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2009

MARYLAND PERSONAL EMS E-FILE HANDBOOK

*for Software Developers, Transmitters and EROs who file
MARYLAND PERSONAL RESIDENT AND
NONRESIDENT INCOME TAX RETURNS
ELECTRONICALLY VIA THE FEDERAL/STATE EMS
SYSTEM*

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REVENUE ADMINISTRATION DIVISION
ANNAPOLIS, MARYLAND 21411

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SECTION 1: INSTRUCTIONS FOR ELECTRONIC FILING

CHAPTER 1 - GETTING STARTED

Introduction

The Maryland Revenue Administration Division (MRAD) accepts electronic tax returns as part of the legacy Federal/State Electronic Management System (EMS) in conjunction with the Internal Revenue Service (IRS). MRAD accepts refund, zero balance due, and balance due returns.

The Maryland e-File Handbook for Personal Income Tax Returns is designed to be used as a companion to the IRS Publication 1345. Since most functions of the Maryland e-File program are the same as the federal e-File program, this handbook highlights the special and unique features of the Maryland program.

Please be aware that, occasionally, there are differences between the Maryland e-File handbook and the Maryland State and Local Tax Forms and Instructions Booklet, which is designed for paper return preparation. There may be instances when an e-File return requires additional fields to be transmitted that are not required on paper forms due to electronic edit functions. **For electronic filing purposes, if there are differences, the Maryland e-File Handbook supersedes the paper handbook.**

Participants must meet all federal requirements as published by the IRS EMS, as well as the requirements for the Maryland e-File program as specified in this publication. All rules and regulations governing tax preparers, transmitters and originators of electronic returns put forth by the IRS are in effect for the Maryland programs.

To obtain information on federal electronic filing requirements, or to obtain IRS Publication 1345 and its supplement, please contact the IRS e-File help desk at 1-866-255-0654.

The Maryland Revenue Administrative Division looks forward to your participation in our program.

New for tax year 2009:

- Foreign Account Indicator on Direct Debit and Direct Deposit tax returns
- Mandatory Income Tax Preparer Requirement
- New subtraction code 'gg' for Form 505 to comply with the new Military Spouses Residency Relief Act
- New subtraction code 'hh' for Forms 502, 505, and 515 for some high-income taxpayers with interest from federal obligations
- Prince George's local county rate increased from .0310 to .0320.

International ACH Transactions - Foreign Account Indicator

We are now required to implement a new format in all programs involving electronic funds transfer through the National Automated Clearing House Association (NACHA) network. This new NACHA rule is being implemented at the request of the U.S. Treasury Office of Foreign Asset Control (OFAC). The rule requires additional payment addendum data to be provided whenever the source or destination of funds is international, even if the immediate funds transfer only involves domestic financial institutions.

In order to comply with these new banking rules, we ask you to indicate on your returns if the state refund is going to an account outside the United States, or if the funds to pay a state liability are coming from an account outside the United States.

If you indicated that the state refund is going to an account outside the United States, or if the funds to pay a state liability are coming from an account outside the United States, do not enter your routing and account number, as the direct deposit and/or direct debit option is not available to you for tax year 2009. We will send you a paper check in the case of a refund, and you will need to send the state a paper check in the case of a balance due.

We do plan to make direct deposit and direct debit available on International ACH Transactions for tax year 2010.

Mandatory Income Tax Preparer Requirement – Electronic Filing Mandate

House Bill 810, enacted into law on May 7, 2009, adds §10-824 to the Tax-General Article, which provides the mandatory requirements for filing income tax returns by electronic means. This Acts also adds Tax-General Article §13-717 to provide the circumstances under which penalty would apply for failure to comply with Tax-General Article §10-824.

This Act requires income tax return preparers who have prepared, for compensation, more than a certain number of qualified State income tax returns in the prior taxable year to file all qualified State income tax returns electronically. An income tax return preparer does not include a person who merely performs those acts described under Section 7701(a) (36) (B) of the Internal Revenue Code. A qualified State income tax return is any original return of individual income tax imposed by Title 10 of the Tax-General Article, regardless of whether a tax is due or a refund is claimed. For a taxable year beginning after December 31, 2008 but before January 1, 2010, a preparer who has prepared more than 300 qualified returns in the prior taxable year is required to file the returns electronically. For a taxable year beginning after December 31, 2009 but before January 1, 2011, it is more than 200 qualified returns in the prior taxable year. For any taxable year beginning after December 31, 2010, it is more than 100.

This Act authorizes the Comptroller to impose on a preparer a \$50 penalty for each return that is not filed electronically in compliance with this Act, unless the preparer is able to show that the failure to comply is due to reasonable cause and not due to willful neglect. The total penalties assessed may not exceed \$500 for all returns filed by the preparer in a taxable year. The penalty does not apply if a taxpayer does not want the taxpayer's return filed by electronic means or if the preparer has sought by written request, and received, a waiver from the Comptroller.

The taxpayer may opt out of having their income tax return filed electronically if the taxpayer checks the appropriate box on their return.

An income tax preparer may seek by written request a waiver from the Comptroller. The written waiver request must establish to the satisfaction of the Comptroller either reasonable cause for not filing returns by electronic means or undue hardship due to lack of feasible means to file returns electronically. The income tax preparer must receive written approval of the waiver by the Comptroller before the preparer will be considered exempt from the fines associated with non-compliance with this Act.

Written requests for a waiver should be mailed to:

Revenue Administration Division
Electronic Processing Section
P.O. Box 2364
Annapolis, MD 21404

Waiver requests may also be emailed to efil@comp.state.md.us. A decision will be made within ten (10) business days of receipt of your request, and the response will be either mailed or emailed to the tax preparer.

Any tax preparer whose request for waiver was denied may request an administrative review within thirty (30) days from the date of denial. All requests for review should be sent to:

Director, Revenue Administration Division
Tax Preparer e-File Appeal
P.O. Box 2364
Annapolis, MD 21404

All requests for waiver will be logged in and kept on file at the Revenue Administration Division of the Comptroller of Maryland.

It is important to remember that the tax preparer who is subject to the provisions of this Act must comply with the terms of this Act. Only when the tax preparer has received a written waiver from the Comptroller of Maryland will they be considered exempt from this Act.

New Subtraction Codes

Subtraction Code ‘gg’ will be used on line 23 of Form 505 to subtract the income for services performed in Maryland by the spouse of a member of the armed services if the spouse is not domiciled in Maryland and resides in Maryland solely to be with the servicemember serving in compliance with military orders. This complies with the Military Spouses Residency Relief Act.

Subtraction Code ‘hh’ will be used on line 14 of Form 502, line 23 of Form 505, or line 23 of Form 515 to correct the Maryland adjusted gross income of some high-income taxpayers who have interest from federal obligations. The interest from federal obligations will in some cases cause Maryland exemption amounts to be incorrectly phased out, and subtraction code ‘hh’ compensates for the phased out amount. A worksheet will be used to determine if the taxpayer qualifies for this subtraction, and if so the worksheet will determine the amount of the subtraction.

Certification Requirement

There are many additions, subtractions, refundable credits, non-refundable credits and situations on resident and non-resident returns that require supporting documentation or certifications to be attached to the return.

Much of your supporting documentation or certifications for electronic returns can be attached to the EL101 Signature Document, retained by the return preparer and taxpayer, and made available to Maryland only when specifically requested to do so. However, certain credits allowed on an electronic return now require the supporting documentation and certifications to be emailed or mailed to the State once the electronic return has been accepted.

When sending the required supporting documentation and certifications, please send the EL101 signature document as the cover sheet with the taxpayer name(s), social security number. Also, please write the name of the credit for which the certification is being submitted.

The preparer or taxpayer will have fourteen (14) calendar days to forward the signature document and requested certification forms, either by email to cert@comp.state.md.us or by mail to the P. O. Box at:

Revenue Administration Division
Electronic Processing Section
P O Box 2364
Annapolis, MD 21404

The post office box listed above should be used only for certifications and supporting documents required for the tax year 2009 eFile return.

Upon receipt of the signature document and certification, the eFile help desk will log the receipt of the information and forward to the Processing Section where the account and the certification will be reviewed, and the processing of the return filing will be completed.

After 14 days, if the certification has not been received, the Processing Section will deny the requested credit and complete the processing of the return.

For tax year 2009, the certifications and supporting documentation that are required to be submitted by mail or email to the State after the eFile return's acceptance are:

- Form 502CR Part H, Line 2 - Heritage Structure Rehabilitation Credit. Submit Form 502H and a copy of the approved Heritage Preservation Certification Application (Part 3).
- Form 502CR Part H, Line 3 - Refundable Business Income Tax Credit. Submit a copy of the corresponding certifications.
- Form 502CR Part H, Line 4 - IRC Section 1341 Repayment Credit. Submit a copy of the document that states that the taxpayer must make repayment and a copy of the document stating repayment was made.

- Form 502CR Part H, Line 5 - Form 1041 Schedule K-1 Nonresident PTE Tax. Submit Form 1041 K-1 for the estate or trust and a copy of the K-1 issued to the estate or trust by the PTE.
- Form 505 Line 46 - Credit for Nonresident tax paid by pass-through entities. Submit the required K-1 or other statement from the pass through entity.
- Form 500CR Part D - Job Creation Tax Credit. Submit the copy of the required certification.
- Form 500CR Part E - Community Investment Tax Credit. Submit a copy of the required approval.
- Form 500CR Part H – Work-Based Learning Program Credit. Submit a copy of the required certification.
- Form 500CR Part K - Research and Development Tax Credit. Submit a copy of the required certification.
- Form 500CR Part L - Biotechnology Investment Incentive Tax Credit. Submit a copy of the required certification.
- Form 500CR Part N - Clean Energy Incentive Credit. Submit a copy of the required initial certificate.
- Form 500CR Part O - Maryland Mined Coal Tax Credit. Submit a copy of the required certification.
- Form 500CR Part P - Refundable One Maryland Economic Development Tax Credit. Submit a copy of the final credit certification.
- Form 500CR Part Q - Green Building Tax Credit. Submit a copy of the initial credit certificate, a copy of eligibility certificate issued by architect or engineer, plus a copy of final certificate.

Any supporting documentation other than what is listed above will continue to be attached to the EL101 Signature Document, retained by the return preparer and taxpayer, and made available to us if specifically requested.

Important Notes

Maryland begins accepting test returns from software developers on November 10, 2009 in conjunction with IRS PATS testing.

Maryland begins accepting production electronic returns from electronic return originators and software companies on January 15, 2010.

Returns that fail the Maryland validation program and are resubmitted should include code 247 in field 0735, 0740 or 0745 of the Maryland Form 502 generic record; or in field 0905, 0910 or 0915 or the Maryland Form 505 generic record.

IRS e-File will accept Federal/State Imperfect Returns when indicated by the ERO. IRS will send MD returns to the State of MD with an Imperfect Return Indicator = "E". MD will process those returns through their validation program, and if the return is accepted, will input "E" in the ACK Key Record (Field 0050). If the Imperfect return does not pass the State validations, the ACK Key Record (Field 0050) will have an "R" for rejected.

IRS and Maryland will accept ITIN/SSN Mismatch Returns (returns filed with an ITIN – Individual Taxpayer Identification Number where the associated W-2 form shows wages reported under a valid social security number). However, a return filed with an ITIN (900-70-000-999-88-9999) cannot claim EIC (earned income tax credit) or REIC (refundable earned income tax credit).

Form 502 requires the entry of the letter "D" in the part year/military indicator box when:

- A joint resident return is filed for part-year taxpayers who have different tax periods in Maryland.
- A taxpayer claims an exemption for the spouse when filing as head of household (HOH) or married filing separately (MFS).

Form 505 now requires the entry of the letter "D" in the military indicator box next to the question, "Are you or your spouse a member of the military?" when a taxpayer claims an exemption for the spouse when filing as head of household (HOH) or married filing separately (MFS).

Personal income tax returns are due by April 15th, 2010. If the return is for a fiscal year taxpayer, they are due on the 15th day of the fourth month following the close of the fiscal year. If any due date falls on a Saturday, Sunday or legal holiday, the return must be filed by the next business day.

If you both file and pay electronically (credit card, direct debit/electronic funds withdrawal), your return is due by April 15th. However, you will have until April 30th to make your payment (If you file electronically and pay by check, your payment is due by April 15th).

Who Can Participate

There are three classifications of participants in the electronic filing program: Electronic Return Originator (ERO), Transmitters, and Software Developers.

EROs gather forms from taxpayers and prepare them for electronic transmission using tax return preparation software that has been approved by the IRS and the Maryland Revenue Administrative Division. They may be volunteers or paid preparers.

Transmitters transmit electronic returns to the IRS service center using approved software.

Software Developers create tax preparation and/or transmission software which formats the electronic returns and allows the data to be transmitted via computers.

Application and Acceptance Process

Since Maryland participates with the Federal/State EMS Electronic Filing Program, you must meet the requirements of both the IRS and the state of Maryland to participate.

To apply for the federal program you must complete Form 8633, Application to Participate in the Electronic Filing Program, which is available from the IRS. IRS Publication 3112, IRS E-File Application Package, specifies the application process and requirements for federal participation.

Once you have been accepted into the federal electronic filing program, IRS will issue you an Electronic Filer Identification Number (EFIN). As long as you maintain a valid EFIN with IRS, you are automatically accepted into the Maryland program. There are no additional applications needed, but you must use software that has been approved by Maryland.

Maryland does reserve the right to deny participation in our program for the following reasons that include but are not limited to:

- If your company is required to be registered to do business in the state, but is not.
- If your company has any outstanding liabilities with the state.
- If your company fails to adhere to either the federal or state e-File program requirements or specifications.
- If your company does not consistently transmit error free returns.
- If your company uses unethical practices in return preparation.

Software Acceptance

The software used to transmit electronic tax data must be approved by both the Internal Revenue Service (IRS) and the Maryland Revenue Administration Division (MRAD) as part of the acceptance process. Software Developers are required to test their software programs for accuracy.

Participating Software Developers are provided with record specifications and test data annually to perform the Maryland testing. Tax and Transmission Software Developers are required to test with MRAD. EROs and Transmitters must use tax preparation software or use a third party transmitter whose software has been approved for use by MRAD.

Software Developers must obtain approval from MRAD for all Maryland forms printed by their software. Please contact the Forms Coordinator at 410-260-7442 to begin the forms approval process.

MRAD reserves the right to suspend the approval of any Software Developer who fails to comply with the guidelines in this publication, the Maryland e-File Record Specifications or the Maryland Test Booklet.

Publications

The following publications are available for your assistance:

- 2009 Maryland Personal EMS e-File Handbook
- Test Package for Maryland Electronic Filing Tax Year 2009
- Records Layout for Maryland Electronic Filing Tax Year 2009
- Error Table for Maryland Electronic Filing Tax Year 2009
- e-File information and publications may be obtained by visiting www.marylandtaxes.com

Maryland Electronic Identification Numbers

The Maryland Electronic Filer Identification Number will be the same as the six-digit Electronic Filer Identification (EFIN) assigned by the Internal Revenue Service (IRS).

The Maryland Electronic Transmitter Identification Number is the same number as the five-digit Electronic Transmitter Identification Number (ETIN) assigned by the IRS. The ETIN will be activated for Maryland production processing when both the testing and forms requirements are completed.

The Maryland Software Identification Number (MSIN) is a five-digit number that is assigned by the Maryland e-File help desk to all software companies. Each software package developed by a software company must have a unique MSIN hard coded into the product for identification purposes to assist the Maryland e-File help desk to quickly identify program problems during production processing.

Maryland receives weekly updates from the IRS Applicant Database, which list all active IRS EFINS. Do not send a copy of your acceptance letter.

Help Desk

Tax Practitioners, EROs, Transmitters and Software Developers who need assistance may call the Maryland Electronic Filing Help Desk at 410-260-7753, Monday through Friday, between 8:00 a.m. and 5:00 p.m. EST. E-mail may be sent to efil@comp.state.md.us. You may also write to:

Comptroller of Maryland
Revenue Administration Division
Electronic Filing Unit
110 Carroll St.
Annapolis, MD 21411-0001

Downloadable state forms and other information for tax providers and E-File program participants can be found at www.marylandtaxes.com.

If a Maryland return rejects due to an error, the ERO should compare the four-digit numeric error code received to the list of error codes found in the Error Table for Maryland Electronic Filing Tax Year 2009 to determine the area of the return that needs attention. If the ERO cannot resolve the error, the Maryland help desk may be contacted. In an effort to keep the lines open so that we can be available to all EROs, we ask that you do not request more than five returns be researched at any one time.

Do not distribute the Electronic Filing Help Desk telephone number to your clients (taxpayers). This number is provided to EROs as a courtesy. Distributing this number to public can cause delays in assisting the EROs it was established to help.

Preparers and taxpayers who need assistance may contact Taxpayers Service at 410-260-7980 or 1-800-638-2937 after 10 days have elapsed since the ERO has received an accepted acknowledgement for the taxpayer's return.

Preparers and taxpayers can check the status of their refund at www.marylandtaxes.com by selecting "Refund Status" under the Online Services heading, or call the automated refund inquiry hotline at 410-260-7701 or 1-800-218-8160.

CHAPTER 2 - THE FILING PROCESS

What Can Be Transmitted Electronically

The Maryland Electronic return will consist of data transmitted as well as supporting paper documents. In total, an electronic return contains the same information as a comparable return filed entirely on paper.

Following is a list of all the forms that Maryland accepts electronically. Software Developers are no longer required to support all of the forms that Maryland accepts electronically. Any form with an asterisk (*) is considered optional at the discretion of the software developer. Please take this into consideration when purchasing software and verify with your software company that they will support the forms that you desire to transmit electronically.

Maryland State Forms and Attachments

Note: Part-year returns are accepted

