

Maryland



Maryland tax information ● WILLIAM DONALD SCHAEFER ● State Comptroller

Online registration service a hit in first year

Maryland was first to offer service

In its first year of operation, 2,950 new businesses registered for tax accounts through an online service offered on the State Comptroller's Office website at www.marylandtaxes.com.

The interactive Combined Registration Application - introduced in March 1998 - allows a new business to use a PC to establish accounts for sales and use tax, employer with-

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FYI

Comptroller's Office on track to Y2K compliance

The closer we get to January 1, 2000, the more we hear about the potential threat of the Y2K computer problem. But well before Y2K was in the public eye, the State Comptroller's Office was working to ensure that it wouldn't impact our operations or inconvenience our customers.

People depend on us. State employees need to get their paychecks

"I just wanted to let you know how terrific your online application program is. It was very easy to follow, very helpful, and very fast in obtaining the employer identification numbers necessary for our client. Hats off to a state that is so technologically advanced."

E-mail from a user of the online Combined Registration Application

E-file takes off thanks to preparers

Techno-savvy tax preparers and taxpayers have set another record for electronic filing this year, already surpassing last year's total of electronically filed Maryland returns.

By March 17, the Comptroller's Office had received 222,321 electronically filed returns, compared to

222,067 for all of last year, a 28% increase. The vast majority of electronic returns received through that date - almost 210,000 - had been filed through professional tax preparers. Nearly half of Maryland taxpayers use a professional tax

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on time. The state buys goods and services from a lot of businesses, and they depend on prompt payments from us so they can pay their own bills. People want to make sure we get their tax returns and get the refund checks out. We use computers to meet those needs - our agency has the largest data processing center in state government - and we're making sure the computers don't let us down.

Our mainframe, which supports the operations of 24 state agencies, is now Year 2000 compliant, and all of our computer applications and telecommunications equipment will be corrected and tested by July 1999. I'm happy to say that our Year 2000 project has been favorably reviewed

by independent auditors, legislative auditors, and the Maryland Year 2000 Program Management Office.

But that doesn't mean our work is finished or that we're resting on our laurels. Even after we've fixed the problem, we'll keep testing and re-testing to make sure that nothing has been overlooked. My office *will* provide the services the people and businesses of Maryland and other state agencies depend on without interruption on January 1, 2000, and well beyond.

William Donald Schaefer
Comptroller of Maryland

Inside

- What you should know about business tax audits
- Filing season reminders
- Important telephone numbers

The courts decide...

Income Tax

Tax fraud will net prison time for preparer

Under a plea agreement, a Salisbury tax preparer who pleaded guilty to four counts of tax fraud and theft will be sentenced to ten years in prison and ordered to repay the state \$63,673 he stole in a fraud scheme.

Bruce E. White pleaded guilty on March 5, 1999, before Anne Arundel County Circuit Court Judge Ronald Silkworth. Between 1994 and 1996, White prepared over 300 fraudulent Maryland tax returns for his "clients," using phony W-2 forms

he'd prepared. The wages and withholding amounts on those W-2s were completely fictitious, and, in fact, none of the individuals even worked for the companies named on the forms.

White deliberately did not sign the returns as preparer but listed addresses and post office boxes that he controlled as return addresses. When he received the refund check, he split the proceeds with his so-called clients.



An alert Comptroller's Office employee noticed the suspicious looking returns, and, when she started checking them, discovered that none of the individuals had worked at the companies listed on the W-2s. One hundred false returns had already been processed and paid, but another 200 returns were caught and disallowed before refund checks were issued.

While he was in jail on unrelated charges in 1997, White continued the scheme, this time targeting Delaware and other states and the Internal Revenue Service. He also faces federal charges.

Online registration service a hit in first year

Online from page 1

holding, unemployment insurance, admissions and amusement tax, tire recycling fees and transient vendor licenses at any time.

In addition to reducing paperwork and red tape, the online service also saves time since applicants view and complete only those sections that pertain to the type of business tax account they are requesting.

The online registration feature can handle up to 200 applications simultaneously. The Comptroller's Office now has less need to contact businesses to clarify information on the form since the online system does not allow an incomplete application to be submitted.

The comptroller's combined online registration service is linked to the Department of Business and Economic Development's new Business License Information System at www.blis.state.md.us. That online service helps businesses to

find out what licenses, permits and registrations they need in Maryland.

In addition to the 2,950 online registrations, the Comptroller's Office received nearly 40,000 paper registration applications since March 1998. Most of the paper applications included changes to existing business tax accounts.

The Comptroller's Office established a one-stop registration service for Maryland businesses in July 1980, to help businesses fulfill many tax registration requirements on one application. The agency later expanded the service when it created a Taxpayer Registration Center (TRAC) to provide walk-in, one-stop assistance to help new business taxpayers. In March 1998, Maryland became the first state in the nation to offer an interactive, multiple business tax registration online service, which it developed in partnership with Microsoft Corporation and Dynatech Integrated Systems of Columbia, Maryland.

Former employee charged with theft

A former Comptroller's Office employee has been charged in Baltimore County District Court with felony theft in connection with a tax preparation scheme.

William R. Kress of Bel Air, who managed the comptroller's taxpayer service office in Bel Air, also helped prepare tax returns for private clients, a practice which is prohibited for all Comptroller's Office employees.

Kress was charged for allegedly stealing \$4,992 from an elderly client by lying to her about the amount she owed for two years' worth of taxes. According to the statement of charges, Kress told the victim she owed a certain amount of taxes, which he collected from her.

However, he sent only a portion of that money to the taxing authorities, together with a set of returns showing a lower tax liability than he had shown the client and pocketed the difference.

The case was investigated when the Comptroller's Office discovered Kress had been preparing tax returns on the side. He was dismissed from his job in September 1997.

Briefly noted . . .

Schaefer retains top management team, names chief of staff

Comptroller William Donald Schaefer has retained the top management team of the State Comptroller's Office, while adding a chief of staff to help coordinate certain functions.

Robert L. Swann, who was appointed comptroller after the death of Louis L. Goldstein, has returned to the position of deputy comptroller he held before Goldstein's death. Deputy Comptroller Stephen M. Cordi is also staying on, as are the directors of the comptroller's various divisions.

In addition, Comptroller Schaefer has appointed R. Dean Kenderdine as his chief of staff. Kenderdine has seventeen years of experience in public service, most recently as assistant secretary with the Maryland Department of Business and Economic Development.

Electronic bidding used for first time in bond sale

For the first time, the Maryland Board of Public Works accepted electronically submitted bids for an offering of Triple A rated General Obligation bonds.

The board, consisting of State Comptroller William Donald Schaefer, Governor Parris Glendening, and State Treasurer Richard N. Dixon, received five bids for the February 24 sale. A syndicate headed by Merrill Lynch submitted the winning bid of 4.258291% for the \$225,000,000 offering. The bid is the lowest paid for Maryland General Obligation bonds since November 1971.

Maryland remains one of only eight states to retain the coveted Triple A rating from all of the major bond rating agencies and became only the third Triple A rated state to use the electronic bidding process. The 15-year bonds, backed by the full faith and credit of the state, are sold in denominations of \$5,000 and are available to the public from brokers and bond dealers.

State purchasing card update

Since the Maryland purchasing card program was implemented statewide in July 1997, state agencies have used it to purchase \$41 million in goods and services from businesses.

By receiving one master statement each month from the credit card company (VISA) and issuing just one check, the Comptroller's Office estimates that it has processed and mailed 100,000 fewer checks since the program started. Vendors benefit, too, because they're paid within three days of the purchase. "When I was governor, I made prompt payments a

priority with state government. Now, as comptroller, I'm happy to be part of an innovative program that makes prompt payments even easier," said Maryland State Comptroller William Donald Schaefer.

Revenue estimates up for fiscal years 1999 and 2000

On March 18, the Maryland Board of Revenue Estimates, consisting of State Comptroller William Donald Schaefer (chairman), State Treasurer Richard N. Dixon, and Budget Secretary Frederick W. Puddester, increased its estimates of state General Fund revenue by \$22.6 million for the current fiscal year (1999) and by \$5 million for fiscal year 2000, which begins July 1, 1999.

The revised estimates total \$8.2 billion in General Fund revenues for fiscal year 1999 and \$8.4 billion for fiscal year 2000. "We are continuing to see strong growth in the state's economy," said Comptroller Schaefer. "Our economy has been relatively unaffected by the international economic problems of the last year. In fact, some of those problems have actually helped us through lower energy and import costs. This has given consumers more money to spend, providing a stimulus to the economy."

Estimated, withholding payments by vouchers

Individual estimates tax payments submitted with vouchers should be mailed to:

State of Maryland
Revenue Administration Division
P.O. Box 17251
Baltimore, MD 21297-0502

Withholding payments submitted with vouchers should be mailed to:

State of Maryland
Revenue Administration Division
P.O. Box 17132
Baltimore, MD 21297-0175

Old voucher envelopes with an Annapolis address for individual estimated withholding payments should be destroyed.

Why am I being audited? Did I do something wrong?

Not necessarily. While some audits are triggered by information on tax returns, others are done randomly.

Will the auditor just show up at my business?

The Comptroller's Office calls or writes taxpayers to schedule audits. Only if we can't contact you by phone or letter will an auditor stop by your business to schedule an audit.

During this initial contact, the auditor will ask general questions about the business and schedule an appointment to start the audit.

He or she will also ask that certain records be available to start the audit and will discuss the time period subject to the audit.

How much notice will I get before the audit starts?

Maryland businesses will receive about a week's notice, while out-of-state businesses will receive more time to prepare.

The Comptroller's Office is flexible about scheduling audits; however, businesses asking for lengthy postponements may need to sign an extension of limitations for the period of time covered by the audit.

How do I know that the person who comes to audit me really works for the Comptroller's Office?

Comptroller's Office auditors will show that taxpayer a photo I.D. on their first visit. We urge taxpayers who have any doubt at all about the authenticity of an I.D. to telephone us immediately at 410-767-1501 in the Baltimore area or 1-800-492-1752 from elsewhere in Maryland.

Business tax audits - What you should know

If you do business in Maryland, you need to know what to expect if you're ever audited by the Comptroller's Office. Here are answers to some of the most commonly asked questions about business tax audits in Maryland.

How does the audit actually progress?

Taxpayers usually have an opening conference with the auditor. The auditor will ask for a brief description of the business steps involved in making products, in sales, or in providing services and will ask how the business accounts for the taxes involved in the audit.

You may want to take the auditor on a tour of your business or facility, so that he or she will better understand how all of the various components of the business relate to the records.

Visit our website at www.marylandtaxes.com

Will the auditor want to see all of my records?

Very few audits involve a complete review of all the records in the audit period. Records are reviewed for a sample period usually agreed on by both the auditor and the taxpayer. Don't let the request for records overwhelm you, but don't wait until the day of the audit to start to gather the records, either.

Try to have as many of the requested records available

on the first day of the audit. If you're having problems gathering the records you need, at least gather enough to get the audit started. Taxpayers are often granted extra time to gather records that are in storage.

If you have a problem finding a particular record we've asked for, talk to the auditor about it. They'll try to work with you to complete the audit as easily and efficiently as possible.

What if I feel the auditor is being unreasonable?

If you have problems with the auditor or the audit process that the auditor can't resolve, you should contact the auditor's supervisor at 410-767-1501 in the Baltimore area or 1-800-492-1752 from elsewhere in Maryland. In most cases, the field audit supervisor can resolve the problem and get the audit process moving.

What happens when the audit is completed?

The auditor will hold a closing conference with you, and you will receive a complete copy of the auditor's working papers. During the conference, be sure that you understand everything on the audit working papers. Remember, not every audit results in a tax assessment, so the audit results may be good news.

You should feel free to disagree with the results. If you and the auditor can't resolve the disputed issues, the auditor will tell you how to appeal the audit. The first appeals step for most tax types is an administrative hearing, followed by an appeal to the Maryland Tax Court if the issues aren't resolved in an administrative hearing.

To learn more about your rights during the audit and appeals process, you can get a free copy of the Maryland tax tip, *Your rights as a Maryland taxpayer*. It's available at all of our field offices, on our website at www.marylandtaxes.com, or through our Forms-by-Fax system at 410-974-3299 (ask for item 3003 on index 2).

Is there any other information to help me if I am audited?

Y You can also get information at:

- One of our tax offices

e

- Our website at:

www.marylandtaxes.com

S

- From our Forms-by-Fax system by calling **410-974-FAXX** (3299) (ask for **item 4002** on **Index 2**) for a free copy of **Business tax tip #2, What sales records do I need to keep?**

E-file bulletin board for tax professionals

- Keep up with the latest developments in electronic filing
- Use the conferencing system news
- Submit your suggestions, comments, and questions using the bulletin board

How?

Visit the comptroller's website at www.marylandtaxes.com, and select the E-file page. The bulletin board is under the section "e-file for tax professionals."

e-mail: taxhelp@comp.state.md.us

Filing season reminders

Preparer alert!

This year, all resident taxpayers

can elect to have their Maryland refund checks deposited directly into their bank accounts. Last year, this safe, fast option was only available to taxpayers who filed electronically through a qualified tax preparer.



Through March 16, 121,687 taxpayers had selected the direct deposit option for their Maryland refunds.

While returns prepared by tax professionals are relatively error-free, some preparers are making mistakes in designating the right county for the local income tax. Often, preparers are designating the subdivisions where their own offices are located instead of the ones in which the taxpayers live. The local income tax is based on where taxpayers live, not on where they work or on where the preparer works.

This year, for the first time,

taxpayers who don't owe additional tax and request an extension of time to file their federal income tax returns won't need to request a separate

Maryland extension.

If they aren't filing a federal extension but still need a Maryland

extension, they can request it:

- on the comptroller's website at www.marylandtaxes.com
- by calling 410-260-7829 from Central Maryland
- by calling 1-800-260-3664 from elsewhere.

Taxpayers filing for extension who owe additional tax must file Maryland Form 502E and include payment of the tax due.

• **Form 502E**, *Individual Application for Extension of Time to File*, and **Form 504E**, *Fiduciary Application for Extension of Time to File*, are available through Forms-by-Fax at **410-974-FAXX (3299)** on **Index 1**, as **Items 1007** and **1016**, respectively.

Underpayment of estimated tax.

If you had income from which tax was not withheld or did not have enough tax withheld during the year, you may owe interest because you paid too little estimated tax during the year. Refer to Form 502UP in the Maryland individual income tax booklet to determine if you owe interest. Generally, you do not owe interest if:

- You owe less than \$500 on income not subject to Maryland withholding.
- Each current year payment, made quarterly as required, is equal to or more than 1/4 of last year's tax.
- You made quarterly payments during the year which equal 90% of this year's tax. If at least 90% of your taxable income is taxable by another state and the underpayment is not greater than the local income tax, no interest is due.

Individual errors

The most common error for individual taxpayers has been using the wrong state tax amount to get the total state and local tax due.

This is because the local tax calculation uses the state tax amount as it would have been calculated before the state tax cut, as the state tax cut doesn't flow through to the local tax. Some taxpayers have been using the state tax calculation used to figure the local tax instead of the one reflecting the state tax cut to calculate their total state and local tax liability.

- Taxpayers should add lines 27 and

38 of Form 502 to arrive at the total Maryland and local tax, before any contributions, and enter the total on line 39.

• Taxpayers should enter any contributions they wish to make to the Chesapeake Bay and Endangered Species Fund and the Fair Campaign Financing Fund on lines 40 and 41, respectively.

• The amounts listed on those lines, if any, should be subtracted from the amount on line 39, resulting in the total Maryland income tax, local income tax, and contributions on line 42.

• From that point, taxes withheld, estimated payments, and tax credits are subtracted to arrive at a refund or payment due amount.

E-file takes off, thanks to preparers, online filers

E-file from page 1

preparer to complete their income tax returns. But this year, for the first time, taxpayers can file electronically from their home computers, and more than 12,000 of them had chosen that option through March 17.

Preparers should remind their clients that one of the best reasons for filing electronically is faster refunds. When it's combined with direct deposit,

electronic filing can have a Maryland income tax refund in the taxpayer's bank account in a couple of days and a

**Preparers should remind their clients
that one of the best reasons for filing
electronically is faster refunds.**

federal refund in less than half the normal time.

The average refund due electronic filers is \$666, compared with \$522 for

paper returns. Amended returns cannot be filed electronically.

Electronic filing is easier for preparers this year, because they are no longer required to send the Comptroller's Office the signature document (502EL) for electronically filed returns.

However, they should keep them, along with W-2s or 1099s, for three years.

Individual taxpayers who file online do need to send Form 502OL to the Comptroller's Office.

Need last minute help?

Comptroller's website:

www.marylandtaxes.com

Tax help:

Tax practitioners' hotline: 410-260-7424

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

Taxpayer service: 410-260-7980 from Central Maryland or 1-800-MD TAXES (1-800-638-2937) from elsewhere.

Extended phone hours: Monday to Friday, 8:00 a.m. to 11:00 p.m. through April 23, 1999.

Forms and instructions:

Comptroller's website: www.marylandtaxes.com

e-mail: forms@comp.state.md.us

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

By phone: 410-260-7951, 24 hours a day, seven days a week

Refund information:

24 hours a day, seven days a week:

410-260-7701 from Central Maryland

1-800-218-8160 from elsewhere

Focus on Business tax tip #11

Focus from page 8

The tax tip also lists many commonly used items that aren't exempt from the tax. These would include hand tools and carpentry, cleaning, and maintenance supplies. Common examples include electric drills, posthole diggers, shovels, and snow blowers. You can download a copy of business tax tip #11, *Sales and use tax exemptions for agriculture*, from our website at www.marylandtaxes.com.

If you have a fax machine, you can call our Forms-by-Fax number - 410-974-FAXX (410-974-3299) - and have business tax tip #11 faxed to you directly. It's item #4011 from index 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 #11.

ReveNews....

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gparran@comp.state.md.us

Focus on

Business tax tip #11 - *Sales and use tax exemptions for agriculture*

Maryland farmers need more than good weather, good luck, and hard work to make a living. They also need equipment - from balers and binders to seeders and sorters - to get the job done. And, to find out what equipment is exempt from the Maryland sales and use tax, they also need a free copy of Business tax tip #11, *Sales and use tax exemptions for agriculture*.

Basically, the sales and use tax *does not apply* to sales or rentals of

farm equipment used to raise livestock and poultry; prepare, irrigate, or tend the soil; or plant, service, harvest, store, clean, dry, or transport seeds or crops. The tax tip lists the most common examples of farm equipment exempt from the tax. Replacement parts and components, including hydraulic oil, are also exempt.

Most livestock purchases are also exempt from the tax. So are agricultural supplies - such as fertilizer and

lime - but only when they're used for agricultural purposes and not to maintain decorative gardens or lawns. If vendors don't have all the information they need to justify an exemption, they may ask for a signed statement indicating that the customer is a farmer or that the purchases will be used only for agricultural purposes. The tax tip has a sample exemption certification that businesses can copy and use for that purpose.

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E-file bulletin board for tax professionals
