

From the Desk of the
Comptroller



As I write this letter to the taxpayers of Maryland, I am looking outside the window of my office, past the Louis L. Goldstein sculpture, to all the beautiful fall colors on the trees.

It's also an inspiring time of year when our nation votes in a national election. No matter which candidate earned your support on November 6, I hope you took the time to learn about the issues and exercised your right to vote. I also hope that our nation will unite behind our President to face our tough economic times together.

I often speak to my father, who remains an important presence in my life, about his experience post-World War II. He tells me stories of how all the citizens banded together for the common purpose of doing what was best for our country during that period of upheaval.

It was a time when our similarities as Americans united us, rather than what we too often see now, when our differences threaten to keep us fractured and divided. Again, now, it's time to come together to work for positive solutions for Maryland.

My Perspective

Whether or not every vote and every ballot measure went the way we would like it to, we need to keep ever-present in our minds that despite any problems, we are lucky to live in the greatest country in the world. We are free and our opportunities are limitless. We should never take this for granted.

As always, I thank you for bestowing this privilege on me and thank you also for your continuing support.

Sincerely,



Employers Now Required to Notify Employees of Potential EITC Eligibility

Employers are now required, under Tax General Article 10-913, to provide, on or before December 31, 2012, electronic or written notice to an employee who may be eligible for the federal and Maryland Earned Income Tax Credit (EITC).

Employees may be entitled to claim an EITC on their 2012 federal and Maryland income tax returns if both their federal

adjusted gross income and their earned income is less than the following:

- \$43,998 (\$49,078 for married filing jointly) if they have three or more qualifying children,
- \$40,964 (\$46,044 for married filing jointly) if they have two qualifying children,

See "Employers" continued on Page 8

REVENUES

Join CPAs for a Healthy Bay and Help Your Clients Make a Difference

Did you know that line 35 on the Maryland state income tax form allows individuals to make a voluntary contribution to help save the Chesapeake Bay and protect endangered wildlife? The Chesapeake Bay and Endangered Species Fund, which is split evenly between the Chesapeake Bay Trust and the Maryland Department of Natural Resources, allows Marylanders to donate through their tax return to help the Bay and conserve Maryland's native wildlife. During last year's tax season, more than \$1.1 million was contributed through the check-off, which funded Bay restoration, neighborhood clean-ups and environmental education programs throughout the state. Donations of any amount can be made and all are tax deductible the following year.

And while this program is an excellent opportunity for Marylanders to make a charitable tax donation, to date less than 2 percent of returns contain donations to the check-off. So in an effort to increase awareness, **CPAs for a Healthy Bay** was created. The initiative is a new program designed to encourage CPAs and other tax professionals to take a few simple steps to raise awareness to support the Bay through Line 35 on the Maryland tax form. In return, the Chesapeake Bay Trust will promote you and your business as a program supporter committed to Maryland's great natural resources.

To participate:

- 1) Register at cbtrust.org or call 410-974-2941, ext. 113 and ask for a copy of the **CPAs for a Healthy Bay** brochure to be mailed to you. There is no cost to participate in this program; it is simply about raising awareness.
- 2) Once the Trust receives your registration, we will mail you (at no cost) signage for your office and the number of inserts you have requested to include in your tax preparation packets. Electronic inserts are available as well.
- 3) We ask that you communicate with clients and/or employees (through newsletters, on your company Website, etc.) about the Bay Fund and why these dollars

are important to the community. We are happy to provide content and more details if you'd like.

4) That's it!

What you will get in return:

- 1) **Web Promotion:** Your business will be highlighted on the Trust's Website, which reaches tens of thousands of people annually.
- 2) **CPAs for a Healthy Bay Logo:** You will receive a seal for your participation to market your commitment to social responsibility to prospective clients on your Website and in printed materials.
- 3) **Recognition in Electronic Newsletters:** Your company, with a direct web link, will be included in multiple newsletters, which reach more than 10,000 subscribers three times a month.
- 4) **Promotional Opportunities via Social Media:** The Trust will highlight you and your business to more than 8,000 followers through Facebook and Twitter.
- 5) **Recognition at Special Events:** Your company name will be highlighted at multiple Trust events and through printed materials distributed by the Trust.

The Chesapeake Bay Trust conducted a poll of more than 1,000 Marylanders a year ago which showed that 52 percent of residents say they would be likely to contribute to a voluntary tax check-off for the Bay, if reminded around tax time, and 19 percent said they are "very likely" to do so. Additionally, more and more research has shown that businesses that connect to a local charitable cause "build good will in the community, enhance customer loyalty, heighten brand awareness, and, yes, even increase sales." (Intuit, February 2012.)

For more information and to get started as a **CPA for a Healthy Bay**, visit www.cbtrust.org or email Molly Mullins at mmullins@cbtrust.org. Thank you helping make Maryland better!

New Sales and Use Tax Forms Effective for November 2012 and 2Q Returns!

New, full-page sales and use tax returns are being implemented this fall. Businesses filing monthly paper returns should use the new full-page form beginning with the month of November 2012, while quarterly paper filers should begin using the full-page form for their second quarter returns.

Forms have already been sent to those registered businesses that requested paper returns.

If you have any questions about the new forms or need a paper sales and use tax return, please call 410-260-7980, from central Maryland or 1-800-638-2937, from elsewhere in Maryland, Monday – Friday 8 a.m. to 5 p.m. EST.

If you're ready to make the move from paper forms to free, online filing, you can sign up for *bFile* at www.marylandtaxes.com.

“Having committed volunteers available to assist in maintaining a healthy learning environment is paramount to our kids.”

-Comptroller Peter Franchot

30 Years and Counting!

Comptroller of Maryland Awarded Honor for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) honored Comptroller Franchot with the Certificate of Achievement for Excellence in Financial Reporting for Maryland's fiscal year 2011 Comprehensive Annual Financial Report (CAFR). Received for the last 33 years, the award is the highest form of recognition in the area of governmental accounting and financial reporting.

The CAFR was judged by an impartial panel to meet high standards of the program including demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story and motivate potential users to read the publication.

For more information on the award program, visit the GFOA Website at www.gfoa.org. For more information on the state's financial picture, view the state's fiscal year 2011 CAFR.

The GFOA is a nonprofit professional association serving approximately 17,500 government finance professionals.

Comptroller Creates Golden Apple Award



The Golden Apple Award

Everyone knows public school teachers have a thankless job, but there are others within the public school systems that receive even less acknowledgement- until now. Comptroller Peter Franchot has created a new award to recognize outstanding, hard-working volunteers, organizations and individuals within the Maryland public school system.

The award, titled “The Golden Apple Award,” is specifically designed to honor the dedicated volunteers throughout Maryland's public school systems.

Nominations for the Golden Apple Award will be accepted for all 23 counties, and Baltimore City, until December 1, 2012 with the awards to be distributed in 2013. For more information or to submit a nomination, visit the Comptroller's Website at www.marylandtaxes.com.

For more information please contact Ms. Christine Feldmann, cfeldmann@comp.state.md.us.

Major Changes in Tax Forms and Instructions

Resident Returns

Forms 502 -Resident Return

We have reformatted the Exemptions area on the face of Form 502. Also, line C asks for an entry from line 3 of Maryland Dependent Form 502B.

Instructions to 502 and 503 -Short Form

- The minimum filing requirements have changed. The new amount for a single person under 65 is \$9,750.
- We have updated the Exemption Amount Chart to reflect a change in the phase out of exemptions. The \$3,200 exemptions for a taxpayer who is single or Married Filing Separately begin to be reduced when federal AGI exceeds \$100,000. The exemption is reduced to -0- when the AGI exceeds \$150,000.

For taxpayers filing jointly, head of household, or as a qualifying widow(er) with a dependent, the exemption phase-out begins when AGI exceeds \$150,000 and is reduced to -0- when it exceeds \$200,000.

- Maximum allowable pension exclusion is now \$27,100.
- We have updated letter codes to reflect three new letter codes (See Form 502SU below).
- Letter code “v” has been modified to add the Maryland Defense Force to the list of organizations whose members may qualify for the Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue and Emergency Medical Services Personnel Subtraction Modification Program.
- We have updated the Maryland tax rate schedules to reflect the new rates. The highest state tax rate is now 5.75% for single taxpayers with taxable net income over \$250,000 and joint taxpayers with taxable net income over \$300,000. (See Below)
- 2012 Poverty Income guidelines begin at \$11,170.
- Two counties have changed their 2012 local tax rates. Anne Arundel County has reduced its rate to 2.49% and Queen Anne’s County has increased its rate to 3.2%.

Taxpayers Filing Jointly, Surviving Spouse, Head of Household Returns		All Other Individual Taxpayers	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
\$0 – \$ 1,000	2 percent	\$0 – \$ 1,000	2 percent
\$ 1,000 – \$ 2,000	3 percent	\$ 1,000 – \$ 2,000	3 percent
\$ 2,000 – \$ 3,000	4 percent	\$ 2,000 – \$ 3,000	4 percent
\$ 3,000 – \$150,000	4.75 percent	\$ 3,000 – \$100,000	4.75 percent
\$150,001 – \$175,000	5 percent	\$100,001 – \$125,000	5 percent
\$175,001 – \$225,000	5.25 percent	\$125,001 – \$150,000	5.25 percent
\$225,001 – \$300,000	5.5 percent	\$150,001 – \$250,000	5.5 percent
In excess of \$300,000	5.75 percent	In excess of \$250,000	5.75 percent

Form 502CR – Individual Tax Credit Form

PART E – The maximum amount of credit that can be claimed for long-term care premiums in Part E has been increased to \$350 for those insured who are age 40 or less.

Form 502D – Individual estimated Income Tax Form

The highest 2013 tax rate is now reflected as 5.75%.

Anne Arundel County’s rate has returned to 2.56% beginning in 2013. Also, Talbot County has increased its rate to 2.4%, and Wicomico has increased its rate to 3.2%.

Major Changes in Tax Forms and Instructions *(continued)*

Form 502SU – Maryland Subtraction Form (Resident)

- Letter code “jj” was added to the form to provide a subtraction for a gain resulting from a payment from the Maryland Department of Transportation as a result of the acquisition of a portion of the property on which the principal residence is located.
- Letter code “kk” was added to the form to provide for a subtraction for qualified conservation expenses up to \$500 for an application approved by the Department of Natural Resources to enter into a Forest and Conservation Management Plan.
- Letter code “ll” was added to the form to provide for a subtraction for a payment received as a result of a foreclosure settlement negotiated by the Maryland Attorney General.
- These same changes were made to the nonresident version (Form 505SU).

Form 502UP -- Underpayment of Individual Estimated Tax Form

We have added an important note in the header of the form for taxpayers with income over \$100,000 to see Special Instructions for line 2.

We have added 2012 special instructions for line 2, to provide an alternative calculation for taxpayers who may be subjected to a higher penalty as a result of the changes in exemption or tax rate. The instructions tell taxpayers to recalculate their 2012 taxable net income using the 2011 exemption amounts; and then, apply 2011 tax rates to calculate the tax to be shown on line 2 of the form, when their income exceeds \$100,000 (\$150,000 for joint taxpayers). They will also use Code 301, when using this alternative calculation.

Form 502V – Volunteer Mileage Subtraction Form

We have changed the Form 502V to reflect the new charitable travel expenses modification. For the travel expenses incurred during 2012, the rate is 55.5 cents per mile.

Form 502XS – Short Amended Tax Return

We have discontinued Form 502XS, the Short Amended Tax Return.

Nonresident Returns

Form 505 – Standard Nonresident Return

We have added a space for Pennsylvania residents to enter their county of residence, in addition to their city, borough, or township.

Form MW506NRS – Nonresident Real Estate Sale Withholding Return

We have updated the 2012 and 2013 Maryland Returns of Income Tax Withholding for Nonresident Sale of Real Property (Forms MW506NRS) to reflect the individual tax rate on line h(2) as 7%.

Corporation Returns

Form 500 – Corporation Income Tax Return

We have expanded the Corporation Return, Form 500, to a three-page return. This was done to incorporate the data elements from Form 500A, which has been eliminated.

This reformatting of the returns breaks up the additions and subtractions further into adjustments and modifications.

Form 500A – Calculation of Modified Maryland Income

We have discontinued Form 500A, as the calculation has been incorporated into the Maryland Form 500.

Form 500CR – Maryland Business Income Tax Credits

The Credit for Employment Opportunity Employees has been allowed to expire. It has been removed from the Form 500CR.

The Maryland Disability Employment Tax Credit has been extended another tax year. It applies to employees hired before July 1, 2013.

The Telecommunications Property Tax Credit was repealed during the 2012 Special Session. We have removed it from this form.

Parts P-I and P-II of the One Maryland Economic Development Tax Credit have been reformatted, to allow a prorated share of the credit for certain qualified

Major Changes in Tax Forms and Instructions *(continued)*

business entities to be claimed. These entities must have had the requisite 25 qualified positions for at least five years AND must currently have 10 or more qualified positions.

Entities can no longer qualify for the Job Creation and Recovery Tax Credit; however, there are members of PTEs who had the 2011 credit passed through to them in the member's 2012 tax year. The form has been modified to allow the claiming of this credit in this limited situation.

Pass-Through Entities (PTEs)

Form 510 – Pass-Through Entity Tax Return

The individual tax is now 5.75%, in addition to the special nonresident tax rate of 1.25%.

Form 510C – Composite Pass-through Entity Tax Return

The tax is now 7%

In the instruction page of Form 510C, we have modified line 4 instructions to provide that when it is not practicable to determine the separate Maryland income factors of all of the nonresidents electing to be part of the composite filing, the PTE will use the factor using line 6 of Form 510 as the numerator and line 2 of Form 510 as the denominator after it has been adjusted for nonparticipating members.

Form 510D- Pass-through Entity Declaration of Estimated Income Tax

The 2013 tax rate has been updated to 5.75%.

Form 510, Schedule K-1—Maryland Schedule K-1

The Maryland Schedule K-1 use has been mandated when containing Maryland data. The federal Schedule K-1 is no longer an acceptable substitute.

The Employment Opportunity Tax Credit has been removed from form.

The Telecommunications Property Tax Credit has been removed from form.

The Job Creation and Recovery Tax Credit has been removed from form.

We have modified the One Maryland Economic Development Tax Credit section of the form to provide for a potential proration by qualified entities.

Fiduciaries

Form 504 – Fiduciary Income Tax Return

We have added a checkbox to Form 504, Fiduciary Income Tax Return, for filers to identify a return which is electing a small business trust.

Instructions to 504

We have added instructional language about checking the box on Form 504 related to “Electing Small Business Trust (ESBT).” The instructions explains that a fiduciary filing as an ESBT, and computes tax on the S-portion of income on a separate federal schedule pursuant to IRC 641(c), instead of including this income in the trust's federal adjusted gross income, will be required to add such income to the federal income when preparing the 2013 fiduciary income tax return.

Withholding

Withholding Tax Guide

We have updated the 2012 Withholding Tax Guide to reflect a change in tax rates and tax brackets as a result of the law changes enacted in the 2012 Special Session of the General Assembly. We also added a new local rate to address counties which have a local rate between 2.4% and 2.5%.

We have updated the 2013 Withholding Guide to add a new local rate to address counties which have a local rate between 2.3% and 2.4%.

The withholding tax guides are available online at http://forms.marylandtaxes.com/12_forms/Withholding_Guide.pdf.

Form MW506 and Form 506M

We have assigned added barcodes to the 2013 withholding tax returns, and the accelerated withholding tax return to enhance processing of the document.

In addition, a downloadable version that will contain a unique user-specific scan line is being developed.

Major Changes in Tax Forms and Instructions *(continued)*

Form MW507

The exemption worksheet on page two of Form MW507 has been updated to assist employees, with incomes over \$100,000, in the calculation of the exemption amount to be provided to their employer.

Sales and Use Tax Return

Form 202 – New Format

We have completely redesigned the paper version of the Sales and Use Tax coupon into a full-page, two column return. It is now called Form 202.

However, we are phasing the return in. Prior to November 2012, the paper coupon is used. After the November reporting period, the Form 202 becomes the standard form. In addition we are looking for ways to provide a downloadable version that will contain a unique user-specific scan line.

Business Registration

Combined Business Registration Application (CRA)

A Sales and Use Tax Exemption Certificate Checklist has been added to the application.

Estate Tax

MET-1—Maryland Estate Tax Return

We are updating the 2012 Maryland Estate Tax Return, Form MET-1, to provide for a “Tax Reduction for Qualified Agricultural Property.”

Other Taxes

Form 315 – Maryland Direct Wine Shipper Tax Return

We have updated our Form 315 to clarify that the sales of pomace brandy to consumers in Maryland is subject to the distilled spirit tax rate of \$1.50 per gallon. “Pomace brandy” is defined as “brandy that is distilled from the pulpy residue of the wine press, including the skins, pips, and stalks of grapes.”

Form 609 – Maryland Other Tobacco Products (OTP) Wholesaler Tax Return

- The return now shows that the previous 15% OTP tax rate applies only to premium cigars sold to retailers and tobacconists.
- The OTP tax rate on cigars (other than premium cigars) sold to retailers and tobacconists has increased to 70%.
- The OTP tax rate on all other untaxed OTP sold to retailers and tobacconists is now 30%.
- Form 610 – Maryland Other Tobacco Products (OTP) Tax Return
- The return now shows that the previous 15% OTP tax rate applies only to untaxed premium cigars.
- The OTP tax rate on untaxed pipe tobacco is now 30%.
- The OTP tax rate on untaxed cigars (other than premium cigars) has increased to 70% sold by tobacconists.
- The OTP tax rate on all other OTP is now 30% for tobacconists only.

Form 610F – Other Tobacco Products Floor Tax Return

We have created an Other Tobacco Products (OTP) Floor Tax Return, Form 610F, for retailers and wholesalers to account for the inventory on hand and to remit the additional tax due on these items. The return was due by October 15, 2012.

'Employers' continued from Page 1

- \$36,052 (\$41,132 for married filing jointly) if they have one qualifying child, or
- \$13,660 (\$18,740 for married filing jointly) if they do not have a qualifying child.

Employees who meet this income eligibility should be advised to go to the Internal Revenue Service Website at www.irs.gov, or contact their tax advisor, to see if they meet the other federal criteria. Employees who meet all of the federal requirements may be eligible for a Maryland credit up to half of the federal EITC, but not greater than the state income tax. Additionally, certain employees may also qualify for a refundable Maryland credit, or a local EITC.

Employers may choose to notify all of your employees or only those employees with wages less than or equal to the amounts shown above.

For further information about the Maryland EITC, visit our Website at www.marylandtaxes.com, or call 1-800-MD-TAXES (1-800-638-2937), or 410-260-7980 from Central Maryland.

Revenews is a quarterly publication of the Comptroller of Maryland, printed in Annapolis, MD.

Inquiries concerning Revenews can be directed to:

Office of Communications

PO Box 466

Annapolis, MD 21404-0466

410-260-7300 (voice)

TTY users call via Maryland Relay at 711

or 1-800-735-2258

Executive Editor: Christine Feldmann

(cfeldmann@comp.state.md.us)

Content Editor/Staff Writer: Caron Brace

(cbrace@comp.state.md.us)

Staff Writer: Kim Frum

(kfrum@comp.state.md.us)

Staff Writer: Jenny Dumont

(jdumont@comp.state.md.us)

Design/Layout: James Point Du Jour

(jpointdujour@comp.state.md.us)

To subscribe online, visit www.marylandtaxes.com and click the Revenews link.

REVENEWS
Comptroller of Maryland
Goldstein Treasury Building
PO Box 466
Annapolis, MD 21404-0466



PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT #273
ANNAPOLIS, MD