

ReveNews



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Maryland Tax Information

William Donald Schaefer
Comptroller of Maryland

www.marylandtaxes.com

Free Electronic Filing Seminars

In preparation for the 2006 tax-filing season, the Comptroller of Maryland, in cooperation with the Internal Revenue Service, the District of Columbia Office of Tax Revenue and the Delaware Division of Revenue has scheduled

a series of free seminars for tax preparers interested in learning how electronic filing can benefit their business.

The seminars are designed to educate new and previous participants about electronic filing

initiatives and technical updates for the Federal/State e-File program. Topics will include presentations on federal tax law updates, E-services, criminal investigations and state electronic filing information and updates.

IRS will answer questions and provide assistance for those needing to complete the Electronic Return Originator application process.

Representatives from the IRS, Maryland and the District of Columbia will be available at every location and representatives from the Delaware Division of Revenue will be available at Salisbury.

The seminars are open to all tax practitioners, but all participants must pre-register. To register, call 410-962-2697 or send an email to Rhonda.Brown@irs.gov with your name, address, phone number, and the session you wish to attend. A confirmation will be made by email. Sessions begin at 8:30 a.m. and end at 4:00 p.m.

Locations and dates are listed on page 4.

Comptroller's Comments

Surplus is for the future...



When we closed the books on fiscal year 2005, I was reminded of those "good news/bad news" jokes. The good news, of course, is that \$603 million is available to help balance the next budget in fiscal year 2007. The bad news is state spending continues to grow faster than revenue collections, and that's no joke.

The state has something that's called a structural deficit. This means that certain costs—namely Medicaid and education funding—are expected to grow faster than the state's ability to pay for them.

For a variety of reasons, the state has little or no control over those costs. That's why I am opposed to any plan that spends this much-needed cash the state now has on its hands, but can expect to see slip through its fingers in the years ahead.

It's tempting to look at this surplus as a sign that tough times are over. But I can tell you from personal experience, as a former mayor and governor, that while we should be happy that some financial pressure may have been relieved in the short-term, we should be putting away what we can as a hedge against another downturn in the economy.

You will hear political leaders say in the months ahead that some of this money should be returned to the taxpayers. This is a smart political thing to say in an election year, but real leadership demands more. Real leadership would look at the \$603 million and see that it should be invested in our future. That kind of decision is what public service is all about.

William Donald Schaefer
Comptroller of Maryland

ReveNews..

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Sales Tax May Apply to Out-of-State Internet and Catalog Sellers

In a recent California Court of Appeals ruling, *Borders Online, LLC vs. California Board of Equalization*, the court held that California's imposition of the use tax on these sales was not in violation of the commerce clause of the United States Constitution and that Borders acted as an agent or representative for Borders Online, LLC. California reasoned that Borders Online, LLC (a Delaware company that sold merchandise over the internet to California consumers) had sales and use tax nexus in the State as a result of its connection with Borders Group, Inc., which owned and operated stores in California.

Maryland has always held that purchases from internet sellers or through catalogs from vendors located outside of Maryland are subject to the 5% Maryland sales and use tax. Maryland's nexus requirements are as broad as permitted under the United States Constitution. Maryland Tax-General Article 11-701 and 11-702 require out-of-state vendors, that engage in the business of selling or delivery of tangible personal property or a taxable service in Maryland, to obtain a Maryland sales and use tax license and to collect the tax on taxable sales and services.

Out-of-state vendors have nexus for sales and use tax purposes if they have offices, distribution, storage or other facilities for the sale of tangible personal property or a taxable service in Maryland or have an agent, salesperson, repairman, or other representative in the State or that enters the State on a regular basis.

In particular, out-of-state internet or catalog businesses that allow "brick and mortar" retailers to

place orders, take returns or provide other services on their behalf are required to collect the Maryland sales and use tax on all taxable sales and services delivered to Maryland customers, even though these businesses are separate legal entities.

In the California case, Borders Group, Inc. stores were accepting returned merchandise and issuing store credits or exchanges on behalf of Borders Online, LLC and this information was advertised on Borders Online, LLC website. In addition, Borders encouraged its store employees to refer customers to the Borders Online, LLC website, and receipts issued by the Borders store encouraged its customers to visit Borders Online, LLC.

Borders Online, LLC has appealed the decision to the California Supreme Court.

Electronic Filing of IFTA Reports

Quarterly International Fuel Tax Agreement reports can now be filed electronically at the Comptroller's web site, beginning with the reports for the third quarter of 2005 (July 1 through September 30). This will be a free, secure service for Maryland-based IFTA carriers and eliminates the need to purchase software, postage and envelopes.

The program performs all the required computations, eliminating the possibility of mathematical errors, and filers receive immediate confirmation of receipt of the report. Questions or comments can be sent by e-mail to MFT@comp.state.md.us.

Form 510 Revised

Maryland Tax Form 510, filed by partnerships, S corporations, limited liability companies and business trusts, now has a required added form, the 510D, Maryland Pass-Through Entity (PTE) Declaration of Estimated Income Tax Worksheet.

Form 510 is generally an information return and payment of income tax is not required. Items of income or loss are passed through to the individual partner or shareholder and taxed at that level. Each partner or shareholder must file a personal income tax return on Form 502 for Maryland residents or Form 505 for nonresidents.

Businesses defined as pass-through entities must file Form 510 and 510D for all PTEs with non-resident members for tax years beginning in 2005. If there are nonresident partners or shareholders, the pass-through entity nonresident tax applies. Pass-through entities are required to pay the personal income tax on behalf of nonresidents. The tax is 4.75 percent of the nonresident partners' or shareholders' distributive or pro rata shares of income allocable to Maryland. When the tax is expected to exceed \$1,000, the pass-through entity must file Form 510D and make quarterly estimated payments.

For more information about Maryland Tax Form 510 and 510D, or get the latest news on Maryland taxes, visit www.marylandtaxes.com and search under "pass-through entity."

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Surplus Exceeds \$600 Million

The state closed fiscal year 2005 with a surplus of nearly \$1.2 billion, of which \$571.1 million has been appropriated for the next fiscal year, leaving \$603.3 million is available for future expenditures. For the year, general fund revenues totaled more than \$11.5 billion, an increase of

across the board and is being boosted by the real estate and stock markets, increases in the employment rate, completion of the first full year of the federal government's 15 percent income tax rate for long-term capital gains, as well as unprecedented corporate income tax revenues due,

companies (-1.9 percent) and motor vehicle fuel taxes (-1.2 percent) are the only sources of revenue to finish below estimates.

Corporate income tax collections totaled \$663.3 million, increasing by \$334.7 million, or 102 percent over last year. The Delaware holding company settlement accounted for \$151 million of this category. Even without this one-time gain, corporate tax growth is still a solid 55.9 percent.

Other sources of tax revenue increases include interest on investments (142.1 percent), state lottery receipts (4.5 percent) and tobacco taxes (1.3 percent). FY 2005 also included a bookkeeping adjustment, made by the State Treasurer's Office, which reduced cash by \$37 million.

State law requires the governor to appropriate all surplus funds that exceed \$10 million into the Revenue Stabilization Account, also known as the "Rainy Day" fund. The fund was created in 1986 to supplement state revenues during uncertain economic times.

"While nearly all revenue sources finished at or above estimates, it's not likely the economy will keep up this high level of performance for the long term."

William Donald Schaefer

13.2 percent over last year.

"This surplus is the result of strong revenue growth that we've seen building for several months," according to Comptroller William Donald Schaefer. "While nearly all revenue sources finished at or above estimates, it's not likely the economy will keep up this high level of performance for the long term."

Tax revenue growth can be seen

in large part, to the closing of the Delaware holding company loophole.

Individual income tax revenue for FY 2005 totaled \$5.66 billion, an increase of 11.5 percent and representing the first time annual income taxes have outperformed the previous peak for the state in 2001. Sales and use taxes finished 7.1 percent over last year, at more than \$3.1 billion. Tax on insurance

Reunited - at last

Comptroller William Donald Schaefer announced that 772 individuals visiting this year's Maryland State Fair found more than \$341,000 in unclaimed funds. The largest single claim was \$23,841 and the largest one-day total was \$61,744 on Aug. 28. A total of 5,051 people took advantage of the free search.

The Comptroller's representatives were on hand at the State Fair, in Timonium, from Aug. 26 to Sept. 5 to help locate the rightful

owners of any stocks, bonds, savings accounts, security deposits, contents of safe deposit boxes, insurance proceeds and other valuables which are reported as "unclaimed" by banks and other financial institutions after three years.

"Anyone who thinks they might have, or hopes they might have, unclaimed money out there can check our records for free, any time, by visiting our Web site," said Schaefer. "A few minutes typing in your name and conducting the online search could help you find

hundreds, if not thousands, of dollars."

The Comptroller's Unclaimed Property Unit has records on more than 600,000 accounts worth more than \$390 million. The owners, or their legitimate heirs, can claim the funds at any time. There is no statute of limitations.

For more information or to do a search, visit marylandtaxes.com, or call 410-767-1700 or 800-782-7383, Monday through Friday, 8 a.m. to 5 p.m.

Free Electronic Filing Seminars Locations and Dates

Salisbury, Md.

Monday, October 3, 2005

Salisbury University

Worster Room – Commons Building

1101 Camden Avenue

Salisbury, MD 21801

Hagerstown, Md.

Tuesday, October 18, 2005

Hagerstown Community College

Advanced Technology Center Room

121/139

11400 Robinwood Drive

Hagerstown, MD 21742

Largo, Md.

Wednesday, October 19, 2005

Prince George's Community College

Rennie Forum Auditorium in the

Largo Student Center

301 Largo Road

Largo, MD 20774

Baltimore, Md.

Thursday, October 20, 2005

Harbor Hospital Life Resource Center

2990 S Hanover Street

Baltimore, MD 21225

Comptroller of Maryland

Phone Numbers for Tax Professionals

Tax Pros Help Line 410-260-7424

Electronic Filing Problems 410-260-7753

Opening a New Business 410-767-1313

or 800-492-1751

Filing Extensions 410-260-7829

or 800-260-3664

Telefiling "Zero" Returns 410-260-7225

Business Tax Payments 410-260-7601

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