on the state's two new features, telefiling and direct debit payments.

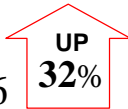


## Electronic services

Electronic filing  
712,623



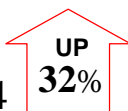
Online from PCs  
135,106



  
From Web site  
41,037



Direct deposit refunds  
463,324



Electronic filings with payments  
85,045



Direct debit payments **NEW**  
*E-filers only*  
13,455

Telefiling **NEW**  
*For qualified short form users*  
46,935

## T

Total returns  
2.5 mil

Paper filings  
1.8 mil

Credit card payments  
5,337  
by April 19,

Phone calls  
239,000

Evening calls  
5-9 pm  
26,420

## Visa added for credit payments

In March Visa joined MasterCard, Discover Card and American Express as accepted methods of payment of Maryland taxes through Official Payments Corporation.

Taxpayers can make credit card payments by calling 1-800-2PAY-TAX or by visiting [www.officialpayment.com](http://www.officialpayment.com). Twenty-one states accept credit cards to pay taxes using Official Payments Corporation, a special third party entity set up just for this purpose.

# The courts decide

## Court rules against Beltway Liquor

Maryland's liquor price regulations were upheld in February when Chief U.S. District Court Judge Frederic Smalkin ruled in favor of Comptroller William Donald Schaefer in a case brought by the large Baltimore-based retailer, Beltway Fine Wine & Spirits.

The suit alleged that the state's policy requiring the posting of wine and distilled spirit prices and prohibition against quantity discounts at the wholesale to retail level violated the Sherman Antitrust Act. Judge Smalkin cited the 21<sup>st</sup> Amendment and protection of public health as reasons for his ruling.

Maryland law requires wine and liquor wholesalers to post their prices with the Comptroller's Office to assure there is no discrimination. Additionally, the Comptroller has adopted a regulation stating that retailers can't receive quantity discounts from wholesalers.

Proponents of the current policies cite two reasons for keeping Maryland's liquor price regulations intact. First, the public stake in promoting temperance is high: if alcohol was available at very low

prices, it may be abused in higher numbers. Second, if given the chance to use the leverage of their size and purchasing power to demand volume discounts, large chains would undercut small neighborhood stores and after competition was killed, prices would be raised.

TFWS, Inc., trading as Beltway Fine Wine & Spirits, filed suit in July 1999. The U.S. District Court dismissed the case citing the 21<sup>st</sup> Amendment which gives states "wide latitude" to regulate the sale and distribution of liquor. Beltway appealed the decision to the U.S. Court of Appeals for the 4<sup>th</sup> Circuit, which returned the case to Judge Smalkin to receive evidence and hear arguments from both sides on the 21<sup>st</sup> Amendment issue.

After reviewing reports from experts on the effects of price on alcohol consumption, on antitrust economics and alcohol abuse, Judge Smalkin concluded that Maryland has a valid state interest under the 21<sup>st</sup> Amendment in promoting moderate drinking. Additionally, Judge Smalkin stated in his opinion that the price posting and volume discount prohibitions further this intent and that Maryland's interest in promoting temperance outweighs the federal interest in unrestricted competition in the liquor industry.

## Waldorf tax preparer indicted

The Maryland Attorney General's Office has filed a two count indictment in Charles County against Thomas D. Johnson for failure to file state income tax returns for tax years 1998 and 1999.

Johnson operates a tax preparation business in Waldorf, Maryland. The willful failure to file a return is a misdemeanor and, if convicted, Johnson could face a maximum of five years in prison and a fine of up to \$5,000.00, or both, on each count.

This matter was originally referred to the Compliance Division by the Questionable Returns Detection Team of the Revenue Administration Division. A full investigation was conducted by the Compliance Division's Tax Investigation Unit and the case was accepted by the Attorney General's Office in October 2001.

## CompNet site on web for specific industry groups

A new upgraded section of the Maryland comptroller's web site, called CompNet, is a gateway to six sites, each focusing on the services of a specific division and intended for different audiences. CompNet includes in depth information on alcohol and tobacco taxes, motor fuel tax, agency procurement, general accounting, compliance and state payroll information for state employees.

Each section contains more detailed information than what is found on the rest of the web site and is focused on different audiences. The section on payroll, for example, is aimed at state employees and payroll officers and provides: payroll and deduction schedules, pay scales, payroll manuals.

The compliance section includes information on the collection of taxes and unclaimed property and delinquent

taxes. General Accounting is designed for vendors who do business with the state and need to know about the bill paying process, electronic funds transfers and the use of a corporate purchasing card. Procurement has a list of bid proposals and a list of awarded contracts.

CompNet can be accessed from [www.marylandtaxes.com](http://www.marylandtaxes.com), which is the overall website for Maryland taxpayers.

# 2002 state tax law changes

## INCOME TAX

### Excluded Amounts for Income

**Tax Liens.** Alters the amount exempt from an income tax wage lien to the amount exempt from a judgment lien under Maryland law. *Effective July 1, 2002. (SB 103 Chapter 125)*

### Federal Decoupling Provisions for the Tuition and Bonus Depreciation Deductions and the 5-Year Net Operating Loss Carryback.

Provides for additions to income for these special provisions recently enacted under federal law. The tuition addition is effective June 1, 2002, for tax years 2002 and later. The addition modifications for the depreciation and net operating loss changes, and for subtraction modifications in subsequent years to provide for the benefits that would have otherwise been allowed under prior law, are effective June 1, 2002, applicable to any tax year in which the federal amounts claimed differ from those allowed under prior law. *(SB 323 Chapter 440)*



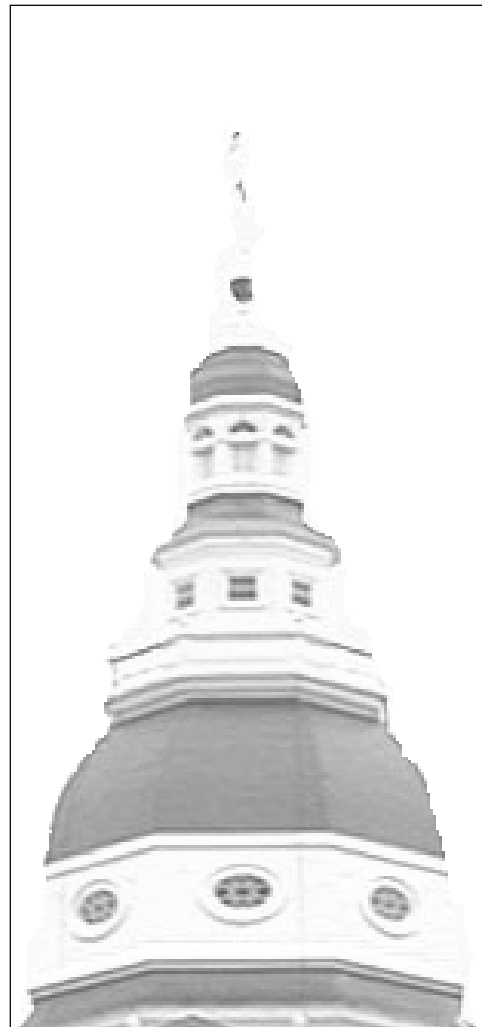
### Deadline for Electronically Filed Returns.

If a delayed due date is permitted for federal returns that are electronically filed, Maryland will allow the same delayed due date if the State return is electronically filed and any amount owed is paid electronically at the time of filing. *Effective July 1, 2002. (HB 1315 Chapter 567)*

### Businesses that Create New Jobs Tax Credit. (Montgomery County only)

Changes the definition of a full time position to include a contract position of definite duration which lasts at least 12 months with an unlimited renewal option. The credit may also be claimed if the business spends at least \$150 million for new or expanded premises of at least 700,000 square feet through new construction or the purchase or lease of newly constructed premises. As part of the new or expanded premises, the business must employ a total of at least 1,100 individuals in full-time positions located in or neighboring the new or expanded premises who are paid 150% or more of the minimum wage and are provided an employer-subsidized health care benefits package. *Effective July 1, 2002, for tax years 2003 and later. (HB 707 Chapter 538)*

**Heritage Area Tax Credit.** Reduces the credit rate from 25% to 20% of qualified expenditures, places a limitation of \$3 million for each project, and removes the credit for



structures located in another state. The transfer of the credit by the Maryland Stadium Authority and an Authority affiliate is now prohibited. The tax credit will terminate as of June 1, 2004, however, credits may continue

to be claimed for rehabilitations approved by the Maryland Historical Trust on or before May 31, 2004. *Effective June 1, 2002, for tax years 2002 and later. For proposed commercial rehabilitations that had approval from the Trust on or before February 1, 2002, the law in effect as of May 31, 2002 will apply. (HB 759 Chapter 541)*



The Treasury Building is Annapolis' oldest public structure.

**One Maryland Economic Development Tax Credits - Creating Higher Wage Jobs.**

Accelerates, by two years, the point at which a business may apply the credits against the tax on non-project related income and receive a refund of credits that exceed tax liability if the business creates mostly higher-wage jobs.

*Effective July 1, 2002, for businesses that notify the Department of Business and Economic Development of its intent to seek certification for the credit on or after July 1, 2002. (HB 762 Chapter 385)*

**Credit for Aquaculture Oyster Float.**

Permits homeowners who install new oyster floats under their piers to take a credit on their returns for the cost of the oyster floats up to \$500 per taxpayer per year. *Effective July 1, 2002, for years 2002 and later. (HB 1098 Chapter 557)*

**Conservation Tillage Equipment.**

Adds deep, no-till rippers to the list of conservation tillage equipment that qualifies for an income reduction. The ripper must be used to address compaction in high residue cropping systems and must not invert the soil profile. *Effective for tax year 2002 and subsequent years. (SB 447 Chapter 313)*

**Commuter Benefits Act of 2002.**

Under current law, employers can take an income tax credit of 50% of the cost of subsidizing commuter benefits for their employees, up to \$30 per employee per month. Beginning with tax year 2002, the credit cap is \$50 per employee per month. *(HB 339 Chapter 507)*



**New oyster float tax credit.**

**Neighborhood Preservation and Stabilization Credits, Baltimore County.**

Extends the credit to homes purchased in certain areas of the county by July 30, 2005. Previously, the credit would have expired for homes purchased after June 30, 2002. *(SB 462 Chapter 167)*

**Pilot Program for Long-Term Employment of Qualified Ex-felons.**

Establishes a pilot program for participating employers who hire qualified ex-felons for a credit against the income tax of a portion of the wages paid to the ex-felon. Tax-exempt employers may claim the credit against unrelated business income tax or payroll withholding tax. The credit is 30% of the first \$6,000 of income during the first year of employment and 20% of the first \$6,000 in the second year. The program is limited to 30 months (2-1/2 years) and 150 ex-felons and the credit may be carried forward up to five years. *Effective July 1, 2002, for employees hired from July 1, 2002, through December 31, 2004. (HB 462 Chapter 533)*

**Note:** *Senate Bill 383 and House Bill 437, both passed during the 2002 session of the Maryland General Assembly, would have limited the current subtraction modification to \$2,500 per contributor per beneficiary and would expand the subtraction to include contributions to programs sponsored by other states. These bills were vetoed by Governor Glendening, however, he directed the Maryland Higher Education Board to limit the subtraction to \$2,500 contributor per beneficiary through a change the investment document to clarify the definition of an "account."*



**Neighborhood preservation credit is extended.**

**SALES AND USE TAX**

**Temporary Reduction in Vendor Credit.**

Reduces the vendor credit for the collection of the sales and use tax from 1.2% for the first \$6,000 and 0.9% for any excess, to 0.6% and 0.45%, respectively. *Effective for 2-year period from July 1, 2002, through June 30, 2004. (SB 323 Chapter 440)*

**Communications Services – Taxable Price.**

Allows vendors to aggregate taxable and non-taxable services into a single amount, but collect tax only on the price of the taxable services. The vendor must keep records separately so the comptroller can verify application of the tax. Currently, when taxable and non-taxable services are sold together, the price for the taxable services had to be stated separately on the bill. If not, the tax had to be applied to the total amount. *Effective July 1, 2002. (HB 378 Chapter 513)*

**Utilities Used to Produce Snow.**

Creates an exemption for the sale of electricity, fuel, and other utilities used to operate the machinery or equipment used to produce snow for commercial purposes. *Effective July 1, 2002. (HB 553 Chapter 377)*

# 2002 Maryland state tax law changes

## Effective Rate Agreements.

Permits vendors to enter into effective rate agreements and receive direct pay permits, which allow vendors to pay sales and use tax directly to the Comptroller based on a predetermined ratio of taxable purchases to non-taxable purchases. The vendor will be required to maintain records to allow the comptroller to verify the accuracy of the effective rate, but will no longer need to determine taxability transaction by transaction. Agreements and permits will be voided if a taxpayer's operations change significantly during the term of the agreement. *Effective July 1, 2002. (HB 1120 Chapter 558)*

**Multifuel Pellet Stoves.** Exempts multifuel pellet stoves that are designed to burn agricultural field corn from sales and use tax in Maryland. The tax will continue to apply to stoves that are not designed to do this. *Effective July 1, 2002. (SB 43 Chapter 447)*

## ESTATE TAX

**Decoupling from Federal Action and Changes to State Death Tax Credit.** Restores the state death tax credit permitted under federal law prior to its scheduled phase-out. Should the federal estate tax be repealed, the federal law in effect before that would also be used for purposes of the Maryland estate tax. However, other provisions of the federal estate tax law, including the applicable unified credit, will be used in determining the Maryland tax. This means that a Maryland estate tax return is required only if you are required to file a federal return. For decedents dying in 2002 and 2003, the exemption equivalent amount increased to \$1 million, reaching \$3.5 million in

2009. In 2010 the federal estate tax is repealed and at that time, the comptroller will put out new regulations and procedures. *Effective for Acts of Congress enacted on or after January 1, 2001 and applicable to individuals dying on or after December 31, 2001. (SB 323 Chapter 440)*

## Estates of September 11 Victims.

Exempts the inheritance tax and probate fees on property from the estate of a person who died as a result of the September 11, 2001, terrorist attacks. *(SB 67 Chapter 97, or HB 1178 Chapter 98)*

## ALCOHOL AND TOBACCO TAX

### Tobacco Tax Increase.

Increases the tobacco tax rate for cigarettes from 66 cents to \$1.00 per pack of 20 cigarettes. It does not increase the tax on other tobacco products or alter the discount allowed to licensed wholesalers. The new cigarette tax rate will take effect on June 1, 2002, and a floor tax will be required to be paid for stamps and stamped product on hand as of that date by cigarette wholesalers and retailers. The floor tax will be due by September 30, 2002. *(SB856 Chapter 288)*

### Alcohol Wholesaler's Licenses.

Repeals a provision of the law prohibiting two locations under one wholesaler's license from being located in any one county or in Baltimore City. *Effective July 1, 2002. (HB 348 Chapter 59)*

## Direct Wine Seller's Permit.

Establishes a direct wine seller's permit to be issued by the comptroller to entities outside of the state entitling them to sell wine to personal consumers in Maryland. Wine shipped into Maryland would go through a wholesaler to a retailer where it would be picked up by the purchasing consumer. *Effective on July 1, 2002. (SB 494 Chapter 68, or HB 811 Chapter 251)*



**Contraband cigarettes confiscated by Comptroller of Maryland's Field Enforcement agents.**

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Editor: Vicki Lathom  
E-mail: vlathom@comp.state.md.us

# 2002 Maryland state tax law changes

## MISCELLANEOUS TAX CHANGES

**Abandoned Property-Holding Period.** Reduces the holding period for abandoned property by the state from five to four years, and from four to three years one year later. *Effective for property presumed abandoned for reporting periods ending on or after June 30, 2002. (SB 323 Chapter 440)*



Some of the unclaimed property held by the state includes jewelry and other personal items.

**Tire Recycling.** Reduces the vendor credit for the collection of the tire recycling fee from 1.2% to 0.6%. *Effective July 1, 2002. (SB 323 Chapter 440)*

**Energy Generation Surcharge.** Reduces the vendor credit for the collection of the surcharge attributed

to the electric company from 1.5% to 0.75%. *Effective July 1, 2002. (SB 323 Chapter 440)*

**Emergency Telephone System (911).** Reduces the vendor credit for the collection of the surcharge attributed to the electric company from 1.5% to 0.75%. *Effective July 1, 2002. (SB 323 Chapter 440)*

**Amnesty for Unpaid Vessel Excise Tax.** Offers amnesty period for unpaid, unreported, or under-reported vessel excise tax September 1, 2002, through October 31, 2002. During the period, penalties will not be assessed if the tax and interest are paid. The 5% vessel excise tax is paid when a vessel is titled, sold, or imported to Maryland. Note that this tax is collected by the Department of Natural Resources. *(HB 1044 Chapter 260)*

## MOTOR FUEL TAX

**Motor Fuel Tax-Reduction in Vendor Credit** Reduces the vendor credit for the collection of the motor fuel tax from 1% to 0.5% of the first 10 cents of the tax. *Effective July 1, 2002. (SB 323 Chapter 440)*

**Motor Carrier Identifying Number.** Repeals a statutory reference to an obsolete Interstate Commerce Commission identifying number and authorizes the comptroller to require in its place a U.S. Department of Transportation number. This identifying number is required for motor carriers that are licensed under the International Fuel Tax Agreement for interstate travel and payment of road use taxes. This law change will make Maryland's identification requirements consistent with federal requirements. *Effective October 1, 2002. (SB 101 Chapter 123)*

**Contraband Pricing.** Eliminates the Comptroller of Maryland's requirement to use Platt's Oil Gram as the sole source of determining the price of contraband motor fuel. This law allows the Comptroller of Maryland to use any nationally recognized oil price reporting service, rather than being locked into using Platt's Oil Gram. *Effective October 1, 2002. (SB 102 Chapter 124)*

**Dyed Diesel Fuel.** Prohibits the use of dyed diesel fuel in vehicles that travel on public highways, mirroring a federal law that prohibits the same practice. Home heating fuel is dyed red to indicate it is not taxed and generally contains a higher concentration of sulfur that is not permitted in clear, highway diesel fuel. *Effective October 1, 2002. (SB 287 Chapter 145)*

## Federal offset nets state of Maryland \$17 million

Maryland collected \$16.95 million this tax season under a program, which authorizes states to capture federal income tax refunds to offset state income tax debts. The comptroller's compliance division again took advantage of the Federal Refund Offset Program, which went

into effect January 1, 2000. Between January 1 and May 31 of this year, the division captured 25,327 refunds totaling the nearly \$17 million.

Taxpayers who have active payment plans with the comptroller are included in the program and should be aware that their federal

refunds will be offset in addition to the scheduled payments. Taxpayers who have declared bankruptcy are not included in the program.

Questions should be directed to the compliance division at 410-974-2432 (locally) or toll-free at 888-674-0016.

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P.O. Box 466  
Annapolis, Maryland 21404-0466

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