

ReveNews



Winter 2004

Maryland Tax Information

William Donald Schaefer
Comptroller of Maryland

www.marylandtaxes.com

Settlement Offer to Holding Companies

Comptroller William Donald Schaefer presented a one-time settlement offer to 70 holding companies in Delaware who owe more than \$31.4 million in Maryland taxes, advising them to pay up soon to avoid heavy penalties. "If you notify us by December 31 and pay tax and interest by January 30,

we will reduce the penalty to only 2 percent – instead of the 25 percent penalty that we imposed originally," said Schaefer.

The Comptroller recently sent letters to 35 holding companies with \$20.4 million in Maryland tax assessments whose cases are pending in the Maryland Tax Court, alerting

them to the settlement. Settlement offer letters were also sent to 35 other holding companies that have appeals pending with the Comptroller's hearings office to contest \$11 million in tax assessments.

The Comptroller's ability to collect the tax liabilities was strengthened by both his legal victory against two Delaware companies last summer and the U.S. Supreme Court's recent refusal to intervene.

The Comptroller also extended the offer to all other similar holding companies that are scheduled to be audited, as well as those not yet discovered, allowing them until March 1, 2004, to comply.

"If everybody that we've been dealing with takes advantage of this offer, Maryland will collect at least \$78 million in taxes, interest and penalties – in addition to the money collected from additional tax filings," said Schaefer.

Comptroller's Comments

Cutting the cost of collecting taxes



My agency has taken aim at streamlining its own operations as a way to reduce operating expenses. Here are some of our efforts.

The installation in 1998 of a corporate purchasing card has resulted in rebates totaling \$4.1 million going to the state's general fund. Each year the state purchases \$180 million in goods and services from vendors. By using a purchasing card, the state makes only one payment to the sponsoring bank, rather than mailing checks to thousands of vendors, saving \$88,000 each year in postage. In addition, businesses benefit

because they are paid within three days.

Every year the Comptroller's Office hires temporary employees during tax season to handle the increased load. Last year we used fewer of these temporary employees principally because of electronic filing and by reassigning permanent employees to handle the peak workload. The cost of temporary employees went from \$1.3 million a year ago to \$934,000 this last season, a savings of \$385,000.

Finally, as a result of the trend to electronic filing, my office is producing and mailing fewer tax booklets. We saw a decline of 50 percent – or 1.5 million fewer booklets – in the last five years. The decrease in printing of these booklets resulted in a \$615,000 savings last year alone.

We will continue to look for areas to save money because that means there will be more funds that can go to programs that help people rather than to run government. I would be happy to hear from you who have any other suggestions.

William Donald Schaefer
Comptroller of Maryland

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Streamlined Tax Could Cost State \$28 Million

A report to the governor and legislature indicates that Maryland could lose from \$23.9 to \$28.7 million in revenue if it conformed to the Streamlined Sales and Use Tax Agreement. The General Assembly passed a law last session requiring that the Comptroller prepare a report identifying changes in state laws, regulations and policies necessary to bring the state's sales and use law into compliance with the agreement, which was adopted in November 2002 by 30 states as a guide.

In the report, Comptroller William Donald Schaefer pointed to the reduction in revenue to Maryland without a congressional mandate for the collection of the tax on remote sales, depending on policy choices by the General Assembly.

"To avoid this revenue reduction and because Congress is likely to require additional changes in any event," Schaefer said, "we have recommended that consideration of conforming changes be deferred until there is a congressional mandate for the collection of the tax on remote sales."



WRAPPING UP A HAPPY THANKSGIVING

Members of the Comptroller's Outreach Committee present 24 Thanksgiving baskets to be given to needy families throughout the state. The committee collected non-perishable food items from employees and included a gift certificate for a turkey in each basket.

Comptroller Implements New Collection Tools

Certain provisions contained within HB935 (Chapter 203, Acts of 2003), as they apply to the collection of delinquent taxes, have been implemented by the Comptroller. Primary among them is the requirement that taxes be up to date before certain state licenses are renewed. The Comptroller's Office, working with several other state agencies with license issuing authority, is authorized to hold up the renewal of certain licenses pending a tax clearance, where the applicant has delinquent state taxes.

Also, the Comptroller can now get a direct bank attachment and a direct wage

garnishment without a court order, which saves time and effort. Previously, a court order was necessary before this action could be taken.

Another tax enforcement tool that affects persons (including business entities) entering into certain contracts to improve real property with nonresident contractors. Persons must withhold 3 percent of the total contract price for sales and use tax and income tax withholding that may be due from the nonresident contractor. The law applies to contracts with nonresident general contractors where the contract price is \$500,000 or more. Or, with nonresident

subcontractors where the contract price is \$50,000 or more and the total value of the improvement is \$500,000 or more. The 3 percent is withheld until the completion of the contract pending receipt of a tax clearance certificate from the Comptroller.

A nonresident contractor is one who does not maintain a "regular place of business" in Maryland. This includes having a bona fide office, factory, warehouse or any other space in Maryland at which a person is regularly doing business in its own name and is continuously maintained, occupied and used by the person or the

person's regular employees to carry on the business.

For more information regarding the nonresident contractor provisions, contact the Compliance Division – Compliance Programs Section at 410-767-1942 or toll free at 1-800-648-9638. For questions regarding delinquent personal income taxes contact the Collection Section in Annapolis at 410-974-2432, or toll free at 1-888-674-0016. Questions regarding delinquent business taxes, can be directed to the Collection Section in Baltimore at 410-767-1655, or toll free at 1-888-614-6337.

Courts decide

State of Maryland v. Reineke, Anne Arundel County Circuit Court, Case No. K-2003-556

Attorney General J. Joseph Curran, Jr. and Comptroller William Donald Schaefer announced the conviction and sentencing of Douglas G. Reineke, 54, of 13010 Gramlich Road, Lavale, for failure to remit withholding taxes. Reineke is the secretary and treasurer of CQ Services, Inc., a contracting business in western Maryland. Reineke had entered an "Alford" plea in which he acknowledged the state had sufficient evidence with which to convict him beyond a reasonable doubt, and which has been held by the Supreme Court to be the equivalent of a guilty plea. The Honorable Joseph P. Manck of the Circuit Court for Anne Arundel County imposed a sentence of two years, suspended, and 12 months supervised probation. The judge also ordered Reineke to pay \$10,501.80 restitution and a \$200 fine.

Between January 2000 and May 2001, Reineke failed to remit \$10,501.80 in withholding tax due to the state. In April 1990, Reineke applied on behalf of CQ Services for a combined registration business license to withhold taxes from employee wages and the payment of unemployment tax. As secretary and treasurer of the corporation, he was responsible for reporting and remitting withholding taxes to the Comptroller. The money Reineke did not remit to the Comptroller was money he reported was withheld from the wages of CQ Services employees.

Beginning in 2000, the Comptroller's Web site has published a list of the state's top delinquent taxpayers who have the largest unresolved tax liabilities for sales and use, withholding, unemployment and income taxes. CQ Services, Inc. was featured on the list in 2000 as the result of a civil judgment and lien for unpaid withholding taxes totaling \$151,784.92, including interest and penalties. CQ Services, Inc. failed to take advantage of the Comptroller's Amnesty Program in August-October 2001.

State of Maryland v. Givens, Anne Arundel County Circuit Court, Case No. K-2003-01875

Attorney General J. Joseph Curran, Jr. and Comptroller William Donald Schaefer announced that Mark Givens, 36, whose last known address is 2009 Annapolis Road, Baltimore, has been charged in the Circuit Court for Anne Arundel County with theft, attempted theft, providing false information to the Comptroller, and perjury, in connection with his filing of 55 Maryland state income tax returns for tax year 2002. It is alleged that he electronically filed the 55 returns using the state's iFile system and received approximately \$5,087 in stolen refund monies and attempted to steal approximately \$11,504.

All individuals are presumed innocent until proven guilty beyond a reasonable doubt. If convicted on each count, Givens could be sentenced to a total of 45 years, fined up to \$6,000, and be ordered to pay restitution.

There is an outstanding arrest warrant for Givens, who is believed to be a permanent resident of Pennsylvania and was locally employed by Manpower, Inc., a temporary employment agency. Anyone with information as to his whereabouts should contact Cpl. Dan Waltemeyer of the Maryland State Police at the Office of the Attorney General at 410-576-6380.

Unclaimed Property Ad Nets Big Reader Response

Nearly 60 percent of the 7,986 readers who responded to the Comptroller's recent newspaper advertising campaign seeking owners of unclaimed funds found money. The 32-page supplement, which appeared in 40 newspapers, was the largest ever produced by the agency. It contained 37,967 names of owners of funds worth \$19.6 million. By contrast, last year's 8-page supplement contained 9,131 owners of funds worth \$4 million.

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 been unclaimed for three years.

Anyone interested in seeing they're on the list can call 410-767-1700 or check the Comptroller's Web site at www.marylandtaxes.com.

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2004 FILING SEASON PREVIEW

EFFECTIVE JAN. 1, 2004

Income Tax Withholding

Income tax required to be withheld on wages for purposes of the withholding tables and withholding schedules will be calculated at the top marginal state tax rate, without regard to the graduated income tax rates. (House Bill 935, Chapter 203)

Monthly Income Tax Withholding Return Due Dates

Changes the due date for the March, June, September and December returns from the last day of the next month to the 15th day of the next month. (House Bill 935, Chapter 203)

Withholding: Three-Day Rule

If a person was required to withhold \$15,000 or more for the preceding calendar year, then the person is required to complete and file an income tax withholding return with the Comptroller within three business days following each payroll that causes the total accumulated tax withheld to equal or exceed \$700. If a person is required to remit the tax within the three business days, the person is required to continue to file a return at least once every three months until the person gives the Comptroller written notice that the person no longer has employees or no longer is liable to file the return. (House Bill 935, Chapter 203)

Underpayment of Estimated Income Tax

The safe-harbor provisions for the assessment of interest and penalty for the underpayment of estimated income tax payments was modified. In order to avoid the assessment of interest and penalties, a person required to make estimated income tax payments must pay tax greater than or equal to: (1) 90 percent of the tax due for the tax year; or (2) 110 percent of the tax paid for the prior taxable year (reduced for taxes paid to another state under TG §10-703). Current law allows payment equal to 100 percent of the prior year's tax liability. Applicable to all taxable years beginning after December 31, 2003. (House Bill 935, Chapter 203)

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