



Spring 2006

Maryland Tax Information

William Donald Schaefer
Comptroller of Maryland

www.marylandtaxes.com

Comptroller's Comments

Tax-free shopping is back



Good news. From August 23 through August 27 is Maryland's second tax free event. Most clothing and footwear priced \$100 or less will be exempt from the state's 5 percent sales tax. This means each item for \$100 will be exempt regardless of how many items are

sold at the same time.

Tax-free shopping is a win-win event. It gives Marylanders a money-saving incentive to shop in state in time for back to school purchases. It also helps local merchants compete with retailer in neighboring states which do not have a sales tax.

This should be another success. The last Tax-Free Week in Maryland in 2002 saw an increase of 10 percent in retail sales over the previous year.

Programs like this depend on publicity, so I urge merchants to publicize that tax free week is coming. We'll certainly be doing our part at the Comptroller's Office to market this event. I've always believed that there's no reason to do something good unless you tell people about it.

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Comptroller of Maryland

UNCLAIMED PROPERTY WORTH CHECKING OUT

The biggest list of unclaimed property owners was publicized this April through 23 newspapers statewide. The ad supplement contained 104 pages identifying 116,700 owners of \$75 million in unclaimed funds.

"Our number one job is to serve the people," said Comptroller William Donald Schaefer. "Part of that service is to connect people with unclaimed funds. We're not just tax collectors."

Financial institutions, utilities, insurance companies and other corporations are required to report to the Comptroller any bank accounts, security deposits, wages, insurance benefits and contents of safe deposit boxes that have not been claimed after three years. Funds remain the property of the owners or their legitimate heirs and can be claimed anytime, since there is no statute of limitation.

Individuals are urged to check to see if their names are on the list. Check unclaimed property records online at www.marylandtaxes.com or by calling 410-767-1700.

Periodically, the Comptroller conducts an auction of safe deposit box items, which have remained unclaimed for three years. The last auction in February resulted in \$86,500 in sales, which goes into the state coffers.

For more information, call 410-767-1700 or check online at www.marylandtaxes.com.

ReveNews...

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\$109 Million Available in Earned Income Tax Credits

As many as 87,000 Maryland households with incomes below \$37,000 are not taking advantage of federal and state earned income tax credits because they first don't claim the federal tax credit with the IRS.

If you qualify for the federal earned income tax credit and claim it on your federal return, you may be entitled to a Maryland earned income tax credit on the state return equal to 50 percent of the federal tax credit. The Maryland earned income tax credit will either reduce or eliminate the amount of the state and local income tax that you owe.

For tax year 2005, the earned income credit is allowed if your earned and adjusted gross income is:

- Less than \$11,750 (\$13,750 for married filing jointly), you have no children and you are 25-64 years of age.
- Less than \$31,030 (\$33,030 for married filing jointly) and you maintained a home for a child for at least six months of the year.

- Less than \$35,263 (\$37,263 for married filing jointly) and you have two or more children.

You may qualify for the Maryland earned income tax credit even if you're not required to file a Maryland tax return. However, you must file a return to claim the state tax credit, using Form 502 or 503 (or Form 505 or 515 if you are a nonresident).

Refundable Earned Income Tax Credit

If the earned income tax credit exceeds your Maryland tax liability, you may be entitled to a refund, if you have at least one dependent that can be claimed as an exemption. The refundable earned income credit is calculated as 20 percent of your federal earned income credit, less your state income tax liability. If this amount is zero or less, no refund is due. The refundable amount of the credit may not be carried forward to any other tax year.

Visit

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SHORT AMENDED TAX RETURN

Now, taxpayers can use a shorter form to make an amended return. The new form, 502XS, was released March 10, and can be used instead of the longer, 502X. It can be found on the comptroller's Web site, www.marylandtaxes.com

STATE REVENUES UP

The latest revenue projections, made in March, have been revised upward by \$114.1 billion for FY 2006, an increase of 6.9 percent over last year. The Board of Revenue estimates also predicted an increase of \$12.34 billion for FY 2007, up 4.8 percent.

The Board of Revenue Estimates consists of Comptroller William Donald Schaefer, Treasurer Nancy Kopp and State Secretary of Budget and Management Cecilia Januszkiewicz. The estimates help the governor and legislature develop the state's operating budget.

"The numbers are good, but we have to consider some threats to our economy down the road," said Schaefer. "The housing market is slowing and energy costs could rise 70 percent or more."

The board has increased its estimate of personal income tax by \$62.7 million for FY 2006 and by \$30.6 for FY 2007. The stronger-than-expected growth in income tax withholding is partly attributable to Maryland's 3.6 percent unemployment rate. The state has not seen a level as low since early 2000.

"Naturally, I am pleased that our state's economy is strong and diverse, as illustrated not only by our increasing general fund revenue projections, but also by our recent sale of general obligation bonds at a most favorable rate," said

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MORE CHEATS CAUGHT IN THE WEB...

Fifty new names of individuals and businesses owing collectively \$13.3 million in unpaid taxes, penalties and interest have been added to the Comptroller's "Caught in the Web" page. This initiative has collected \$16.1 million from delinquent taxpayers since it began in 2000.

"Those who pay their taxes should not have to carry the load for those who don't," said Comptroller William Donald Schaefer.

The tax liability of those listed on the Caught in the Web page is split between individuals, owing about \$6.8 million, and businesses, owing about \$6.8 million. Since 2000, the program has collected \$5.1 million from individuals and \$11 million from businesses.

The program was created to send a message to those who have

ignored all attempts by the state to collect overdue taxes. Those owing the largest amounts are listed on the agency's web site until payment has been made or a payment plan set up.

Initially, the office sends a letter to the delinquent taxpayer listing charges for taxes, interest and penalties. If the taxpayer fails to respond, the Comptroller can then: file a lien, attach assets, intercept state and federal tax refunds or garnish wages. The office can also file an estimated assessment for taxes due in unreported periods, issue a summons to appear at a hearing to revoke a sales tax license or initiate other legal processes. Also, the agency can suspend state payments if the taxpayer does business with the state and prevent renewal of state business licenses.

Tax Scam

Maryland taxpayers are warned about a telephone scam that targets users of direct deposit. Someone receiving a tax refund this year reported to the Comptroller's Office that a caller using the name Sara Merkle identified herself as a "national verification official" working for the state, at 866-751-9634. No such position or office exists.

The fraudulent caller asked to verify the bank account number of the taxpayer. No information was given, and when the taxpayer later attempted to check the source of the call, an automated response said that the call could not be completed as dialed.

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

TRIPLE-A AGAIN

All three major bond rating agencies again have affirmed Maryland's strong Triple-A bond rating at the recent sale of \$300 million in General Obligation bonds in March.

Maryland is one of only six states to have a Triple-A rating, the highest possible, from the major agencies of Fitch Ratings, Moody's Investors Service and Standard & Poor's. The rating means that the state can borrow money to build new capital projects at the lowest possible interest rate, thus saving taxpayers millions of dollars.

Maryland has retained this rating during both good and bad fiscal situations in the last three years. The rating agencies base their evaluations on a jurisdiction's strong and prudent fiscal management.

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Treasurer Kopp. "Nonetheless, we cannot ignore a housing market that is cooling and that utility costs are skyrocketing. We must continue to be prudent in managing our state budget, taking care of people and their urgent needs while making tough decisions that will prove beneficial in the future."

The board also has revised corporate income taxes downward by \$21.9 million for FY 2006, due to substantially greater refunds than expected and upward by \$11.4 million for FY 2007, as strong corporate profit growth is forecast to continue. State corporate tax revenues continue to benefit from the Delaware hold-

ing company legislation enacted in 2004, which requires corporations to add back to their own income payments for intangible assets, including interest to their subsidiaries.

Due to continuing stronger than expected performance from several elements of the state sales tax, the board has revised sales tax revenue upward by \$19.7 million in FY 2006. Revenues from the volatile estate tax continue to come in stronger than expected. As a result, the board has increased the estimate by \$35.7 million for FY 2006 and \$24.7 million for FY 2007.

ENFORCEMENT UPDATE...

Since July 1, 2005, the Comptroller's enforcement agents have arrested 92 people for tobacco violations and seized 156,765 packs of cigarettes valued at more than \$628,000. This represents a potential tax loss to the state of more than \$90,000.

The latest action by the agents of Field Enforcement Bureau on March 27 netted 8,600 packs of illegal cigarettes valued at \$34,572, representing a potential tax loss of \$8,600. In addition, two arrests were made in connection with the incident and the vehicle used to transport the illegal cigarettes was confiscated.

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