

# *Tax Guide*



*Department of  
Legislative Services  
2008*

## **Contributing Staff**

Matthew J. Bennett  
J. Ryan Bishop  
Ned M. Cheston  
Kimberly J. Landry

For further information concerning  
this document contact:

Department of Legislative Services  
90 State Circle  
Annapolis, Maryland 21401

Baltimore: (410) 946-5530  
Washington: (301) 970-5530  
Other areas: (800) 492-7122  
TDD (410) 946-5401 / (301) 970-5401

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December 31, 2008

The Honorable Thomas V. Mike Miller, Jr.  
President of the Senate

The Honorable Michael E. Busch  
Speaker of the House of Delegates

The Honorable Ulysses Currie, Chairman  
Senate Budget and Taxation Committee

The Honorable Sheila E. Hixson, Chairman  
House Committee on Ways and Means

Ladies and Gentlemen of the Maryland General  
Assembly:

The Department of Legislative Services is pleased to present the sixteenth issue of the Citizen's Guide to Maryland Taxes, intended to provide Marylanders with a convenient reference guide to State and local taxes. We have listed agency and department phone numbers which may also be of assistance.

The guide is published annually to reflect any tax law changes and to provide updated revenue information. This guide was prepared by the staff of the Office of Policy Analysis. It was updated by Mr. Matthew Bennett and Mr. Ned Cheston reviewed by Mr. J. Ryan Bishop. We solicit your comments and suggestions for improvement.

Sincerely,

Warren G. Deschenaux  
Director  
Office of Policy Analysis

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## **Introduction**

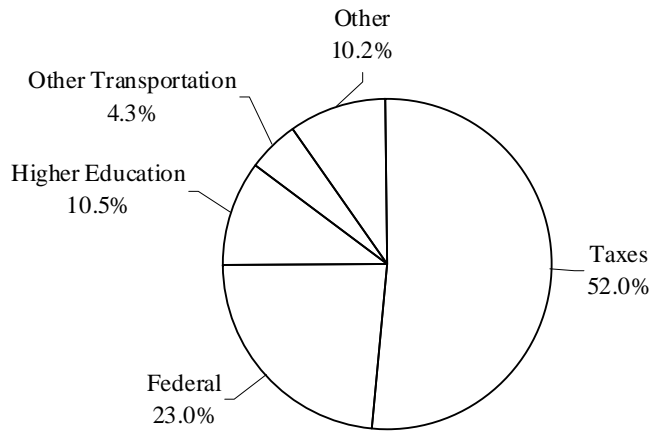
This guide provides an overview of the various types of taxes collected by the State and local governments in Maryland. There are seven broad categories of taxes in the State:

- Personal Income Taxes
- Sales and Use Taxes
- Property Taxes and Recordation and Transfer Taxes
- Business Taxes
- Transportation Taxes
- Tobacco and Alcoholic Beverage Taxes
- Inheritance and Estate Taxes

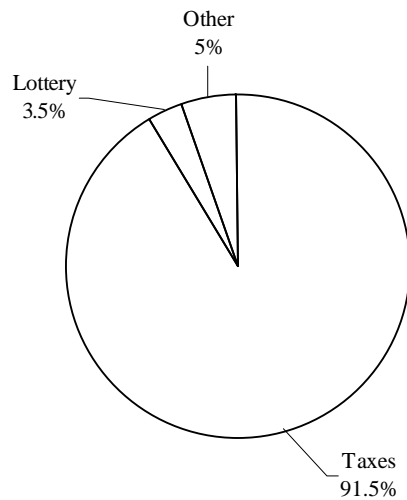
This guide is organized into general sections corresponding to these different categories. Additionally, because it is such a significant source of State revenue, a brief section is devoted to the Maryland State Lottery.

This guide is meant to serve as a quick and easy resource document for Maryland citizens regarding the various taxes imposed in the State. However, a word of caution regarding the use of this guide is in order. Tax laws are inherently complex and do not always lend themselves to generalized, brief explanations. Although this guide presents an accurate summary of Maryland taxes, it is not comprehensive. Therefore, a determination of the proper tax treatment for any specific transaction or set of circumstances will require further research to ensure that all aspects of the applicable tax law are properly considered.

**Composition of State Revenues  
All Funds  
FY 2009 Estimate**



**Composition of State General  
Fund Revenues  
FY 2009 Estimate**



Note: Numbers may not sum to total due to rounding

**Projected FY 2009  
All Tax Sources  
(\$ in Millions)**

	<u><b>Amount</b></u>	<u><b>% of Total</b></u>
Personal Income Tax	\$7,103.5	46.7
Sales & Use Tax	3,964.0	26.1
Business Taxes	1,302.3	8.6
Transportation Taxes	1,293.0	8.5
Property Tax	691.1	4.5
Tobacco Tax	419.2	2.8
Estate and Inheritance Taxes	226.6	1.5
Property Transfer Tax	132.7	0.9
Other Taxes	57.4	0.4
<b>Total</b>	<b>\$15,189.8</b>	<b>100.0</b>

**Projected FY 2009  
State General Fund Revenues  
(\$ in Millions)**

	<u><b>Amount</b></u>	<u><b>% of Total</b></u>
Personal Income Tax	\$7,103.5	52.0
Sales & Use Tax	3,718.8	27.2
Corporate Income Tax	582.3	4.3
State Lottery	456.0	3.3
Tobacco Tax	419.2	3.1
Insurance Premium Tax	303.3	2.2
Estate and Inheritance Taxes	226.6	1.7
PSC Franchise Tax	129.6	0.9
Other Taxes	35.2	0.3
Other Non-Tax Revenues	691.5	5.0
<b>Total</b>	<b>\$13,666.0</b>	<b>100.0</b>

PSC: Public Service Company

Note: Numbers may not sum to total due to rounding.



## **Personal Income Taxes**

### **FY 2009 Projected State Personal Income Tax Revenue**

- \$7.1 billion – all to general fund
- 52.0% of State general fund revenue
- 46.7% of State revenue from all tax sources
- largest single source of own-source State revenue

### **2006 Tax Year Data**

- 2.75 million tax returns
- average State liability of \$2,112 per taxable return
- average combined State and local liability of \$4,210 per taxable return
- 50% of taxpayers used standard deduction
- 50% of taxpayers itemized deductions
- The filing status breakdown is as follows:

Single	38.49%
Joint	36.06%
Married filing separately	2.77%
Head of household	16.45%
Surviving spouse	0.01%
Dependents	6.17%
- 252,741 taxpayers claimed the earned income credit providing \$73.8 million in tax relief; the average credit was \$292.
- In addition, 214,569 taxpayers claimed the refundable earned income credit, which provided \$97.7 million in tax relief. The average refundable credit was \$455.

- Total number of personal exemptions claimed:

Taxable returns	5,118,693
Nontaxable returns	860,481
<b>Total</b>	<b>5,979,174</b>

### **Income Tax Computation for Tax Year 2008**

#### **Single, Dependent, Married Filing Separately**

<b><u>MD Taxable Income</u></b>	<b><u>Tax Rate</u></b>
\$1 – \$1,000	2%
\$1,001 – \$2,000	3%
\$2,001 – \$3,000	4%
\$3,001 – \$150,000	4.75%
\$150,001 – \$300,000	5%
\$300,001 – \$500,000	5.25%
\$500,001 – \$1,000,000	5.5%
Over \$1,000,000	6.25%*

#### **Joint, Head of Household, Widower**

<b><u>MD Taxable Income</u></b>	<b><u>Tax Rate</u></b>
\$1 – \$1,000	2%
\$1,001 – \$2,000	3%
\$2,001 – \$3,000	4%
\$3,001 – \$200,000	4.75%
\$200,001 – \$350,000	5%
\$350,001 – \$500,000	5.25%
\$500,001 – \$1,000,000	5.5%
Over \$1,000,000	6.25%*

\*The 6.25% rate is effective only for tax years 2008 through 2010.

Taxable income is determined by:

- adding and subtracting certain amounts (referred to as Maryland addition and subtraction modifications) to federal adjusted gross income (see below);
- reducing income subject to tax by a “standard deduction” (see below), or by the amount of federal itemized deductions as adjusted for Maryland; and

- reducing income subject to tax by an amount allowed for personal exemptions (see below).

Credits allowed include:

- Earned income credit – 50% of the allowable federal earned income credit, up to the amount of State tax imposed; taxpayers may claim a refund of the amount by which 25% of the federal earned income credit exceeds the State income tax.
- Child and dependent care credit – 32.5% of the federal child and dependent care credit for individuals with incomes not exceeding \$50,000, phased out for incomes between \$41,000 and \$50,000.
- Heritage structure rehabilitation – Credit allowed for 20% of qualified rehabilitation expenditures for rehabilitation of a certified heritage structure, maximum credit not to exceed \$3 million for commercial projects and \$50,000 for noncommercial projects.
- Long-term care insurance premiums – Credit allowed for 100% of premiums paid for long-term care insurance, subject to a life-time maximum of \$500 for each insured individual.
- Biotechnology investment – Credit allowed for 50% of the eligible investment made in a qualified biotechnology company, not to exceed \$250,000.
- Clean energy incentives – Credit for producers of qualified energy resources, including energy produced by wind, closed loop biomass, forest thinnings, methane, and other combustible gases resulting from organic decompositions.
- Preservation and conservation easements – 100% credit of up to \$5,000 per year for up to 15 years, for the conveyance of an easement to the Maryland Environmental Trust or the Maryland Agricultural Land Preservation Foundation.

### **Standard Deduction**

- 15% of Maryland adjusted gross income – subject to a minimum and a maximum of \$1,500 and \$2,000, respectively, for single or married filing separately filers; minimum and maximum of \$3,000 and \$4,000, respectively, for joint, head of household, and surviving spouse filers.

### **Personal Exemption Amount**

#### **Single, Dependent, Married Filing Separately**

<b><u>Federal Adjusted Gross Income</u></b>	<b><u>Amount</u></b>
\$1 - \$100,000	\$3,200
\$100,001 – \$125,000	\$2,400
\$125,001 – \$150,000	\$1,800
\$150,001– \$200,000	\$1,200
Over \$200,000	\$600

#### **Joint, Head of Household, Widower**

<b><u>Federal Adjusted Gross Income</u></b>	<b><u>Amount</u></b>
\$1 - \$150,000	\$3,200
\$150,001 – \$175,000	\$2,400
\$175,001 – \$200,000	\$1,800
\$200,001– \$250,000	\$1,200
Over \$250,000	\$600

- An additional \$1,000 exemption is provided for taxpayers who are 65 or older, or blind.

### **Common Addition and Subtraction Modifications:**

#### **Addition Modifications**

- interest on non-Maryland state and local bonds
- lump sum distributions from qualified retirement plans excluded from federal tax calculation

- 50% of tax preference items in excess of \$10,000 (\$20,000 for joint returns)
- amount deducted on the federal tax return for qualified tuition and related expenses
- special bonus depreciation allowed under recent federal tax legislation

#### Subtraction Modifications

- income of the spouse with the lower income, subject to a maximum of \$1,200
- State and local income tax refunds
- child care expenses for working parents – up to \$3,000 (\$6,000 for 2 or more children)
- pension and retirement annuity income (subject to limitation)
- Social Security benefits included in the federal tax calculation
- advance tuition payments made under the Maryland Prepaid College Trust – up to \$2,500 per taxable year for each prepaid contract
- contributions to an investment account under the Maryland College Investment Plan or the Maryland Broker-Dealer College Investment Plan – up to \$2,500 per taxable year for each qualified beneficiary
- difference in depreciation as a result of State disallowance of special bonus depreciation allowed under federal tax calculation for previous year
- the first \$15,000 of overseas military pay that is received by any person who is in active military service outside the United States. The amount of the subtraction is reduced dollar for dollar for military pay exceeding \$15,000

- the first \$5,000 of certain military retirement income

### **Local Income Tax**

- FY 2009 Projected Local Income Tax Revenue: \$4.3 billion.
- County tax rates are a percentage of Maryland taxable income. Rates can range from a minimum of 1.0% to a maximum of 3.2%.
- Counties are authorized to provide by law for a refundable portion of the earned income credit.
- The local tax rates for 2008 range from 1.25 to 3.2% for each county, as follows:

Allegany	3.05%
Anne Arundel	2.56%
Baltimore City	3.05%
Baltimore County	2.83%
Calvert	2.80%
Caroline	2.63%
Carroll	3.05%
Cecil	2.80%
Charles	2.90%
Dorchester	2.62%
Frederick	2.96%
Garrett	2.65%
Harford	3.06%
Howard	3.20%
Kent	2.85%
Montgomery	3.20%
Prince George's	3.10%
Queen Anne's	2.85%
St. Mary's	3.00%
Somerset	3.15%
Talbot	2.25%
Washington	2.80%
Wicomico	3.10%
Worcester	1.25%

For more information regarding personal income taxes, contact:

Comptroller of the Treasury  
Revenue Administration Division  
110 Carroll Street  
Annapolis, Maryland 21411-0001  
1-800-638-2937, Maryland only  
(410) 260-7980, taxpayer assistance  
(410) 260-7701, refund information

## **Sales and Use Taxes**

### **FY 2009 Projected Sales and Use Tax Revenue**

- Almost \$4.0 billion, distributed as follows:
  - \$225 million to Transportation Trust Fund
  - \$3 million to the Chesapeake Bay 2010 Trust Fund
  - remainder to general fund
- 27.2% of general fund revenue
- 26.1% of State revenue from all tax sources
- Second largest source of State general fund revenue
- Beginning in fiscal 2009 and for five fiscal years, 5.3% of total annual sales tax revenues will be distributed to the Transportation Trust Fund (TTF) – beginning in fiscal 2014, 6.5% of total annual sales tax revenues will be distributed to the TTF

### **FY 2008 Sales and Use Tax Receipts**

<b><u>Business Category</u></b>	<b><u>Tax Collections (in Millions)</u></b>	<b><u>Percent of Gross Receipts</u></b>
Food and Beverages	\$664.8	19.8%
Apparel	158.9	4.7%
General Merchandise	601.5	17.9%
Automotive	230.8	6.8%
Furniture, Fixtures, & Appliances	380.7	11.3%
Building & Contractors	530.9	15.8%
Utilities & Transportation	284.7	8.4%
Hardware, Machinery, & Equipment	88.8	2.6%
Miscellaneous	430.7	12.7%
<b>Total Gross Receipts</b>	<b>\$3,371.8</b>	<b>100%</b>



Less Refunds	(12.1)
<b>Total Net Receipts</b>	<b>\$3,359.7</b>

### **Computation of Tax**

State Tax Rate: 6% of the price of goods or services subject to tax.

On the rental of certain motor vehicles for 180 days or less, the applicable rate is 8.0% for trucks and 11.5% for passenger vehicles.

A special use tax is imposed on the use of electricity that is not distributed by a public service company at a rate of 0.062 cents per kilowatt hour, subject to certain exceptions.

Sales tax is imposed on 60% of the taxable price on the first retail sale of a mobile home and on the purchase of modular buildings.

A 20% State admissions and amusement tax is imposed on the net proceeds of electronic bingo and electronic tip jars.

### **Items Subject to Tax**

Except for items specifically exempted, the sales and use tax is generally imposed on the sale or use of tangible personal property and certain services.

#### **Taxable Services:**

- fabrication, printing, or production of tangible personal property by special order
- certain commercial cleaning or laundering of textiles
- commercial or industrial building cleaning services
- cellular telephone or beeper services
- all “900” – type telephone services

- telephone custom calling features (such as call waiting or call forwarding)
- telephone answering services
- pay-per-view television services
- credit reporting
- security services
- prepaid telephone calling arrangements
- transportation services for transmission, distribution, or delivery of electricity or natural gas

**Partial List of Items Exempt from the Sales and Use Tax:**

- items to be resold or incorporated into products to be resold
- food sold by grocery stores or markets, except foods for immediate consumption
- food sales by religious organizations and schools, except college cafeterias
- snack foods, milk, fresh fruit and vegetables, and yogurt sold through a vending machine
- medicine and medical supply sales
- tap water
- sales of aid items for the blind – *i.e.* braille slates and paper
- sales of livestock, poultry, and feed for agricultural use
- all tangible personal property for use or consumption in research and development or for testing finished products

- new or used automobiles and boats (subject to a 5% excise tax)
- sales of gas, electricity, and steam delivered under domestic or residential rate schedules
- fuel rate adjustment charges for electricity, natural gas, and steam sold for residential purposes
- items sold to the State or its political subdivisions
- items sold to nonprofit religious, charitable, or educational organizations
- mail-order catalogues and direct mail literature distributed outside of Maryland
- sales of optional computer software maintenance contracts under which the buyer does not have a right to receive separately priced and marketed software products at no additional cost
- motor vehicle leases for one year or longer
- magazine subscription sales by schools
- tangible personal property used directly and predominantly in a production activity
- tangible personal property sold in bulk vending machines for a price of 75 cents or less
- certain digital telecommunications machinery and equipment
- certain expenses associated with film production activity
- electricity, steam, or artificial or natural gas for use in residential condominiums

- certain clothing items and energy efficient products during specific periods beginning in FY 2011

### **Local Taxes**

- All counties and Baltimore City impose some form of local tax on sales of certain products and services; *e.g.* boat slips, utility usage, hotel/motel occupancy, and parking.
- Local rates vary by jurisdiction and for each item being taxed.
- Projected total FY 2008 revenue from county taxes on sales is \$521 million.
- Many municipalities and 22 counties and Baltimore City impose an admissions and amusement tax, with rates ranging from 0.5 to 10% (Caroline is the only county that does not impose an admissions and amusement tax).
- Collectively, admissions and amusement tax revenue for local governments is estimated at \$45 million for FY 2008.

For further information regarding sales and use taxes, contact:

Comptroller of the Treasury  
 Taxpayer Service Section  
 301 West Preston Street  
 Baltimore, Maryland 21201  
 (410) 767-1300  
 1-800-492-1751 (outside Baltimore area and in Maryland)

## **Property Taxes and Recordation and Transfer Taxes**

### **Real Property Tax**

#### **FY 2009 Projected State Revenue**

- \$691.1 million – all special fund revenue used for debt service on State general obligation bonds
- 4.5% of State revenue from all tax sources

#### **FY 2009 Local Revenue**

- Collectively, the subdivisions are estimated to receive approximately \$5.7 billion in real property tax revenue

#### **Computation of Tax**

State Tax Rate: 11.2 cents per \$100 of assessed value, effective for the tax year beginning July 1, 2008

#### **Local Tax Rates:**

Local property tax rates are determined by each local jurisdiction. These rates vary between \$0.449 (Talbot County) and \$2.268 (Baltimore City) per \$100 of assessed value (including special county rates) in FY 2009.

Local rates may not be uniform throughout a jurisdiction due to special tax district levies or reduced rates in municipalities.

Within municipal corporations, rates vary from zero to \$1.00 in FY 2009 and are in addition to county rates.

Local rates may be increased above the rate that would sustain current revenues (referred to as the “constant yield tax rate”) only after holding public hearings.

All property is assessed at 100% of full cash value. Tax payments are made on a semi-annual basis, subject to the homeowner's option to elect to pay on an annual basis.

Five counties have provisions in their county charters to limit property tax rates or revenues:

- Montgomery County restricts property tax revenue growth to the increase in the November Consumer Price Index (excluding new construction) in the previous year, unless a higher rate of growth is approved by all nine county council members.
- Prince George's County has established a ceiling of \$0.96 on its general county property tax rate (known as TRIM), although this limit can be exceeded to fund debt service established prior to the TRIM limit.
- Anne Arundel County limits property tax revenue growth to 4.5% or the increase in the Consumer Price Index, whichever is less.
- Talbot and Wicomico counties limit real property tax revenue growth to the lesser of 2% or the increase in the Consumer Price Index for all Urban Consumers (CPI-U).
- Some municipal corporations have maximum property tax rates set forth in their charters.

Tax Base: Real property is appraised once every three years by the State Department of Assessments and Taxation. Increases in appraised value are phased in equally over the three years following the year of appraisal.

## **Property Tax Credits**

### **Homeowners Property Tax Credit (Circuit Breaker)**

- State funded credit available to homeowners who meet certain income/property tax level criteria
- equals the excess of actual property taxes over the “maximum property tax,” based on the homeowner’s income level according to a statutory formula
- only the taxes associated with first \$300,000 of assessed valuation of a principal residence qualify for the credit
- the annual income limit for eligibility for the credit is \$60,000

#### **FY 2007 Homeowners Tax Credit Data:**

- 48,290 credits granted
- average credit: \$976
- total cost to State to reimburse the counties was \$47 million (including accrued cash) – all general fund expenditures

### **Renters Tax Credit (Circuit Breaker):**

- available to renters who meet certain income/rent level criteria
- equals the excess of imputed, hypothetical property taxes paid (equal to 15% of annual rent) over the “maximum property tax” which is based on the renter’s income level according to a statutory formula
- available only to persons who are at least 60 years old or are 100% disabled; and to those under age 60 with at least one dependent child subject to certain income limitations

- maximum credit is \$750

**CY 2007 Renters Tax Credit Data:**

- 10,491 credits granted
- average credit: \$249
- total cost to State was \$2.6 million (including accrued cash) – all general fund expenditures

**Homestead Property Tax Credit:**

- available to homeowners whose properties' assessed values have increased more than 10% in a given year
- credit equals the amount of State and local property taxes associated with the assessed value of a principal residence attributable to an increase in the annual assessment of more than 10%
- for FY 2009 the following counties have enacted a cap below 10% for local property taxes:

Anne Arundel	2%
Baltimore City	4%
Baltimore County	4%
Caroline	5%
Carroll	7%
Cecil	8%
Charles	7%
Dorchester	5%
Frederick	5%
Garrett	5%
Harford	9%
Howard	5%
Kent	5%
Prince George's	3%
Queen Anne's	5%
St. Mary's	5%
Talbot	0%
Washington	5%
Worcester	3%



### **Personal Property Tax**

- Personal property tax imposed by local governments on tangible personal property owned by businesses, public utilities, and railroads; the State has not collected personal property taxes since FY 1984.
- Many categories of business personal property are exempt from taxation.
- Rates are generally 2.5 times the rate used for real property, although some municipalities may impose different rates.
- Collectively, local governments are projected to receive \$558 million in personal property tax revenues in FY 2008.

For more information regarding property taxes, contact:

Department of Assessments and Taxation  
301 West Preston Street  
Baltimore, Maryland 21201

Real Property	(410) 767-1199
Personal Property	(410) 767-1170
Homeowners and Renters Tax Credits (Circuit Breaker) and Homestead Tax Credit	1-800-944-7403

### **Transfer Tax**

#### **FY 2009 Projected State Transfer Tax Revenue:**

\$132.7 million (minus \$52.0 million in underattainment from prior years) – revenues provided primarily to various land preservation programs such as Program Open Space, the Maryland Heritage Areas Authority, the Maryland Agricultural Land Preservation Program, the Rural Legacy Program, and the Heritage Conservation Fund

### **Computation of Tax**

- The rate is 0.5% of consideration paid for real property.
- The rate for property sold to first time Maryland home buyers is 0.25% of consideration paid for real property, and the entire amount must be paid by the seller.

### **Local Data**

- A transfer tax is also imposed by the following local jurisdictions:

Allegany	0.5%
Anne Arundel	1.0%
Baltimore City	1.5%
Baltimore County	1.5%
Caroline	0.5%
Cecil	\$10 per deed
Dorchester	0.75%
Garrett	1.0%
Harford	1.0%
Howard	1.0%
Kent	0.5%
Montgomery	0.25 - 6.0%
Prince George's	1.4%
Queen Anne's	0.5%
St. Mary's	1.0%
Talbot (1st \$50,000 exempt)	1.0%
Washington	0.5%
Worcester	0.5%

- In FY 2008, the 18 local governments imposing a transfer tax are projected to receive \$460 million in transfer tax revenue.

### **Recordation Tax**

#### **Local Data**

- FY 2008 Projected Revenue: \$454.5 million
- All counties and Baltimore City impose a recordation tax on transfers of real property.

- Local rates vary among jurisdictions between \$2.20 and \$6.00 per \$500 of value (or fraction thereof).

#### **State Data**

- FY 2008 State Collections: \$182,700
- All special fund revenues are distributed back to subdivisions.
- The State imposes the recordation tax on selected transactions involving transfers of corporate assets.
- Rate: \$1.65 per \$500 or county recordation tax, depending upon the transaction

For more information regarding transfer taxes and recordation taxes, contact the Clerk of the Court in the courthouse of the county circuit court or the county government.

## **Business Taxes**

### **Corporate Income Tax**

#### **FY 2009 Projected Corporate Income Tax Revenue**

- \$790 million in total, distributed as follows:
  - \$161 million to the Transportation Trust Fund
  - \$582 million to the general fund
  - \$47 million to the Higher Education Investment Fund

#### **Computation of Tax**

Tax Rate: 8.25% of modified taxable income apportioned to Maryland

Modified taxable income apportioned to Maryland is calculated by:

- adding and subtracting certain amounts (referred to as Maryland addition and subtraction modifications) to federal taxable income (see below); and
- applying an apportionment factor to the resulting amount to determine the portion of income attributable to Maryland operations (applicable to corporations with multistate operations).

Credits allowed include:

- portion of property tax and/or wages paid to qualified employees of certain business entities that expand or establish in the State and create a minimum number of positions;
- start-up and project costs of qualified businesses in distressed counties;

- 20% of qualified rehabilitation expenditures for rehabilitation of a certified heritage structure, not to exceed \$3 million for a single commercial project;
- 50% of the cost of specified commuter benefits provided to employees, subject to a maximum of \$50 per employee per month;
- 5% of the cost of providing long-term insurance to employees, credit not to exceed \$5,000 or \$100 for each employee covered by long-term care insurance;
- a portion of the expenses associated with the production of electricity from specified qualified energy resources, including wind, biomass, poultry waste, and methane gas;
- portion of expenses associated with the construction or rehabilitation of green buildings; and
- 50% of the eligible investment made in a qualified biotechnology company, not to exceed \$250,000.

### **Entities Subject to Tax**

All corporations with income allocable to Maryland are required to pay corporate income tax except:

- insurance companies (subject to a premiums tax);
- nonprofit organizations (except for unrelated business income); and
- small business corporations electing to be taxed under Subchapter S of the Internal Revenue Code.

### **Common Addition and Subtraction Modifications**

- Addition modifications:
  - State and local income-based taxes deducted on the federal return
  - interest and dividends on non-Maryland state and local obligations
  - special bonus depreciation allowed under recent federal tax legislation
  - amount deducted under the Internal Revenue Code for qualified production activities income
  - otherwise deductible interest or intangible expenses paid to a related “member,” *e.g.*, holding company
- Subtraction modifications:
  - interest on U.S. government obligations
  - State and local income tax refunds
  - wages qualifying for federal targeted jobs credit not deducted on the federal return
  - a percentage of dividends from domestic international sales corporations and related foreign corporations
  - difference in depreciation as a result of State disallowance of special bonus depreciation allowed under federal tax calculation
  - payments received from a related “member” as royalties, interest, or similar income from intangibles

### **Apportionment Formula**

- Generally, the average of the proportions of a business' total payroll, property, and two times the sales attributable to Maryland.
- Certain manufacturing corporations use a single sales factor formula.
- For leasing corporations, a two-factor formula using receipts and property is required.
- For certain transportation companies, special one-factor formulas are used.

For information regarding corporate income taxes, contact:

Comptroller of the Treasury  
Revenue Administration Division  
110 Carroll Street  
Annapolis, Maryland 21411-0001  
(410) 260-7980

### **Corporate Fees**

**FY 2009 Projected Revenue:** \$88.6 million – all general fund revenue.

### **Computation of Fees**

- Annual report filing fee is \$300 for many domestic and foreign corporations.
- Filing and recording fees range between \$6 and \$150, depending upon the document.
- The minimum organization and capitalization fee is \$20 and increases based on the aggregate par value of the capital stock.

For more information on corporate filing fees and organizing a corporation, contact:

Department of Assessments and Taxation  
301 West Preston Street, Room 809  
Baltimore, Maryland 21201  
(410) 767-1330, general information  
(410) 767-1340, Incorporations, Uniform  
Commercial Code filings and service of process

### **Franchise Tax on Gross Receipts**

**FY 2009 Projected Revenue:** \$129.6 million –  
all general fund revenue.

### **Computation of Tax**

- 2% gross receipts tax imposed on gross receipts of telephone companies doing business in Maryland and gross receipts derived from the transmission, distribution, and delivery of electric or natural gas in Maryland.
- In addition, a distribution tax is imposed at a rate of 0.062 cents per kilowatt hour of electricity and 0.402 cents per therm of natural gas delivered for final consumption in the State.

### **Exemptions from the Tax**

- A cap is provided on the distribution tax for electricity delivered to extremely large users of electricity in the form of a credit against the tax.
- An exemption is provided from the distribution tax for natural gas delivered for industrial uses in the form of a credit against the tax.

For more information on public service company franchise taxes, contact:

Department of Assessments and Taxation  
301 West Preston Street  
Baltimore, Maryland 21201  
(410) 767-1940



### **Insurance Premium Tax**

**FY 2009 Projected Revenue:** \$303.3 million – all general fund revenue.

- Tax is imposed on insurance companies at a rate of 2% (3% for unauthorized insurers) of premiums derived from insurance business conducted in Maryland.
- An additional \$103 million in FY 2009 special fund revenues are expected from the tax imposed on for-profit HMOs and MCOs; these revenues are distributed to the Maryland Health Care Provider Rate Stabilization Fund.

For more information regarding insurance premium taxes, contact:

Maryland Insurance Administration  
525 St. Paul Place  
Baltimore, Maryland 21202  
(410) 468-2125

### **Unemployment Insurance Tax**

**FY 2009 Projected Revenue:** \$370 million used exclusively for funding the Unemployment Insurance Trust Fund.

- Tax is imposed on persons, companies, or organizations employing one or more individuals.
- Tax rates vary from 0.3 to 13.5% for different employers depending on the number of former employees who receive unemployment compensation benefits.

For more information regarding unemployment insurance taxes, contact:

Department of Labor, Licensing, and Regulation  
1100 N. Eutaw Street  
Baltimore, Maryland 21201  
1-800-492-5524

## **Horse Racing Taxes and Fees**

### **FY 2009 Projected Revenue:**

- Betting Taxes/Track      \$1,634,600  
Licensing (special fund)
- Occupational Licensing      \$260,000  
(general fund)
- Uncashed parimutual      \$2,073,000  
tickets (special fund)
- Tax rate for both harness racing and thoroughbred racing is 0.32%.
- A portion of racing tax revenues are allocated to State and local fairs, local governments, the Maryland Million race, the Maryland-Bred Race Fund, and the Maryland Standardbred Race Fund. In addition, a specified amount may be distributed to the Maryland Agricultural Education and Rural Development Assistance Fund.
- Costs of State Racing Commission regulation are borne by racetracks.

For more information regarding horse racing taxes, contact:

Department of Labor, Licensing, & Regulation  
Maryland Racing Commission  
300 E. Towsontowne Boulevard  
Towson, Maryland 21286  
(410) 296-9682

## **Transportation Taxes and Vessel Excise Tax**

### **Motor Vehicle Fuel Tax and Motor Carrier Tax**

**FY 2009 Projected Revenue:** \$743 million – the vast majority as special funds for transportation related projects.

- Tax is imposed on motor fuel sold by dealers in the State. For interstate motor carriers, the tax is based on fuel consumed in Maryland.
- Tax Rate (per gallon):
  - aviation fuel – 7.0 cents
  - gasoline – 23.5 cents
  - special fuels – 24.25 cents

For more information regarding motor vehicle fuel taxes and the motor carrier tax, contact:

Comptroller of the Treasury  
Motor Fuel Tax Division  
Room 315  
Louis L. Goldstein Treasury Building  
Annapolis, Maryland 21401  
(410) 260-7215

### **Motor Vehicle Excise (Titling) Tax**

**FY 2009 Projected Revenue:** \$550 million – all special funds for transportation related projects.

- Tax is imposed on each original and subsequent certificate of title issued for a motor vehicle in Maryland.
- Tax Rate: 6% of the vehicle's fair market value, minus any trade-in value.

### **Vessel Excise Tax**

**FY 2009 Projected Revenue:** \$28.6 million – special fund revenues credited to the Waterway Improvement Fund.

- Tax is imposed on the purchase of a new or used vessel that will be titled and numbered in the State, and on the purchase of a new or used vessel that will be used principally in Maryland.
- Tax Rate: 5% of the vessel's fair market value.
- For a sale by a licensed dealer, tax does not apply to the value of a vessel traded in as part of the sale.
- Exemptions include sales to the United States and local governments, including fire departments; sales to certain charitable organizations; and sales to dealers for resale, rental, or lease.

For further information regarding the vessel excise tax, contact:

Licensing and Registration Service  
Department of Natural Resources  
Tawes State Office Building  
580 Taylor Avenue  
Annapolis, Maryland 21401-2397  
(410) 260-3220

## **Tobacco and Alcoholic Beverage Taxes**

### **Tobacco Tax**

**FY 2009 Projected Revenue:** \$419.2 million – all general fund revenue.

- Tax is imposed on tobacco wholesalers who are required to purchase tax stamps to be affixed to cigarette packs before they are sold.
- Tax Base: Cigarettes, cigars, pipe tobacco, chewing tobacco, and snuff.
- Tax Rate: \$2.00 per pack of 20 cigarettes.
- Cigars, pipe tobacco, chewing tobacco, and snuff are taxed at a rate of 15% of their wholesale price.

### **Tax on Distilled Spirits**

**FY 2009 Projected Revenue:** \$15.1 million – all general fund revenue.

- Tax is imposed on wholesalers of distilled spirits who are required to purchase tax stamps to be affixed to the bottles of distilled spirits prior to their sale.
- Tax Base: All alcoholic beverages except beer or wine.
- Tax Rate: \$1.50 per gallon, or 39.63 cents per liter.

### **Tax on Beer**

**FY 2009 Projected Revenue:** \$9.7 million – all general fund revenue.

- Tax is paid by wholesalers and brewers on all beer and ale (and any other brewed alcoholic beverages) sold in Maryland.
- Tax Rate: 9.0 cents per gallon, or 2.38 cents per liter.

## **Tax on Wine**

**FY 2009 Projected Revenue:** \$5.5 million – all general fund revenue.

- Tax is paid by wholesalers or manufacturers of wine on all wine sold to retailers in Maryland.
- Tax Rate: 40.0 cents per gallon, or 10.57 cents per liter.

For more information regarding tobacco and alcoholic beverage taxes, contact:

Comptroller of the Treasury  
Alcohol and Tobacco Tax Division  
Louis L. Goldstein Treasury Building, Room 310  
Annapolis, Maryland 21401  
(410) 260-7314

## **Inheritance and Estate Taxes**

### **Inheritance Tax**

**FY 2009 Projected Revenue:** \$50 million – all general fund revenue.

Note: A 25% commission is retained by local registers of wills; however, a portion of this commission may revert to the general fund.

### **Computation of Tax**

Tax is imposed on the privilege of receiving bequeathed property that is located in Maryland.

Tax Exemptions:

- estates of \$30,000 or less
- property passing to a grandparent, parent, spouse, child, spouse of a child, stepparent or stepchild, former stepparent or stepchild, brother or sister, or a partnership, limited liability company, or corporation where all partners, members, or stockholders are direct beneficiaries
- life insurance proceeds

Tax Rate:

- 10% – applies to all beneficiaries for whom an exemption does not apply

Tax Base:

- property valued at time of distribution
- gifts made within two years of date of death

For more information regarding inheritance taxes, contact the Register of Wills in the courthouse of the county circuit court.

## **Estate Tax**

**FY 2009 Projected Revenue:** \$176.6 million – all general fund revenue.

### **Computation of Tax**

Tax is imposed on the estate of decedents who at the time of death were residents of Maryland, or who held an interest in real or personal property located in Maryland.

Exemptions from tax include:

- all property passing to surviving spouse; and
- estates valued at \$1 million or less.

The amount of the State tax is determined by:

- applying the rate schedule used for purposes of determining the amount of the credit allowed against the federal estate tax liability for death taxes paid to a state, against the adjusted taxable estate; and
- reducing that amount by the total of State inheritance taxes paid.

The estate tax is partially decoupled from changes made under federal law phasing out the federal estate tax:

- The State estate tax is calculated as if the federal tax act had not phased out the credit allowed for State death taxes paid.
- The State estate tax is calculated without regard to the federal deduction for State death taxes, the increased federal unified credit effective exemption amount, or the repeal of the federal estate tax in 2010.
- The estate tax is capped at 16% of the amount by which the decedent's estate exceeds the \$1 million exclusion.



Tax Base:

- property valued at time of decedent's death;  
and
- gifts made within three years of date of death.

For more information regarding the Maryland estate tax, contact:

Comptroller of the Treasury  
Revenue Administration Division  
110 Carroll Street  
Annapolis, Maryland 21411-0001  
(410) 260-7850

## State Lottery

### FY 2009 Projected Revenue (\$ in Millions)

#### Net Revenues by Game

Pick 3	\$103.1
Pick 4	89.3
Multi-Match	10.9
Instant (Scratch-Offs)	92.3
Bonus Match 5	7.4
Keno/Racetrax/MD Hold'em	125.1
Mega Millions	47.9

**Total Net Lottery Revenue** **\$476.0**

Stadium Authority Revenue (20.0)

**Net General Fund Revenue** **\$456.0**

- 3.3% of total general fund revenue
- Lottery agents receive a 5.5% commission on all sales

For more information regarding the State lottery, contact:

Maryland State Lottery Agency  
Montgomery Park Business Center  
1800 Washington Blvd., Suite 330  
Baltimore, Maryland 21230  
(410) 230-8800

Daily and Weekly Number Drawings:  
(410) 230-8980 / (301) 313-2200

## **Appendix**

### **List of Sources**

The following publications were used as sources for the revenue amounts in this guide:

- Report of the Maryland Board of Revenue Estimates on Estimated Maryland Revenues for the Fiscal Years ending June 30, 2008, and June 30, 2009
- Sixty-third Report of the State Department of Assessments and Taxation – 2007
- Comptroller of the Treasury – Income Tax Summary Report for Tax Year 2006
- Maryland Association of Counties Report: County Budgets, Tax Rates, and Selected Statistics, Fiscal Year 2008
- Maryland Operating Budget for Fiscal 2009
- Overview of Maryland Local Governments Finances and Demographic Information – published in January 2008
- Fiscal Digest of the State of Maryland for the Fiscal Year 2009 – published in July 2008