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Summer 2012
Peter Franchot, Comptroller
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Revenews

From the Desk of the

Comptroller

The 2011- 2012 tax season continues to proceed successfully. Our most successful tax season to date, my office processed more than one million tax returns electronically six weeks before tax day, the earliest date we have ever reached this milestone.

In total, we have already processed returns which put more than $1 billion back into the pockets of Maryland's taxpayers, a significant feat during these turbulent economic times.

Each year, by implementing new procedures and fine-tuning old ones, my office is able to efficiently process state tax returns faster, safer and more accurately. So far, during this tax season, our office identified more than 4,000 fraudulent returns and circumvented the payment of more than $25 million in questionable refunds.

With regard to customer service, I am proud to say that all 12 Comptroller of Maryland local branch offices once again provided free income tax return assistance and preparation to numerous Marylanders, making tax filing quick, easy and painless.

I was also happy to have hosted online live chats in an effort to further assist taxpayers to navigate Maryland tax laws and correctly file returns. These online tax Q&A sessions convened my team of tax experts to take questions from all over the state about tax laws, allowable exemptions, earned income credit and the state of Maryland's economy.

No matter what time of year or the task we seek to undertake, the Comptroller's Office works with the same goal in mind: providing the best service to each and every Maryland taxpayer.

For all the work my office was able to accomplish during the first half of 2012, I offer my heartfelt thanks to all the employees of the Comptroller's Office for their meticulous work and non-ceasing drive to offer the best service to the taxpayers of Maryland.

And to all citizens of Maryland, I thank you for your support and wish you an enjoyable summer.

Peter Franchot

Linda Tanton to Retire at the End of 2012

Comptroller Franchot recently announced the retirement of Deputy Comptroller Linda Tanton, effective December 31, 2012, after 35 years of service to the state and the agency.

After serving for more than a decade as director of the Compliance Division, Linda, in 2006, became the first woman to be appointed Deputy Comptroller. In that capacity, she has positioned the office as a national leader in the areas of taxpayer service, tax fairness and technological innovation. In recognition of her efforts, she was elected in 2008 to serve as President of the Federation of

See "Linda Tanton" continued on Page 12

Online Tax Service Extended for Tax Preparers

For years, tax preparers have sought the ability to access various documents and the capability to complete certain tasks on behalf of their clients.

Understanding that such access would save tax preparers' time and taxpayers' money, the Comptroller's Revenue Administration Division (RAD) implemented a Preparer Services Website, ***pServices***. Phase I of the new site, which is accessible through the Comptroller's Website, allows the tax preparer to view the client's Form 1099-G information.

To access the information, there is a dual validation process. The tax preparer must register in order to use the site, using a valid Preparer Tax Identification Number (PTIN) and their Federal Adjusted Gross Income from the prior year's Maryland tax return. The site is not currently available to out-of-state preparers, but will be in the future.

Utilizing an enhanced registration, the preparer's client (taxpayer) will be required to log onto the individuals site and authorize the tax preparer to view their Form 1099-G record. The preparer will identify the client whose information they wish to access by providing the Social Security Number (SSN) and entire last name of the taxpayer. Access will be granted only if the SSN and last name match and the taxpayer has authorized that specific preparer to access his/her information.

Additionally, the individuals site allows taxpayers to view a history of a tax preparers' activity in their accounts, as well as the capability of granting and revoking access to their accounts.

Future enhancements of ***pServices*** include the following:

- Phase II will allow tax preparers to view a taxpayer's estimated payment history
- Phase III will allow tax preparers to bulk file taxpayer's extension returns
- Phase IV will allow tax preparers to view taxpayers' tax liability information
- Phase V will allow tax preparers to view copies of taxpayers' tax returns.

For more information, contact the Tax Pros hotline at 410-260-7424 or by e-mail at ***taxprohelp@comp.state.md.us.***

Option to File Admission and Amusement Tax Online… Coming Soon

The electronic filing of admission and amusement (A&A) tax will simplify the filing process for businesses, while simultaneously decreasing the data entry and error processing cost for the Comptroller's Office. There will be additional savings on the associated mailing costs for the pre-printed coupons that are distributed to the taxpayers for each period. The long-term goal of this project is to have all A&A returns processed electronically and to eventually stop distributing pre-printed coupons all together.

The A&A application will be a web application that allows taxpayers to enter and submit the return information, including direct debit payment information, online. The application will edit and validate the return as the user submits the data. Additionally, the system will allow authenticated users to file A&A returns monthly, quarterly, seasonally, semi-annually or annually, as well as allow full payments, partial payments or future-dated payments. Future dated payments will be limited up to the due date of the liability.

This A&A application, which will be functional later this year, is similar to the web application for filing and payment of sales and use tax returns. The users will also be able to file "nones" (no tax liability) and no remits (NR), which means that there is a tax liability, but no payment.

Stay tuned for more details.

Tax Legislation Enacted in 2012

The following is a summation of the tax-related laws passed during the 2012 legislative session.

Income Tax

A. Senate Bill 8 (Chapter 451, Acts of 2012) – Maryland Income Tax Refund – Anne Arundel County – Warrants
This Act adds §§ 13-935 through 13-939 to the Tax-General Article under "Part VII. Income Tax Refund Withholding – Warrants." It requires the Comptroller to withhold an individual's income tax refund when that individual: 1) is a resident of Anne Arundel County with an outstanding warrant; or 2) has an outstanding warrant from Anne Arundel County. A withheld refund may not be paid out by the Comptroller until an official of the federal, state or local government notifies the Comptroller that the warrant is no longer outstanding. The Comptroller may not withhold a refund if the individual is an active duty member of the U.S. Armed Forces or files a joint income tax return.

Effective Date: This Act will take effect on October 1, 2012. This Act will remain in effect for one year and will expire at the end of September 30, 2013.

B. Senate Bill 167 (Chapter 467, Acts of 2012) – Tax Credits for Qualifying Employees with Disabilities – Sunset Extension
The Act extends, by one year, to June 30, 2013, the termination date of the Qualifying Employees with Disabilities Tax Credit under § 10-704.7 of the Tax-General Article, for employees hired on or after October 1, 1997 but before July 1, 2013.

Effective Date: This Act takes effect on June 1, 2012.

C. Senate Bill 234 (Chapter 3, Acts of 2012) – Maryland Health Improvement and Disparities Reduction Act of 2012
The Act establishes a process for designation of Health Enterprise Zones (HEZs) to target State resources to reduce health disparities, improve health outcomes and reduce health costs and hospital admissions and readmissions in specific areas of the state. The Act authorizes specified incentives for Health Enterprise Zone practitioners who practice in an HEZ, including tax credits against the State income tax.

The Act adds a new income tax credit under Title 10, Subtitle 7 of the Tax-General Article, which provides that a HEZ practitioner who practices health care in a Health Enterprise Zone may be eligible for a tax credit against the state income tax in accordance with a proposal approved by the Secretary of Health and Mental Hygiene, if the individual: (1) demonstrates competency in cultural, linguistic, and health literacy in a manner determined by the Department of Health and Mental Hygiene ("DHMH"); (2) accepts and provides care for patients enrolled in the Maryland Medical Assistance Program and for uninsured patients; and (3) meets any other criteria established by DHMH.

A Health Enterprise Zone practitioner (HEZ practitioner) is defined in Health-General Article, § 20-1401, to mean a health care practitioner who is licensed or certified under the Health Occupations Article and who provides: (1) primary care, including obstetrics, gynecological services, pediatric services or geriatric services; (2) behavioral health services, including mental health or alcohol and substance abuse services or (3) dental services. Generally, per Health Occupations Article, §§ 1-208, 1-219, a "health care practitioner" means a physician or any other person licensed or certified under the Article; or, in other words, an individual.

The credit has two parts; both require DHMH's certification. The first is a nonrefundable tax credit against the state income tax in an amount certified by DHMH for the tax year, which is equal to 100% of the amount of the state income tax expected to be due from the HEZ practitioner from income to be derived from practice in the HEZ.

The second is a refundable, subject to recapture, tax credit of $10,000 against the state income tax for hiring a qualified employee for a "qualified position" in the Health Enterprise Zone, as certified by DHMH for the taxable year. A HEZ practitioner may create one or more qualified positions during any 24-month period, and the refundable credit is taken over two taxable years, with one-half allowed in each year, beginning with the first taxable year in which the credit is certified.

A qualified position, among other things, is full time and of indefinite duration. It does not include a position that is filled for a period of less than 12 months. In addition, if the position is filled for a period of less than 24 months, the tax credit shall be recaptured in an amount as determined by DHMH and reported to the Comptroller.

A nonprofit community-based organization or a local government agency shall apply to the Secretary of Health and Mental Hygiene, under the new Subtitle 14 of Title 20 of the Health-General Article to designate an area as a HEZ. A nonprofit community-based organization or local government agency may also submit to DHMH for a request for certification for certain income tax credits on behalf of a HEZ practitioner practicing or seeking to practice in a HEZ.

The amount of credit that DHMH may certify is limited by availability of budgeted funds for this purpose, as determined by DHMH, and is issued on a first-come-first-served basis, as determined by DHMH in its sole discretion.

The Community Health Resources Commission (the Commission) shall administer the fund, and shall use it for the state income tax credits, and for any authorized HEZ activities. On or before December 15 of each year, the Secretary and the commission shall report to the General Assembly evidence and impact of the incentives granted under each HEZ.

Effective Date: This Act takes effect July 1, 2012, and shall be applicable to all taxable years beginning after December 31, 2012 but before January 1, 2016. The tax provision abrogates after four years on June 30, 2016.

D. Senate Bill 296 (Chapter 478, Acts of 2012) – Security Clearances – Employer Costs

The Act creates a tax credit under Title 10, Subtitle 7, Tax-General Article (TG) for individuals and corporations against state income tax for: 1) qualifying security clearance administrative expenses incurred with regard to an employee in the state; and 2) construction and equipment costs incurred to construct or renovate sensitive compartmented information facilities located in Maryland. The credit for security clearance administrative expenses may not exceed $100,000. The credit for sensitive compartmented information facilities is equal to 50% of those expenses, not to exceed $100,000 for a single qualifying facility or $250,000 for multiple qualifying facilities. Although the credit is only available to be claimed for tax years 2013 through 2016, any excess may be carried over until the credit is fully used.

To claim the credit, an individual or a corporation must submit an application for the credit to the Department of Business and Economic Development by September 15 of the calendar year following the end of the taxable year in which the costs occurred. The credit may then be claimed on an amended tax return for the year in which the costs were incurred.

If a credit is claimed, there is an addback under subsections of TG § 10-204 and TG § 10-305 for any costs from security clearance administrative expenses or expenses in constructing or renovating a sensitive compartmented information facility to the extent those costs are deducted in computing federal adjusted gross income.

Effective Date: This Act takes effect July 1, 2012, without a termination date. However, the credit is only available for tax years 2013 through 2016.

E. Senate Bill 477 (Chapter 521, Acts of 2012) and House Bill 1107 (Chapter 522, Acts of 2012) – Job Creation Tax Credit – Termination Provisions

These Acts extend the termination date of the Job Creation Tax Credit from January 1, 2014 to January 1, 2020 by amending § 6-309(a) of the Economic Development Article. The Acts also repeal § 6-309(b) of the Economic Development Article, therefore eliminating the limitation that the business facility must commence operations before January 1, 2013 in order to be eligible for the Job Creation Tax Credit.

Effective Date: These Acts take effect on July 1, 2012.

F. Senate Bill 580 (Chapter 544, Acts of 2012) and House Bill 600 (Chapter 545, Acts of 2012) – Income Tax – Subtraction Modification – Mortgage Forgiveness Debt Relief

These Acts create a subtraction modification under Tax-General Article (TG), § 10-207, for cancellation of debt income from a discharge of qualified principal residence indebtedness.

When an individual borrows money from a commercial lender and the lender later cancels or forgives the debt, the cancelled amount of the debt is required under the Internal Revenue Code to be reported as income under certain circumstances. This income is referred to as cancellation of debt (COD) income and is taxable as ordinary income. However, certain COD income may qualify for an exclusion from federal and Maryland taxation. Currently, COD income from a qualified principal residence is not subject to federal or Maryland taxation. The federal provision under the Mortgage Forgiveness Debt Relief Act of 2007 (which was extended through the Emergency Economic Stabilization Act of 2008) allowing this exclusion is due to expire on December 31, 2012.

Under the Acts, the federal provision excluding COD income is treated as if it is extended through December 31, 2013 for state income tax purposes. The subtraction amount is the difference between the federal and state treatments. The Acts also provide an addback under TG 10-207 to recapture the tax benefit if the taxpayer claiming the subtraction sells or otherwise disposes of the qualified principal residence for which the subtraction modification has been claimed. The addback applies to tax year 2013 and all subsequent tax years.

If the relevant federal provision excluding COD income from a qualified principal residence is extended without other amendment through December 31, 2013 by the United States Congress, the subtraction modification would not apply in general. If the federal provision is extended, COD income may be excluded by the taxpayer from federal adjusted gross income. Once COD income is excluded from federal adjusted gross income, it is not available as a subtraction modification because the language of the Acts only allows a subtraction modification for COD income to the extent included in federal adjusted gross income.

The subtraction modification under the Acts is COD income which does not include income from a foreclosure settlement as a result of the Attorney General's litigation. Income from a foreclosure settlement may be subject to a subtraction modification under House Bill 1374 (Chapter 156, Acts of 2012).

Effective Date: The Acts take effect July 1, 2012.

G. Senate Bill 739 (Chapter 568, Acts of 2012) and House Bill 764 (Chapter 569, Acts of 2012) – Tax Credit Evaluation Act

These Acts repeal the following tax credits: the Commercial Fertilizer Costs Tax Credit (Tax-General Article (TG) § 10-704.9), the Qualified Ex-Felon Employee Tax Credit (TG § 10-704.10), the Multijurisdictional Electric Company Tax Credit (TG § 10-713), the Solar Water Heating Property or Photovoltaic Property Tax Credit (TG § 10-719), and the Job Creation and Recovery Tax Credit (TG § 10-728).

Taxpayers may still claim and carry forward these repealed tax credits if the credit was earned before the effective date of these Acts.

The Acts also add the Tax Credit Evaluation Act under Subtitle 3 to Title 1 of the Tax-General Article, which provides for the evaluation of certain other tax credits before they expire.

Effective Date: The Acts take effect July 1, 2012.

H. Senate Bill 807 (Chapter 587, Acts of 2012) – Income Tax – Subtraction Modification – Land Acquisition for Department of Transportation

This Act adds new subsection under § 10-207 of the Tax-General Article to provide for a subtraction modification in the amount of a gain resulting from a payment by the Maryland Department of Transportation for the acquisition of a portion of an individual's property on which the individual's principal residence is located. The amount of the subtraction modification may not exceed the amount that may be excluded from income on the condemnation of an individual's principal residence under § 121 of the Internal Revenue Code.

Effective Date: The Act takes effect July 1, 2012 and will apply to all taxable years beginning after December 31, 2011.

I. Senate Bill 1086 (Chapter 344, Acts of 2012) and House Bill 1456 (Chapter 345, Acts of 2012) – Income Tax – Tax Credits – Electronic Filing Requirements

These Acts authorize the Comptroller's Office to require by regulation that a taxpayer claiming the Job Creation tax credit, the One Maryland tax credit, the Biotechnology Investment Incentive tax credit, and the Enterprise Zone Income tax credit, to submit a claim for the credit by electronic means as required by the Comptroller's regulation.

These Acts allow the Comptroller's Office to require by regulation any other tax credit claim to be submitted electronically, if the Comptroller's Office determines this requirement does not have a material adverse impact or undue administrative burden on the Comptroller's Office.

Effective Date: These Acts take effect July 1, 2012, and will be applicable to all taxable years beginning after December 31, 2012.

J. Senate Bill 1302 (Chapter 2, Acts of 2012 Special Session 1) – State and Local Revenue and Financing Act of 2012

The Act raises individual state income tax rates, and establishes new state income tax brackets. The new rates and brackets are effective for all taxable years beginning after December 31, 2011.

Single Filer, Dependent Filer, or Individual Married Filing Separate

Rate	MD Taxable Income
4.75%	$3,001 through $100,000
5.00%	$100,001 through $125,000
5.25%	$125,001 through $150,000
5.50%	$150,001 through $250,000
5.75%	Over $250,000

Joint Filer, Head of Household, or Surviving Spouse:

Rate	MD Taxable Income
4.75%	$3001 through $150,000
5.00%	$150,001 through $175,000
5.25%	$175,001 through $225,000
5.50%	$225,001 through $300,000
5.75%	Over $300,000

The Act reduces the amounts allowed for certain personal exemptions, effective for all taxable years beginning after December 31, 2011.

Single Filer, Dependent Filer, or Individual Married Filing Separate:

Exemption	Federal Adjusted Gross Income (FAGI)
$1,600	$100,001 through $125,000
$800	$125,001 through $150,000
$0	Over $150,000

Joint Filer, Head of Household, or Surviving Spouse:

Exemption	Federal Adjusted: Gross Income (FAGI)
$1,600	$150,001 through $175,000
$800	$175,001 through $200,000
$0	Over $200,000

The Act provides for a new addition modification for the amount of income of an electing small business trust (ESBT), effective for all taxable years beginning after December 31, 2012.

The Act repeals § 10-708 of the Tax-General Article, the telecommunications company credit against the state income tax for a portion of the company's property taxes, effective for all taxable years beginning after December 31, 2011. The Act also repeals the addition modification for the amount of the telecommunications credit, which is § 10-306(c) of the Tax-General Article.

K. House Bill 438 (Chapter 2, Acts of 2012) – Civil Marriage Protection Act

This Act expands the definition of marriage in the Family Law Article to include two individuals of the same-sex. It also expands the restrictions on marriage within certain degrees of familial relation. This Act prohibits officials of religious orders authorized to officiate marriages from being required to officiate same-sex marriages.

This Act has no impact on the administration of Maryland income and estate tax laws.

Effective Date: This Act will take effect on January 1, 2013 unless it is overturned via the veto referendum vote on November 6, 2012.

L. House Bill 568 (Chapter 668, Acts Of 2012) – Sustainable Communities Tax Credit Program – Credit Allocation

This Act amends § 5A-303 of the State Finance and Procurement Article to provide that the Sustainable Communities Tax Credit may be allocated among the partners, members, or shareholders of an entity in any manner agreed to by those persons in writing. This provision applies only to any commercial rehabilitation project for which an application was approved by the Maryland Historic Trust on or after July 1, 2012.

Effective Date: This Act takes effect July 1, 2012.

M. House Bill 592 (Chapter 128, Acts Of 2012) – Tax Credit for Businesses That Create New Jobs – Enhanced Credit – Extension

This Act extends, from 12 to 24 years, the duration of the enhanced property tax credit for businesses that create new jobs. This, in turn, extends the duration for which a business may claim a Businesses that Create New Jobs Tax Credit Tax-General Article, § 10-704.8 if the business entity has been certified for the enhanced property tax credit under Tax-Property Article, § 9-230(d). For each of the 24-year period, the State Department of Assessment and Taxation must certify the amount of state income tax credit that a business entity may claim.

Effective Date: This Act takes effect July 1, 2012, and shall be applicable to all taxable years beginning after December 31, 2012.

N. House Bill 975 (Chapter 693, Acts of 2012) – Income Tax – Subtraction Modification – Forest Conservation and Management Program Expenses

This Act adds a new subsection under § 10-208 of the Tax-General Article, to allow an individual who has applied and received an approval to enter into a forest conservation and management plan with the Department of Natural Resources (DNR), to claim a subtraction modification of up to $500 of qualified conservation program expenses paid by the individual. "Qualified conservation program expenses" means the amounts expended by an individual during the taxable year related to an application for the Forest Conservation and Management Program within DNR.

Effective Date: This Act takes effect July 1, 2012 and will apply to all taxable years beginning after December 31, 2011.

O. House Bill 1289 (Chapter 715, Acts Of 2012) – Economic Development – Qualified Distressed Counties – One Maryland Economic Development Tax Credit

This Act modifies the definition of a "qualified distressed county" under Economic Development Article, § 1-101 to temporarily, for a period of four years, include a county which has an average rate of unemployment for the most recent 24-month period that is at least 2 % points above the average rate of unemployment for the state during that same 24-month period.

This Act also modifies the amounts of project tax credit and start-up tax credit that a certified taxpayer may claim in a taxable year. Previously, Code of Maryland Regulations 24.05.24.10.A(2) required a certified taxpayer to maintain at least 25 qualified employees at the project to carry over a tax credit from the preceding year. Now, by this Act, for both the project tax credit and the start-up tax credit a certified taxpayer may claim a prorated share of the credit if: (1) the number of qualified positions in the taxable year is less than 25 but at least 10; and (2) the taxpayer has maintained at least 25 qualified positions for at least five years. The prorated share of the credit is calculated based on the number of qualified positions filled for the taxable year divided by 25.

Effective Date: This Act takes effect July 1, 2012. The temporary definitional amendment is effective for a period of 4 years, ending on June 30, 2016. The tax calculation amendment is permanent and applicable to all taxable years beginning on and after January 1, 2011.

P. House Bill 1374 (Chapter 156, Acts of 2012) – Real Property – Foreclosures and Mediation
The Act creates a subtraction modification under Tax-General Article § 10-208 for any payment to a Maryland resident made as a result of a foreclosure settlement negotiated by the Attorney General.

The subtraction modification includes only foreclosure settlement payments. This subtraction modification does not include cancellation of debt income as a result of foreclosure settlement because cancellation of debt income is not received in the form of a payment. However, a subtraction modification for cancellation of debt income may be available under Senate Bill 580 which was passed in the latest legislative session.

Effective Date: This Act takes effect July 1, 2012 and shall be applicable to all taxable years beginning after December 31, 2011.

Sales & Use Tax

A. Senate Bill 19 (Chapter 452, Acts of 2012) and House Bill 319 (Chapter 453, Acts of 2012) – Sales and Use Tax – Exemption – Veterans' Organizations
The Acts make permanent the sales and use tax exemption for a sale to an organization of veterans of the armed forces of the United States, if the organization is qualified as tax exempt under Section 501(c)(19) of the Internal Revenue Code.

Effective Date: The Acts take effect June 1, 2011.

B. Senate Bill 40 (Chapter 456, Acts of 2012) and House Bill 1301 (Chapter 457, Acts of 2012) – Sales and Use Tax – Machinery and Equipment – Energy Star Windows and Doors
The Acts provide that the sales and use tax does not apply to the sale of machinery and equipment to be used directly and predominately to produce Energy Star windows or Energy Star entry doors for residential real property. The Acts also provide that the sales and use tax does not apply to the sale of electricity, fuel, and other utilities used to operate that machinery and equipment.

Effective Date: The Acts take effect July 1, 2012.

C. Senate Bill 446 (Chapter 237, Acts of 2012) and House Bill 434 (Chapter 238, Acts of 2012) – Sales and Use Tax – Sales of Dyed Diesel Fuel
These Acts revise how sales and use tax is collected on the sale of dyed diesel fuel by a marina and remitted to the Comptroller. These Acts revise Tax-General Article (TG) § 11-104 to provide that a marina selling dyed diesel fuel: 1) must pay sales and use tax to the Comptroller; and 2) may not collect the sales and use tax from the buyer as a separately stated item. Under the Act, the sales and use tax rate for dyed diesel fuel sales is 6% and is applied to 94.5% of the gross receipts from dyed diesel fuel sales.

Under the Acts, the tax treatment of dyed diesel fuel sales by a marina is similar to tax treatment of sales through vending machines. Under TG § 11-405, a vendor who sells tangible personal property through a vending machine must pay the sales and use tax to the Comptroller and may not collect the sales and use tax from the buyer as a separately stated item. Additionally, under TG § 11-104(b), the sales tax rate is also 6% applied to 94.5% of gross receipts from vending machines.

Effective Date: These Acts take effect July 1, 2012.

D. Senate Bill 755 (Chapter 86, Acts of 2012) and House Bill 228 (Chapter 87, Acts of 2012) – Sales and Use Tax – Consuming Wine Not Bought on Premises – Restaurants, Clubs, and Hotels
The Acts allow an individual, in a restaurant, club, or hotel for which a Class B or Class C license is issued, to consume wine not purchased from the license holder only if:

- The wine is consumed with a meal during the hours of sale specified by the license;
- The individual receives the approval of the license holder;
- The wine is not available for sale on the license holder's wine list; and
- The license holder obtains a permit from the local licensing board before allowing an individual the privilege of consuming wine not purchased from or provided by the license holder.

The Acts allow the license holder to determine and charge a fee to the individual for the privilege, on which the current sales tax rate of 6% is imposed.

The Acts require that the individual cannot be under 21 years old, and cannot be visibly under the influence of an alcoholic beverage, in order to be allowed by the license holder the privilege of consuming wine not purchased from the license holder.

Effective Date: These Acts will take effect July 1, 2012.

E. Senate Bill 852 (Chapter 597, Acts of 2012) and House Bill 918 (Chapter 598, Acts of 2012) – Sales and Use Tax – Alcoholic Beverages – Calculation of Tax
The Acts provide that for the sale of an alcoholic beverage, the sales and use tax rate is 9% of the charge for the alcoholic beverage, and is 6% of a charge that is made in connection with the sale of an alcoholic beverage. The 6% rate applies to charges that are separately stated as an item of the consideration, and are made known to the buyer at the time of sale for:

- Any labor or service rendered;
- Any material used; or
- Any property sold.

The Acts provide that the sales and use tax rate is 6% for a mandatory gratuity or service charge in the nature of a tip for serving food or any type of beverage to a group of more than 10 individuals.

Effective Date: The Acts take effect July 1, 2012.

F. Senate Bill 1302 (Chapter 2, Acts of 2012 Special Session 1) – State and Local Revenue and Financing Act of 2012
The Act repeals § 11-202 of the Tax-General Article which exempted from the sales and use tax a sale in the form of a demurrage charge made in the nature of a penalty for failure to return a gas cylinder within a designated period.

Effective Date: This Act takes effect July 1, 2012.

Admissions & Amusement Tax

A. Senate Bill 864 (Chapter 603, Acts of 2012) – Gaming – Electronic Machines – Regulation
The Act provides that an entity licensed to operate instant bingo under a commercial bingo license on July 1, 2007, or a qualified organization as defined in § 13-201 of the Criminal Law Article, may continue to operate a game of instant bingo in the same manner using electronic machines, provided that:

- The machines were in operation for a one-year period ending December 31, 2007, or the machines were in operation under a commercial bingo license on December 31, 2007;
- The entity does not operate more than the number of electronic machines in operation on February 28, 2008; and
- The conduct of the gaming and operation of the gaming and operation of the machines are consistent with all the other provisions of the Criminal Law Article.

The Act provides that the rate of state admissions and amusement tax imposed on electronic bingo or electronic tip jars in Calvert County is 33% of the net proceeds subject to the tax.

The Act clarifies that the state and local admissions and amusement tax applicable to electronic instant bingo must be determined on a tax included or separately stated basis. Other state and local admissions and amusement tax applicable to gaming may be determined on a tax-included or separately stated basis.

Effective Date: The Act takes effect July 1, 2012.

Estate Tax

A. Senate Bill 294 (Chapter 448, Acts of 2012) and House Bill 444 (Chapter 449, Acts of 2012) – Maryland Estate Tax – Family Farm Preservation Act Of 2012
These Acts exclude from the value of the gross estate for Maryland estate tax purposes, up to $5,000,000 of the value of qualified agricultural property that passes from the decedent to or for the use of a qualified recipient. In

addition, the Acts specify that the estate tax imposed on an estate with qualified agricultural property valued in excess of $5,000,000 cannot exceed the sum of: (1) 16% of the amount by which the taxable estate, excluding the value of qualifying agricultural property, exceeds $1,000,000; and (2) 5% of the value of the qualified agricultural property in excess of $5,000,000.

"Qualified Agricultural Property" means real or personal property that is used primarily for farming purposes. "Qualified Recipient" means an individual who enters into an agreement to use qualified agricultural property for farming purposes after the decedent's death.

The Maryland estate tax will be recaptured if, within 10 years after the decedent's death, the qualified agricultural property ceases to be used for farming purposes. The amount of the estate tax imposed in the event of recapture would be the additional Maryland estate tax that would have been payable at the time of the decedent's death but for the exclusion under these Acts.

Effective Date: These Acts take effect July 1, 2012 and will be applicable to decedents dying after December 31, 2011.

Tobacco Tax

A. Senate Bill 1302 (Chapter 2, Acts of 2012 Special Session 1) – State and Local Revenue and Financing Act of 2012

Except for premium cigars, the Act increases the current tobacco tax rate of 15% for other tobacco products (OTP). The tax rate for premium cigars remains at 15% of the wholesale price. The tax rate for cigars is 70% of the wholesale price, and the tax rate for all other OTP is 30% of the wholesale price.

The Act provides that floor stock in possession on July 1, 2012 is subject to the new tax, and requires a filing of the floor tax return by October 15, 2012 to remit the tax difference.

Effective Date: The Act takes effect July 1, 2012.

Important information about the New Income Tax Rates

In the May 2012 Special Session of the Maryland General Assembly, legislation was passed resulting in major changes in the income tax rates, brackets and exemptions for individuals for all tax years beginning after December 31, 2011. These changes, detailed on page 6 of Revenews and found at ***http://www.marylandtaxes.com/taxes.asp***, impact employers as well as employees.

The new Employer Withholding Guide and new schedules can be found at ***http://business.marylandtaxes.com/taxinfo/withholding/default.asp***.

While the tax increase is effective as of January 1, 2012; the withholding rate changes are handled prospectively. Employers are not to go back and calculate the tax on the first five months of the year. The Comptroller will waive any interest on underpayment of estimated tax that is attributable to the rate change or the loss of exemption amounts.

Taxpayers, who are effected by the recent legislation, may adjust their withholding or cover any withholding shortage after filing their income taxes for the year. Impacted taxpayers may also choose to pay an estimated tax payment or request a specific dollar amount if they choose to do so. A helpful worksheet on the back of the Form MW507, found at, ***http://forms.marylandtaxes.com/12_forms/MW507.pdf***, can be used by employees to adjust exemptions.

Important News for Sales and Use Tax Filers

In response to both legislative changes and technological advances, the Comptroller's Office has made some significant changes to the 2012 - 2013 sales and use tax forms. Businesses who continue to file paper sales and use tax returns will use the "old" monthly or quarterly coupons through October. Then, beginning with the month of November (or 2nd quarter for quarterly filers), they will file the new full-page sales and use tax return, Form 202.

Form 202 was designed to maximize efficiencies in new technology, facilitate current banking procedures, and provide for the proper deposit and credit of checks. We have listened to your feedback, and have made the Form 202 easier to read and easier to complete. More space has been provided on the return and an area in the upper right corner for a 2D barcode has been added that will allow us to process the return quickly and accurately.

Remember that the fastest, safest, and easiest way to meet your sales and use tax obligation is to file and pay electronically! Check out the following options:

- bFile – File online for free using bFile at ***www.marylandtaxes.com***; bFile has become so popular it's now the first choice for about 97,000 sales and use tax filers.
- EFT – Pay by electronic funds transfer, using direct debit or credit methods. To register, call 1-800-638-2937.
- Credit Card – Pay by credit card online at ***www.officialpayments.com*** or by calling 1-800-2PAYTAX.

Remember that the fastest, safest and easiest way to meet your Sales and Use Tax obligation is to file and pay electronically!

Shop Maryland Tax-Free Week Returns

While you may still be thinking about summer vacation, don't forget to take advantage of the opportunity to go shopping for qualifying clothes and apparel tax-free. This is a great time for back-to-school shopping, picking up the latest fashions or a new work wardrobe.

Beginning 12:01 a.m. on Sunday, August 12 through midnight on Saturday, August 18, Marylanders making qualifying purchases will not have to pay the state's 6 percent sales tax.

During Shop Maryland, each qualifying clothing and footwear item priced $100 or less will be exempt from Maryland's 6 percent sales tax including sweaters, shirts, slacks, jeans, dresses, robes, underwear, belts, shoes and boots. Accessory items such as, jewelry, watches, watchbands, handbags, handkerchiefs, umbrellas, scarves, ties, headbands and belt buckles do not qualify for the tax exemption.

A list of exempt and taxable items is available on the Comptroller's Website at ***www.marylandtaxes.com***, e-mail the agency at ***shopmaryland@comp.state.md.us***, or by calling the Taxpayer Service Section at 410-260-7980 in Central Maryland or toll-free 1-800-MD TAXES from elsewhere.

'Linda Tanton' continued from Page 1

Tax Administrators, which serves the tax collection agencies of all 50 states and the District of Columbia.

She has carved out an unparalleled reputation for her subject matter expertise and professional integrity, and has been indispensable to the good reputation that the Comptroller's Office enjoys today. She will be sorely missed.

David Roose, the current head of the Bureau of Revenue Estimates, will succeed Linda as Deputy Comptroller. During his tenure, David has emerged as one of Maryland's most trusted economists, and is highly respected within the executive and legislative branches of government for his command of state revenue performance and tax policy. Prior to joining the Comptroller's Office, David spent five years as a policy analyst with the Department of Legislative Services. He holds a Bachelor's and Master's degrees from the College of William and Mary.

Revenews

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