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ReveNews

Maryland tax information ♦ Louis L. Goldstein ♦ State Comptroller

When you're asked about electronic filing

The Comptroller's "just ask" campaign is encouraging Maryland taxpayers to "just ask" participating Maryland tax preparers about filing their Maryland returns electronically (see FYI on the front page). Here are answers to some of the most commonly asked questions about Maryland electronic filing.

Is electronic filing really worth it, since the Comptroller's Office processes paper returns so quickly?

Electronic filing is *really* fast - processing usually happens overnight. Maryland returns filed electronically by preparers located in the state are processed the same day. Since electronic returns typically have lower error rates, the refunds are normally mailed within 24 hours of processing. During the April 15 filing deadline period, when the Comptroller's Office is giving more priority to depositing checks than to processing paper returns due refunds, we still process electronic refunds daily. Taxpayers who file on April 15 can cut up to six weeks off the time it takes to process their refunds if they file electronically.

Are there any advantages to tax preparers?

Quick acknowledgement of the filing and the ability to quickly point out errors for correction are helpful to preparers.

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Inside

- Forms-by-Fax expanded
- new contractors' tax tip
- telefiling update

Forms, instructions on-line

Expanded web site offers special sections for preparers, businesses

By the end of November, taxpayers and professional preparers will be able to download and print all 1996

Maryland income tax forms and instructions from the comptroller's expanded web site. While the tax forms can't be filled in on-line, the web site will allow preparers access to all the forms



they need 24 hours a day, seven days a week.

But that's not the only web site feature tax preparers will find useful. A special section of the site devoted to tax professionals will feature:

- upcoming meetings and seminars,
- electronic filing information and the electronic filing handbook
- bulletins, notices and administrative releases, and
- an on-line edition of *ReveNews*

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FYI Just ask about electronic filing

Last year, about 800,000 Marylanders used tax professionals to prepare their Maryland personal income tax returns. But less than 20% of those returns were filed electronically, although almost all of them could have been.

That's why we've sent a special information package to tax preparers who offer electronic filing, including an eye-catching poster urging taxpayers to "just ask" their tax preparers about electronic filing. This package is part of a "just ask" public awareness campaign, designed to dramatically increase the number of Maryland returns filed electronically. The benefits of electronic filing are substantial, including:

- immediate acknowledgment of filing,
- errors quickly brought to the preparer's attention for immediate correction and resubmission,
- even faster refunds, and
- tremendous savings of taxpayer dollars, since it costs only one-fifth as much to process a return electronically as it does to process a paper return.

While we're urging Maryland taxpayers to "just ask" their tax preparers about Maryland electronic filing, we're also urging tax professionals who aren't participating in the program to "just ask" us more about it.

I have contacted every software maker who supports Maryland electronic filing to thank them for their support. And I have written to the largest software companies that do not have Maryland programs and asked them to consider adding them.

When your clients "just ask" you about electronic filing, you'll want to have all the answers. We are including the answers to some commonly asked electronic filing questions in the article on this page. Or you can call our office at 410-974-3754 for more information on electronic filing. Thank you for your help.

Louis L. Goldstein

Comptroller of Maryland

Briefly noted

Informal appeals

Maryland has ratified a cooperative agreement through the North Eastern State Tax Officials Association (NESTOA) concerning issues of domicile and residency. Under this agreement, the only change in the way Maryland deals with these issues will be the addition of an informal appeals process available to taxpayers involved in a domicile dispute with multiple member states. Such an appeal can be held before or after a formal appeal, and it does not eliminate any other right to appeal.

Production activity exemption expanded

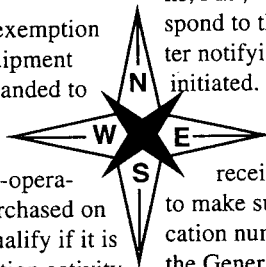
Effective *January 1, 1997*, the exemption for the sale of machinery or equipment used in an activity has been expanded to include production equipment also used in administration, management, sales or other non-operational activities. Equipment purchased on or after January 1, 1997, will qualify if it is used predominantly in a production activity and meets the other requirements of Section 110210(b) of the Tax-General Article. Under this provision, a piece of machinery or equipment is used predominantly in a production activity if it is used directly in that activity more than 50% of the time. (Chapter 345, Acts of 1996)

Alcoholic beverages trade practices regulations

In October, 1994, the Comptroller's Office issued new alcoholic beverages trade practices guidelines. These guidelines resulted from an extensive review of bulletins, notices, and policies that had governed the relationships between manufacturers, wholesalers, and retailers in Maryland for many years. After two years of review, the guidelines became regulations effective October 1, 1996. The regulations govern consumer coupons, beverage tastings, advertising services to retailers, sweepstakes and contests, promotions, and more. For more information on the trade practices regulations, call the Alcohol and Tobacco Tax Unit at 410-974-3314. (COMAR 03.02.05.01 - .12)

Backup withholding for vendors

If you do business with the state, you may be hearing from us if we don't have your correct name and number. The Internal Revenue Service requires the state to withhold 31% of certain payments if a vendor doesn't furnish a valid name and/or federal identification number. The Comptroller's Office is contacting vendors for whom that information is incorrect. If you receive that notice, please return the enclosed W-9 Request for Taxpayer Identification Number and Certification Form to the General Accounting Division, P.O. Box 746, Annapolis, MD, 21404. Vendors who fail to respond to the W-9 request will receive a letter notifying them that withholding has been initiated. Vendors who do business with the state should also pay close attention to the Form 1099s they receive after the beginning of the year to make sure the names and federal identification numbers on them are correct. Call the General Accounting Division at 410-974-3812 or 974-2670 if that information isn't correct.



Fuel tax expert honored

The Federation of Tax Administrators' Motor Fuel Tax Section has honored Donald Paswater, assistant administrator of the Maryland Motor Fuel Tax Unit, for his dedication to the Uniformity Project over the past five years. The Uniformity Project is a cooperative effort between the motor fuel industry, the states, and the federal government to stop tax evasion by improving the exchange of information. Mr. Paswater is the new government co-chairman of the Uniform Reporting Sub-committee.

Ads generate thousands of calls

Almost 10,900 Marylanders called the Comptroller's Office in response to a 12-page unclaimed property advertising supplement placed in 25 newspapers between October 15 and October 26. The ads were designed



to find more than 14,000 individuals and businesses who are the most recently reported owners of unclaimed funds. The recent ad campaign capped an autumn of outreach activities, including computer booths at the State Fair, county fairs, and the Senior Expo that helped 1,132 individuals and businesses find leads on more than \$468,000 in unclaimed funds. In fiscal year 1996, which ended on June 30, 1996, the unclaimed property section of the Comptroller's Office returned \$9,318,167 in unclaimed funds to 7,572 individuals and businesses. The average claim was \$1,230. Maryland law requires financial institutions, insurance companies, utilities and other corporations to report to the state comptroller any bank accounts, security deposits, wages, insurance benefits and the contents of safe deposit boxes which are unclaimed after five years.

Hall elected vice-president of NAUPA

Lynn Hall, manager of unclaimed property for the Maryland Comptroller's Office, was elected as the eastern regional vice president of the National Association of Unclaimed Property Administrators (NAUPA). Her term will run from October 1, 1996, through September 30, 1997. As eastern regional vice president, Ms. Hall is a member of NAUPA's executive committee and acts as a liaison between the committee and the states in her region. Ms. Hall is also a member of the association's conference, nominating, membership and publicity committees.

Talbot lowers local tax rate to 40%

Elected officials in Talbot County have lowered the county's local income tax rate from 55% to 40% for tax year 1997, which begins January 1, 1997. Talbot County was the only Maryland subdivision to declare a rate change for the next calendar year. Employers should remember that withholding is based on where employees live, not on where they work. This change does not affect Talbot County residents in the upcoming tax filing season for tax year 1996.

The courts decide....

Sales & use tax

Cooperative direct mail advertising.

The Maryland Tax Court has found that Val-Pak dealers are providing non-taxable advertising services to customers who advertise their products and services in Val-Pak mailings and that the dealers are therefore liable for the sales tax on their in-state purchases of the envelopes and coupon printing for their mailings, which they use to provide those non-taxable services. The court rejected the dealers' arguments that they were purchasing an advertising service when they ordered the envelopes, printing and distribution of their mailers and that their purchases were for resale to their customers. The court also ruled that the in-state Val-Pak licensee's purchases of printing and envelopes from Val-Pak Florida for mailings for its own customers were subject to the use.

Corporation income tax

Refund claim. On October 11, 1996, the Court of Appeals of Maryland held that the comptroller had erroneously denied a refund claim filed by Mack Truck, Inc. and affirmed lower court rulings that Mack was entitled to the refund. It was undisputed, in *Comptroller of the Treasury v. Mack Truck, Inc.*, both that Mack had made an error on its Maryland income tax return, thereby overpaying in excess of \$900,000 of tax, and that Mack had filed its claim for refund beyond the normal three year statute of limitations.

Maryland law expressly incorporates the statute of limitations provisions set forth in Section 6511 of the Internal Revenue Code. Part of that section provides that if an agreement has been entered into between the IRS and the taxpayer pursuant to Section 6501(c)(4), the agreement extends the time for filing a claim for refund of federal income tax to six months after the expiration of the period within which the federal assessment may be made. Mack had entered into such an agreement with the IRS and argued that the agreement also extended the period within which it could file a claim for refund of Maryland taxes.

The comptroller argued that the incorporation of Section 6511 was an incorporation of the federal rules, meaning that Mack could enter into the same agreement with Maryland, but not of particular federal events, such as the specific federal agree-

ment, of which Maryland had no knowledge. Thus, the comptroller argued, a separate agreement with Maryland was necessary for the taxpayer to take advantage of a six-month extension of the period for filing the state return.

The court found no authority in any statute, regulation or administrative practice to support the comptroller's argument that a separate agreement was necessary. In addition, the court noted the legislative history accompanying the 1989 bill that enacted Maryland's incorporation of Section 6511 expressed the comptroller's intention to increase the degree of conformity and to relax an existing Maryland provision that was stricter than the comparable federal provision. The court concluded that to construe Maryland law so as to require a separate Maryland agreement was inconsistent with the purpose behind the legislation, and, accordingly, it held that Mack was entitled to the refund.

Personal income tax

Skimmed proceeds. On October 28, 1996, Paul and Mahala Battaglia, the former owners of Baltimore's Harem nightclub were sentenced to six months home detention by Anne Arundel Circuit Court Judge Pamela North after pleading guilty last August to state tax evasion for tax years 1992 and 1993. Judge North also sentenced the Battaglias to five years probation and ordered them to pay more than \$23,000 in restitution. The charges resulted from an attorney general's probe of various entities and individuals associated with the city's red light district known as "the Block." The Battaglias were involved in a two-year scheme to skim hundreds of thousands of dollars in cash receipts from the operation of the nightclub. Rather than keeping the cash in the club's bank account, the couple transferred it to bank accounts opened in Mrs. Battaglia's maiden name. More than \$230,000 in skimmed proceeds and other income were never reported to the government.

Tax evasion and theft. The accountant who handled the taxes for most of the bars on Baltimore's "Block" pleaded guilty to stealing more than \$230,000 from some of his clients and to cheating on his own taxes. On October 23, 1996, Judge John O. Hennegan of the Baltimore County Circuit Court sentenced Leslie Pototsky to 18

months home detention and ordered him to file amended Maryland income tax returns for 1991 and 1992 and delinquent returns for 1993, 1994, and 1995 and to pay all taxes, penalties and interest due. According to a statement of facts read into the record at the guilty plea, Pototsky stole more than 120 checks that had been entrusted to him by his clients to pay their outstanding tax liabilities. The tax charges arose from his failure to report as income on his own tax returns the money he stole from his clients. After signing the plea agreement, Pototsky paid back all of his victims.

Electronic filing questions answered

(continued from front page)

Will I have a hard time finding a tax preparer who can file my return electronically?

For tax year 1995, there were more than 400 tax practitioners throughout Maryland who could electronically file Maryland returns. The Comptroller's Office cannot recommend specific preparers. However, we can provide taxpayers with the names of several electronic filers in the area.

I always owe the state, so I can't file electronically, can I? And even if I could, how would it benefit me?

Yes, you *can* file electronically, even if you have a balance due. The Comptroller's Office will send you a bill payable by April 15 or the due date of the tax return. Because the electronic return is checked for errors before it's processed, any mistakes are caught before taxpayers are billed. This prevents the time-consuming adjustments that happen when there are mistakes on paper returns.

How can I benefit from electronic filing if I prepare my own return?

Most preparers will submit your return electronically for a nominal fee. And the preparer's software will detect and correct errors before the return is filed, preventing any delay in receiving your refund. You will also receive a receipt from the preparer proving that the return was filed.

Don't overlook state pick-up amount

Since January 1, 1989, mandatory employee contributions to some state retirement programs have been deferred from federal income tax but not from Maryland or Social Security (FICA) tax. These retirement programs include the State Teachers' Retirement System, State Teachers' Pension System, State Employees' Retirement System, State Employees' Pension System, and others.

At the bottom of W-2 forms issued for state employee earnings, you may find the phrase "State Pick-up Amount" and a dollar value. That reflects the employee contribution to one of those retirement programs. County school board and other governmental entities at the county and municipal levels may also have values to be added on the

state tax returns if the employees are members of the State Retirement or Pension systems and contribute to the programs.

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 21 of Maryland Form 502 or Line 19 of Maryland Nonresident Form 505. These taxpayers cannot use the Maryland short Form 503, which does not allow for additions to income.

Preparers and taxpayers with questions about the state pick-up amount can call the Taxpayer Service Section at 410-974-3981 in the Central Maryland area or toll-free elsewhere at 1-800-MD TAXES (1-800-638-2937).

Focus on

Business tax tip #18 - Contractors and Maryland taxes

As any contractor knows, a good blueprint can make the most complex construction job more manageable. Now, the State Comptroller's Office is providing a blueprint to make it just as easy for contractors to manage their tax obligations. It comes in the form of new business tax tip #18, *Contractors and Maryland taxes*.

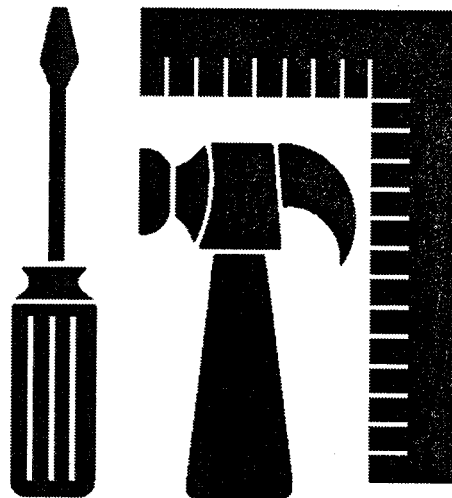
The new tax tip answers the most common questions contractors have about their licensing and tax obligations such as:

- What is a resale certificate?*
- Are government contracts taxable?*
- Are a contractor's labor charges taxable?*
- What's the difference between personal and real property?*

A separate section on income tax tells contractors what their employer income tax withholding obligations are and what business income tax forms they have to file.

The taxability of fuels used in different types of construction equipment and motor vehicle registration requirements are described in the motor fuel tax section.

For more information, send for a free copy of business tax tip #18, *Contractors*



and *Maryland taxes*, by calling the Taxpayer Service Section at 410-767-1300 in Central Maryland or 1-800-492-1751 from elsewhere in Maryland.

If you have a fax machine, you can call our "Forms by Fax" number - 410-974-FAXX (974-3299) - and have business tax tip #18 faxed to you directly. It is item #4018 from index number 2.

Or, you can access this information electronically on the comptroller's web site at www.comp.state.md.us.

Enforcement roundup

From July through October, 1996, the Investigative Services Unit conducted the following enforcement activities:

One seizure of distilled spirits from a Baltimore County establishment and two in Baltimore City for purchasing alcohol from another retailer.

The seizure of distilled spirits, wine and beer in Prince George's County for selling alcohol without a license.

A seizure of alcohol in Baltimore City for tampering or refilling containers.

The seizure of 624 packs of Delaware stamped cigarettes from a Baltimore City convenience store.

The seizure in Anne Arundel County of untaxed cigarettes purchased on a military post and resold.

The seizure statewide of 119 sales and use tax licenses.

Website

(continued from front page)

This year, preparers will also be able to batch file extension requests for non-balance due returns from the comptroller's web site.

Maryland's "one-stop" Combined Registration Application will be the highlight of the business services section. Business people will also find business tax tips, Maryland license tips, information on paying taxes electronically, information on business telefiling, and more.

The individual services and taxpayer assistance sections will feature personal income tax tips, information on free income tax help and on the automated refund inquiry line, and e-mail access to the taxpayer service section.

Net surfers will also find the comptroller's Consolidated Revenue Report and award-winning Comprehensive Annual Financial Report at our web site.

Tax can be due on purchase of a business

Many new business owners don't realize that they may owe sales and use tax on part of their purchase of an existing business. That's why the Comptroller's Office sends a Maryland sales and use tax notice, *Bulk Sales and Use Tax Returns*, and a supplemental sales and use tax return to anyone whose Central Registration Application indicates they've purchased a business located in Maryland.

The 5% sales and use tax applies to the price of tangible personal property included in the purchase of a business, unless specific exemptions exist. Examples of taxable items include:

- ◆ furniture & fixtures
- ◆ computer software
- ◆ business records
- ◆ client lists
- ◆ customer lists
- ◆ patient lists
- ◆ non-capitalized goods and supplies.

The tax *does not* apply to any portion of the purchase price attributable to real property or to intangibles, such as goodwill. Neither does it apply to inventory held solely for resale, titled motor vehicles, or capitalized production equipment used to manufacture products for resale.

For more information on bulk sales and use tax obligations, call 410-767-1579. You can also get a copy of the notice, *Bulk Sales and Use Tax Returns*, by calling the comptroller's Forms-by-Fax system and requesting item #4046 from index 2.

ReveNews....

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Telefiling update

Businesses "zero" in on telefiling

Businesses who file sales and use tax and employer withholding returns reporting zero tax have increasingly turned to telefiling to get the job done. Through the end of October, more than 24,000 withholding returns and 36,000 sales and use tax returns with no tax owed have been telefiled. Call 410-974-FILE (974-3453) to telefile these zero business tax returns. Instructions on telefiling are in the employer withholding coupon books and the sales and use tax coupon books.

New toll-free line for extension requests

No Marylander who wants to telefile an extension request will have to pay a long distance phone charge during the upcoming filing season. In 1996, the first year taxpayers could request an automatic four-month extension of time to file their personal income tax return by phone, 28,413 extensions were telefiled. This year, the Comptroller's Office is making it easier than ever to telefile for extensions by adding a toll-free number for callers located outside the Central Maryland area. If you need an extension and do not owe any tax, you can call 410-974-5829 from Central Maryland or 1-800-260-3664 from elsewhere to telefile your extension request.

Extensions may also be filed through the comptroller's web site at www.comp.state.md.us.

Expanded Forms-by-Fax offers two years of tax returns

Since the comptroller's Forms-by-Fax system went into operation in December, 1995, more than 19,000 callers have used it successfully to get more than 110,000 pages of forms, instructions, applications, publications and other documents at their convenience - 24 hours a day, seven days a week.

This year, tax practitioners and taxpayers will have access to both the current 1996 Maryland income tax forms and instructions and to 1995 forms and instructions through Forms-by-Fax.

In addition, Forms-by-Fax offerings have been updated and expanded to include new publications, such as Business tax tip #18, Contractors and Maryland taxes (see page 4). Revised personal income tax tips for tax year 1996 are also available. So if your existing index is older than October 1, 1996, request a new index before ordering documents again. Just call 410-974-FAXX (974-3299).

Remember, Forms-by-Fax lets you get the forms you need when it's convenient for you. For immediate service, call from the handset of a fax machine. If you don't have a fax machine with a handset, you may call from a touch tone telephone, and the requested documents will be sent to your fax machine as soon as possible.

If your fax machine uses thermal paper, copy the tax forms you get from us on regular paper before you fill them out. Then mail them back to us. *Don't* fax us any completed income tax forms.

Free state tax help

Central Maryland:
410-974-3981
Elsewhere:
1-800-MD TAXES
(1-800-638-2937)

Refund inquiry:
Central Maryland:
410-974-3701
Elsewhere:
1-800-218-8160

Forms by fax:
410-974-FAXX
(410-974-3299)

E-Mail:
taxhelp@comp.state.md.us


World Wide Web:
www.comp.state.md.us

Hearing impaired:
MRS 1-800-735-2258



Louis L. Goldstein
Comptroller

Serving Maryland taxpayers

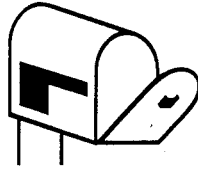


If you haven't ordered a CD yet....

Tax preparers who didn't order a CD of 1996 tax forms can still get one in time for the filing season.

The CD contains individual, withholding and pass-through entity forms and instructions. To use the CD, you need a PC with Windows and a CD ROM drive. It's available by calling 410-974-3454.

If you have already placed a bulk forms order, please let our taxpayer service representatives know when you place your CD order, so it can be packaged with your order.



Mailboxes lighter with forms on CD

Tax preparers who ordered 1996 income tax forms and instructions on CD ROM will find their mailboxes considerably lighter - and more space on their shelves - when bulk orders of income tax forms are mailed out beginning the week of December 16, 1996.

For the first time, Maryland is offering state forms and instructions free of charge on CD ROM. Approximately 30% of the preparers ordering forms ordered the CD rather than paper copies.

The CD costs only 25% as much to produce as the paper Package X, even though it contains more forms and instructions. Because a CD only takes up 3/8 inch of shelf space, preparers can have all the 1996 forms they need during this and future tax years without tying up valuable storage space.

Other items for tax preparers and taxpayers to look for in their mail boxes are:

- ◆ employer withholding coupon books, to be mailed December 21, 1996;
- ◆ individual estimated vouchers, to be mailed the week of January 13, 1997. These vouchers will be in a coupon book format similar to that used by the Internal Revenue Service.
- ◆ Maryland personal income tax booklets, to be mailed between Christmas and New Year's.

Details on expanded tax homepage

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