



COMPTROLLER
of MARYLAND
Serving the People

2014
TAX & LEGISLATIVE
UPDATE

Peter Franchot
Comptroller of Maryland



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Comptroller of Maryland Revenue Administration Division

Director's Office

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Taxpayer Service

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Branch Operations

Silvia Roberts , Manager	sroberts@comp.state.md.us	410-260-7021
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For Information About	Contact	Local No.	Toll-Free No.
Taxpayer Information	Taxpayer Service	410-260-7980	800-638-2937
Tax Practitioner Hotline	Taxpayer Media & Education	410-260-7424	
Automated Refund Inquiry		410-260-7701	800-218-8160
Tax Forms	Taxpayer Service	410-260-7951	
Telefile Zero Tax Due Businesses		410-260-7225	
Telefile Individual Extensions		410-260-7829	
Electronic Filing Help	Electronic Filing	410-260-7753	
Business Taxpayer Assistance	Taxpayer Service	410-260-7980	800-638-2937

TAX INFORMATION AND ASSISTANCE

Visit our web site at www.marylandtaxes.com or call 1-800-638-2937 or from Central Maryland 410-260-7980

WALK IN SERVICE

Free, in-person tax assistance is provided at the taxpayer service offices listed below. Please bring a completed copy of your federal return and all W-2 statements. Offices are open Monday - Friday, 8:30 a.m. - 4:30 p.m. except for State Holidays.

SPECIAL ASSISTANCE

Hearing impaired individuals may call:
Maryland Relay Service (MRS).....711
Larger format tax forms..... 410-260-7951
ADA accommodations for Walk-in Service:
from Central Maryland 410-260-7980
from elsewhere..... 800-638-2937

TELEPHONE SERVICE

Telephone service is available 8:30 a.m. until 4:30 p.m., Monday through Friday. The Comptroller of Maryland offers extended hours for telephone assistance from February 2 - April 15, 2015. During this period, telephone assistance is available from 8:30 a.m. until 7:00 p.m., Monday through Friday except for State Holidays.

EMAIL SERVICE

Email to: taxhelp@comp.state.md.us. Please include your name, address and the last four digits of your Social Security Number in your email message. This will help us generate a quick response to your inquiry.

REFUND INFORMATION

Central Maryland 410-260-7701
Elsewhere 1-800-218-8160

MAILING YOUR RETURN

Mail returns to:
Comptroller of Maryland
Revenue Administration Division
110 Carroll Street
Annapolis, Maryland 21411-0001

Sending your return by certified mail will not result in special handling and may delay your refund.

BRANCH OFFICES

Annapolis
Revenue Administration Center
110 Carroll St.
Annapolis, MD 21411-0001

Baltimore
State Office Building
301 W. Preston St., Rm. 206
Baltimore, MD 21201-2384

Cumberland
Allegheny Museum
3 Pershing St., Ste. 101
Cumberland, MD 21502-3042

Elkton
Upper Chesapeake Corporate Center
103 Chesapeake Blvd., Ste. D
Elkton, MD 21921-6313

Frederick
Courthouse/Multiservice Center
100 West Patrick St., Rm. 2110
Frederick, MD 21701-5646

Hagerstown
Professional Arts Building
1 South Potomac Street
Hagerstown, MD 21740-5512

Landover
Treetops Building
8181 Professional Pl., Ste 101
Landover, MD 20785-2226

Salisbury
Sea Gull Square
1306 South Salisbury Blvd., Ste. 182
Salisbury, MD 21801-6846

Towson
Hampton Plaza
300 East Joppa Rd., Ste. PL 1A
Towson, MD 21286-3020

Upper Marlboro
Prince George's County Courthouse
14735 Main St., Rm. 083B
Upper Marlboro, MD 20772-9978

Waldorf
1036 St. Nicholas Dr., Ste. 202
Waldorf, MD 20603-4757

Wheaton
Westfield Wheaton South Building
11002 Veirs Mill Road, Ste. 408
Wheaton, MD 20902-2574

Comptroller of Maryland Compliance Division

ADMINISTRATION

Toll-Free Number: 888-674-0020

Sharonne R. Bonardi , Director	sbonardi@comp.state.md.us	410-767-1556
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Kimberly G. Cordish , Assistant Director	kcordish@comp.state.md.us	410-767-1557
Benjamin Miller, Jr. , Assistant to Director	bmiller@comp.state.md.us	410-767-1570

COLLECTIONS

Business Tax Collections Toll-Free Number: 888-614-6337 Local Number: 410-767-1600
 Individual Income Tax Collections Toll-Free Number: 888-674-0016 Local Number: 410-974-2432

Sylvia J. Brokos , Manager, Business Tax Collections	sbrokos@comp.state.md.us	410-767-1562
James Cross , Asst. Mgr., Business Tax Collections	jcross@comp.state.md.us	410-767-1312
Edward F. Wykowski III , Asst. Mgr., Business Tax Collections	ewykowski@comp.state.md.us	410-767-1603
Sherray Miller , Manager, Individual Income Tax Collections	smiller@comp.state.md.us	410-260-7057
Jesse Wright , Asst. Mgr., Individual Income Tax Collections	jwright@comp.state.md.us	410-260-7757

COMPLIANCE PROGRAMS

Toll-Free Number: 888-615-0369
 Local Number: 410-767-1322

Barbara Esker , Manager	besker@comp.state.md.us	410-767-1322
Lindsay Welsh , Assistant Manager, Business Nexus	lwelsh@comp.state.md.us	410-767-1578
Tamara Talley , Assistant Manager, Individual Nexus	ttalley@comp.state.md.us	410-767-1484

FIELD AUDIT

Toll-Free Number: 800-492-1752
 Local Number: 410-767-1500

Thomas W. Tartal , Chief Auditor	ttartal@comp.state.md.us	410-767-1504
Jerome Watkins , Assistant Chief Auditor	jwatkins@comp.state.md.us	410-767-1536
Tamarra Eaton , Assistant Chief Auditor	teaton@comp.state.md.us	410-767-1526

HEARINGS & APPEALS

Toll-Free Number: 888-615-0268
 Local Number: 410-767-1572

Charles Zephir , Manager	czephir@comp.state.md.us	410-767-4362
Andrew J. Maschas , Assistant Manager	amaschas@comp.state.md.us	410-767-1970
Samuel Buo , Assistant Manager	svazquez@comp.state.md.us	410-767-1506

UNCLAIMED PROPERTY

Toll-Free Number: 800-782-7383
 Local Number: 410-767-1700

Eric Eichler , Manager	eeichler@comp.state.md.us	410-767-1705
Deborah Vulcan , Assistant Manager	dvulcan@comp.state.md.us	410-767-2985

For Information About	Contact	Local No.	Toll-Free No.
Bulk Sales	Deborah Cremen	410-767-1941	888-615-0369
Collections Attorneys	Kimberly Stephens, Sylvia Brokos	410-767-1562	888-614-6337
Delinquent Business Taxes	Collections	410-649-0633	888-614-6337
Delinquent Individual Income Taxes	Collections	410-974-2432	888-674-0016
General Information	Taxpayer Service	410-260-7980	800-638-2937
MVA Hotline—Business	Collections	410-649-0633	888-614-6337
MVA Hotline—Individual	Alicia Henderson	855-213-6669
Mobile Homes	Karen Robinson	410-767-1324	888-674-0020
Offers in Compromise	Benjamin Miller, Jr.	410-767-1570	888-674-0020
Refunds, <i>Sales and Use</i> & <i>Admissions & Amusement Taxes</i>	Miriam Kilerlane	410-767-1538	800-492-1752
Registration	Taxpayer Service	410-260-7980	800-638-2937
Returns, Forms, Bulletins	Taxpayer Service	410-260-7980	800-638-2937
Special Business Licenses	State License Bureau	410-260-6240	800-674-0017
Temporary Licenses	Temporary Licenses/Special Events	410-767-1540	888-648-9638
Unclaimed Property	Unclaimed Property Unit	410-767-1700	800-782-7383
Vendor Offset	Lisa Marable	410-767-1648	888-614-6337
Voluntary Disclosures	Benjamin Miller, Jr.	410-767-1570	888-674-0020

I. Resources

The following Revenue Administration Division representatives contributed to the material in this outline. They are located in the Division's main office in Annapolis and solicit your comments and questions.

Source of information	Telephone
Wallace A. Eddleman, Legislation	(410) 260-6621
James Pasko, Statistics	(410) 260-7521
Christopher Kolb, Forms and Procedures ..	(410) 260-7755

II. Legislation

Tax Legislation Enacted in 2010

ESTATE TAX

Senate Bill 396 (Chapter 554, Acts of 2010) – Maryland Estate Tax – Pilot Program for Payment Deferral for Qualified Agricultural Property

This Act adds a new provision to Title 7 of the Tax-General Article relating to alternate payment schedules for Maryland estate tax imposed on agricultural and personal property used for farming purposes. The new Section 7-307(e) provides for a payment deferral of 3 years from the due date for Maryland estate tax imposed on property passing from a decedent to or for the use of an individual who enters into an agreement to use the property for farming purposes after the decedent's death. The amount that may be deferred is determined by multiplying the percentage of property of the gross estate that is used for farming purposes times the estate tax due. The amount of tax deferred under this section may not exceed \$375,000 as to any decedent.

If a payment deferral is allowed, the deferred estate tax shall be paid without interest in accordance with a payment schedule prescribed by the Comptroller over a 3 year period beginning in the 4th year after the due date. Interest does not begin on unpaid estate tax until the tax is due under the schedule.

To be eligible for the payment deferral, a qualified recipient must file an application and enter into an agreement in a form specified by the Comptroller to use the qualified agricultural property for

farming purposes after the decedent's death and file periodic reports or allow periodic inspections as required by the Comptroller.

The new provision further provides that on or before October 1, 2013, the Comptroller shall submit a report to the General Assembly, in accordance with Section 2-1246 of the State Government Article, and the Maryland Agricultural Land Preservation Foundation concerning:

- the number of approved applications for Maryland estate tax payment deferral;
- the number of agricultural acres in which a Maryland estate tax payment deferral was approved under the payment deferral pilot program;
- the number of qualified agricultural properties approved for Maryland estate tax payment deferral that apply to preserve agricultural land under the Maryland Agricultural Land Preservation Foundation;
- the aggregate value of Maryland estate tax payment deferrals approved under the payment deferral pilot program;
- the aggregate amount of Maryland estate taxes paid due to exceeding the maximum amount eligible for payment deferral under the payment deferral pilot program; and
- recommendations for implementing a Maryland estate tax payment deferral program in the State.

Effective Date: This Act took effect July 1, 2010 and is applicable to decedents dying after December 31, 2010. However, the Act is effective only for a period of 4 years and, at the end of June 30, 2014, with no further action required by the General Assembly, shall be abrogated and of no further force and effect.

INCOME TAX

House Bill 475 (Chapter 487, Acts of 2010) – Smart, Green, and Growing – The Sustainable Communities Act of 2010

This Act creates programs focused on creating and revitalizing sustainable communities in accordance with a program enacted in 2009 by the Obama Administration.

This Act creates the Smart Growth Subcabinet (Subcabinet) in Section 9-1406 of the State Government Article. The Subcabinet shall work together to create, enhance, support, and revitalize sustainable communities across the State, among other purposes. The Subcabinet will make recommendations to the Department of Business and Economic Development, the Department of Housing and Community Development and the Department of Planning.

The Act makes changes to the Heritage Structure Rehabilitation Tax Credit found in Title 5A of the State Finance and Procurement Article. The Act replaces the word “heritage” with “historic” in references in the Title. The Act amends the definition of “certified rehabilitation” to include a qualified rehabilitated structure as well as the existing certified historic structure.

The Act adds many new definitions such as financial assistance, high performance building, historic property, Main Street Maryland Community, Main Street Maryland Program, Qualified Rehabilitated Structure, and Smart Growth Subcabinet.

The Act provides that an individual or business entity may claim the credit in the amount of \$5000 for the rehabilitation of a single-family, owner-occupied residential structure; the greater of \$25,000 or 50% of the adjusted basis for a qualified rehabilitated structure located in a Main Street Maryland Community; and for all other property the greater of the adjusted basis or \$25,000.

The Act requires the Director of the Maryland Historical Trust, in connection with the Smart Growth Subcabinet, to adopt regulations that to establish procedures and standards for certifying structures and to establish an application process for initial credit certificates for Maryland Sustainable Communities Tax Credits. The application process shall favor the award of tax credits for rehabilitation projects that are located the areas as set forth in Section 5A-303(b)(1)(iv).

Not more than 10% of the total credit amounts under initial credit certificates in any fiscal year may be issued for projects that qualified rehabilitation structures.

The Act provides that if a fee charged for a commercial rehabilitation is not received by the Trust within 120 days after the Trust sends notice the fee is due, the initial credit certificate shall expire.

For a building to be a qualified rehabilitated structure, after rehabilitation: 50% of the existing external walls must be remaining external walls, 75% or more of the existing external walls must be external or internal walls, and 75% or more of the existing internal framework must remain.

The Act provides that the credit for the taxable year in which a certified rehabilitation is completed, an individual or business entity may claim a tax credit in an amount equal to 20% of the individual's or business entity's qualified rehabilitation expenditures for the rehabilitation. An individual or business entity may claim a tax credit in an amount equal to 25% of the individual's or business entity's qualified rehabilitation expenditures for the rehabilitation that is a qualified historic structure and high performance building. An individual or business entity may claim a tax credit in an amount equal to 10% of the individual's or business entity's qualified rehabilitation expenditures for the rehabilitation if the building is a qualified rehabilitated structure.

The Act provides that the Director may not issue any initial credit certificates for any fiscal year after fiscal year 2014. The Act also provides for recapture based on the structure and time disqualifying work was performed or the structure was disposed. Disposal means to transfer legal title and includes, but is not limited to, a sale, gift, or foreclosure.

Effective Date: This Act will take effect June 1, 2010.

Tax Legislation Enacted in 2012

INCOME TAX

Senate Bill 234 (Chapter 3, Acts of 2012) – Maryland Health Improvement and Disparities Reduction Act of 2012 The Act establishes a process for designation of “Health Enterprise Zones” (HEZs) to target State resources to reduce health disparities, improve health outcomes, and

reduce health costs and hospital admissions and readmissions in specific areas of the State. The Act authorizes specified incentives for “Health Enterprise Zone practitioners” who practice in an HEZ, including tax credits against the State income tax.

The Act adds a new income tax credit under Tax-General Article, § 10-731, which provides that a HEZ practitioner who practices health care in a Health Enterprise Zone may be eligible for a tax credit against the State income tax in accordance with a proposal approved by the Secretary of Health and Mental Hygiene, if the individual: (1) Demonstrates competency in cultural, linguistic, and health literacy in a manner determined by the Department of Health and Mental Hygiene (“DHMH”); (2) Accepts and provides care for patients enrolled in the Maryland Medical Assistance Program and for uninsured patients; and (3) Meets any other criteria established by DHMH.

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

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

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

with one-half allowed in each year, beginning with the first taxable year in which the credit is certified.

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

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

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

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

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

Tax Legislation Enacted in 2013

House Bill 102 (Chapter 425, Acts of 2013) – Budget Reconciliation and Financing Act of 2013 This Act provides for a couple income tax credit changes. It amends a current credit and adds a new credit.

The Act amends previously repealed Section 5-801 of Article 83B – Department of Housing and

Community Development to provide for amendments to the Heritage Structure Rehabilitation Income Tax Credit. The Act provides that on or after July 1, 2004, the tax credit authorized under this Section for a commercial rehabilitation project expires on July 1, 2014, unless on or before June 30, 2014, the applicant demonstrates to the Director that the commercial rehabilitation project has a valid unexpired building permit for the rehabilitation project. The Act provides that the Director shall notify, in writing, the owner or developer that received approval of a plan of proposed rehabilitation for a commercial rehabilitation project of the requirements of this section. The Act also provides that the Director shall report to the Comptroller the number of tax credits and the amount of tax credits that have expired in accordance with this section.

The Act creates Tax-General Article, Section 10-734 to provide a new income tax credit applicable to all taxable years beginning after December 31, 2013, but before January 1, 2017, that allows an individual or corporation to claim a credit against the State income tax for the expense of registering a qualified vehicle in the State. A qualified vehicle is a Class F (Tractor) Vehicle described under § 13-923 of the Transportation Article that is titled and registered in the state. For any taxable year, the credit allowed under this section may not exceed the lesser of \$400 for each qualified vehicle or the State income tax for that year. The tax credit may not be carried over to any other taxable year.

Effective Date: This Act shall take effect for the amended credit on July 1, 2013. This Act will take effect September 1, 2013 for the new income tax credit.

House Bill 803 (Chapter 390, Acts of 2013) – Income Tax – Business and Economic Development – Cybersecurity Investment Incentive Tax Credit The Act creates an income tax credit to be claimed by certain Maryland cybersecurity companies for tax years 2014 through 2018. The tax credit allowed in an initial tax credit certificate is equal to 33% of the investment in a qualified Maryland cybersecurity company, not to exceed \$250,000.00. If the allowed credit in any taxable year exceeds the State income tax for that taxable year, an

individual or corporation may claim a refund in the amount of the excess. Qualified Maryland cybersecurity companies must apply to the Department of Business and Economic Development (DBED) for the credit. The amount of credits that DBED can award each year cannot exceed the credit amount appropriated to a reserve fund for that fiscal year as established by the Act.

A qualified Maryland cybersecurity company is defined as a for-profit entity that is primarily engaged in the development of innovative and proprietary cybersecurity technology and meets specified criteria including requirements that the company (1) has been in business for no more than five years; (2) has less than 50 full-time employees; (3) has its headquarters and base of operations in Maryland; (4) is not publicly traded on any exchange; (5) has not participated in the tax credit program for more than one prior fiscal year; (6) owns or has properly licensed any proprietary technology; and (7) has an aggregate capitalization of at least \$100,000.

Effective Date: The Act will take effect on July 1, 2013.

Tax Legislation Enacted in 2014

ADMINISTRATION

Senate Bill 95 (Chapter 128, Acts of 2014) – Comptroller – Monitoring and Recording of Telephone Calls – Training, Quality Assurance, and Employee Safety This Act creates Tax-General Article § 2-114, which allows the Comptroller's office to record incoming phone calls to the call center for training, quality assurance, and employee safety purposes. All callers will receive a notice that their call is being recorded. Calls may not be retained longer than 60 days unless they are only used as a positive example for training purposes or the caller has made a personal and imminent threat against an employee or property of the State. Recorded calls may not be used in any criminal or civil case unless the caller makes a personal and imminent threat against an employee or property of the State.

Effective Date: This Act will take effect July 1, 2014.

INCOME TAX

A. Senate Bill 172 (Chapter 464, Acts of 2014) – Budget Reconciliation and Financing Act of 2014

This Act, in relevant part, provides that the interest rate for income tax refunds that the Comptroller must pay as a result of a final decision in Comptroller v. Wynne is the average prime rate during fiscal year 2015 rounded to the nearest whole number.

This Act applies only to income tax refunds attributable to taxable years beginning after December 31, 2005 but before January 1, 2015.

Effective Date: This Act will take effect June 1, 2014.

B. Senate Bill 297 (Chapter 53, Acts of 2014) – State Board of Individual Tax Preparers – Sunset Extension and Program Evaluation

The Act extends the termination date for the State Board of Individual Tax Preparers to July 1, 2026, and requires a preliminary evaluation of the board by December 15, 2023. By October 1, 2015 the board will submit a report to the Senate Education, Health, and Environmental Affairs Committee and the House Economic Matters Committee that (1) provides an update on the board's expenditures and special fund balance; and (2) includes any recommendations for legislative changes necessary to provide any additional authority the board needs to address complaints alleging the unregistered provision of individual tax preparation services.

Effective Date: This Act shall take effect July 1, 2014.

C. Senate Bill 604 (Chapter 536, Acts of 2014) and House Bill 743 (Chapter 537, Acts of 2014) – Income Tax Forms – Graphical Representation of General Fund Expenditures

The Act requires the Comptroller to include on certain income tax forms that are updated on an annual basis a demonstrative representation of how much of each dollar that the General Fund receives is spent on education, health, public safety and any other category included by the Comptroller. The demonstrative representation may be in the form of a graph or picture or a combination of graph and picture. The

Comptroller, in consultation with the Department of Budget and Management and the Department of Legislative Services, shall determine the manner in which the representation shall be presented and which income tax forms the representation is to be included. The Comptroller shall post the representation on the Comptroller's web site and include it in instructions on the web site for the same income tax forms that are selected to include the representation.

Effective Date: This Act will take effect October 1, 2014.

D. Senate Bill 909 (Chapter 361, Acts of 2014) – Income tax Checkoff – Developmental Disabilities Services and Support Fund - Designation

The Act alters the designation of the "Developmental Disabilities Waiting List Equity Fund Contribution" checkoff on the individual income tax return form to "Developmental Disabilities Services and Support Fund Contribution".

Effective Date: This Act will take effect July 1, 2014, and will be applicable to all taxable years beginning after December 31, 2013.

E. House Bill 217 (Chapter 590, Acts of 2014) – Maryland Income Tax Refund – Washington County - Warrants

The Act extends the Anne Arundel County Warrant Intercept Program to Washington County residents who have an outstanding warrant from Anne Arundel County, Baltimore City, or Washington County.

The program authorizes any federal, State, or local government official charged with serving a criminal arrest warrant to certify to the Comptroller the existence of an outstanding warrant for an individual. The official may request the Comptroller withhold any refund to which that individual is entitled. For any individual for which a certification of an outstanding warrant is received, the Comptroller is required to withhold the individual's income tax and notify the individual of the outstanding warrant. The Comptroller may not withhold a refund if the individual is an active duty member of the U.S. Armed Forces or files a joint income tax return.

Effective Date: This Act shall take effect October 1, 2014. This Act is effective for 5 years and abrogates September 30, 2019

F. House Bill 313 (Chapter 594, Acts of 2014) – Maryland Income Tax Refund – Baltimore City - Warrants The Act extends the Warrant Intercept Program to Baltimore City residents who have an outstanding warrant from Anne Arundel County, Baltimore City, or Washington County.

The program authorizes any federal, State, or local government official charged with serving a criminal arrest warrant to certify to the Comptroller the existence of an outstanding warrant for an individual. The official may request the Comptroller withhold any refund to which that individual is entitled. For any individual for which a certification of an outstanding warrant is received, the Comptroller is required to withhold the individual's income tax and notify the individual of the outstanding warrant. The Comptroller may not withhold a refund if the individual is an active duty member of the U.S. Armed Forces or files a joint income tax return.

Effective Date: This Act shall take effect October 1, 2014. This Act is effective for 5 years and abrogates September 30, 2019.

SUBTRACTIONS

A. Senate Bill 596 (Chapter 528, Acts of 2014) and House Bill 923 (Chapter 529, Acts of 2014) – Income Tax Subtraction Modification – Mortgage Forgiveness Debt Relief – Extension

These Acts were cross-filed and extend the subtraction for discharge of qualified principal residence indebtedness under Tax-General Article § 10-207(y) to tax years 2014 and 2015. The amount of the subtraction equals the amount of the discharge of qualified principal residence indebtedness allowable under the Mortgage Forgiveness Debt Relief Act of 2007, as amended. The subtraction is limited to \$100,000.00 for an individual and \$200,000.00 for taxpayers who file married filing jointly, head of household, or as a surviving spouse.

Effective Date: These Acts will take effect July 1, 2014 and will be applicable to all taxable years beginning after December 31, 2012 and ending

before January 1, 2016 and shall abrogate without further action at the end of June 30, 2016.

B. Senate Bill 630 (Chapter 320, Acts of 2014) and House Bill 264 (Chapter 321, Acts of 2014) – Income Tax – Subtraction Modification – Student Loan Debt

These Acts were cross-filed and create Tax-General Article § 10-207(bb), which provides a subtraction modification equal to the amount of student loan indebtedness discharged due to total and permanent disability or death. To claim the subtraction modification, a taxpayer must attach to his return a copy of the notice stating that the loans have been discharged due to total and permanent disability or death.

Effective Date: These Acts will take effect July 1, 2014 and will be applicable to all taxable years beginning after December 31, 2013.

C. Senate Bill 1054 (Chapter 576, Acts of 2014) – Economic Development – Arts and Entertainment Districts – Qualifying Residing Artist

The Act expands the definition of a qualifying residing artist for an arts and entertainment district to mean an individual who: (1) owns or rents residential real property anywhere in the State, rather than in the county where the arts and entertainment district is located; (2) conducts a business in any arts and entertainment district; and (3) derives income from the sale or performance within any arts and entertainment district of an artistic work that the individual wrote, composed, executed, either alone or with others, in any arts and entertainment district. The definition applies to the income tax subtraction modification, the property tax credit, and the admissions and amusement tax exemption.

Effective Date: This Act shall take effect July 1, 2014 and shall be applicable to all taxable years beginning after December 31, 2013.

D. Senate Bill 1070 (Chapter 371, Acts of 2014) and House Bill 1228 (Chapter 372, Acts of 2014) – Income Tax – Subtraction Modification – Volunteer Fire, Rescue, and Emergency Medical Services Members

The Acts increase the existing Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue, and Emergency Medical Services Personnel Subtraction

Modification Program for individuals who serve in a volunteer capacity and qualify for active duty service during the tax year from \$3500 to \$5000 over six years. For tax year 2014, the subtraction amount is \$3750. The amounts increase to \$4000 for tax year 2015, \$4250 for tax year 2016, \$4500 for tax year 2017, \$4750 for tax year 2018, and then becomes \$5000 for all tax years beginning January 1, 2019.

Effective Date: This Act shall take effect July 1, 2014.

E. House Bill 699 (Chapter 419, Acts of 2014) – Income Tax – Subtraction Modification – Unreimbursed Expenses of Foster Parents

The Act creates a subtraction modification against the State income tax for 100% of the eligible expenses incurred by a foster or kinship parent, subject to a maximum value of \$1,500. The bill applies to tax years 2014 and beyond. Department of Social Services in a county or the Montgomery County Department of Health and Human Services must approve the expenses as necessary. The Department of Human Resources shall submit to the Comptroller a list of approved foster parents.

Effective Date: This Act shall take effect July 1, 2014 and shall be applicable to all taxable years beginning after December 31, 2013.

CREDITS

A. Senate Bill 486 (Chapter 511, Acts of 2014) – Income Tax Credit – Endow Maryland

This Act creates Tax-General Article § 10-736, which provides a nonrefundable credit equal to 25% of a donation worth \$500 or more of cash or publicly traded securities made by the taxpayer to a “qualified permanent endowment fund” at an “eligible community foundation” that meets certain requirements. The credit may be carried forward up to five years or until the full amount of the credit is used, whichever is sooner.

To claim the credit, a taxpayer must apply to the Department Housing and Community Development (the “Department”) for a credit certificate. On or before January 31 of each year, the Department must provide a list of approved credits from the prior tax year to the Comptroller.

For any taxable year, the amount of each tax credit certificate may not exceed \$50,000. For each taxable year, the Department must reserve at least 10% of the available credits for donations of \$30,000 or less.

This Act also provides an addition modification under Tax-General Article §§ 10-204(l) and 10-305(d)(6) equal to the amount of any deduction taken for a donation to the extent that the donation is included in the application for the Endow Maryland Credit.

Effective Date: This Act will take effect July 1, 2014 and shall be applicable to all tax years beginning after December 31, 2014.

B. Senate Bill 570 (Chapter 525, Acts of 2014) – Income Tax Credit – Qualified Research and Development Expenses – Credit Amounts

The Acts expands the amount of research and development tax credit by increasing from \$8.0 million to \$9.0 million the aggregate amount of credits that the Department of Business and Economic Development may approve in each calendar year. The amount of basic credits and growth credits that may be awarded annually is increased from \$4.0 million to \$4.5 million for each credit.

Effective Date: This Act will take effect June 1, 2014, and will be applicable to all Maryland research and development tax credits certified after December 15, 2013.

C. Senate Bill 600 (Chapter 530, Acts of 2014) and House Bill 742 (Chapter 531, Acts of 2014) – Income Tax – Regional Institution Strategic Enterprise Zone Program

These Acts were cross-filed and establish the Regional Institution Strategic Enterprise (RISE) Zone Program. The Program will be administered by the Department of Business and Economic Development (DBED). To designate a RISE zone, a “qualified institution” partners with a county, municipal corporation, or the economic development agency thereof to submit an application for designation to DBED. DBED will review and approve RISE zones according to the requirements specified in these Acts. Once a RISE zone is designated, businesses operating in the zone qualify for certain property and income tax credits and priority consideration for assistance from the

State's economic development and financial assistance programs.

A business entity qualifies for the income tax credit if it (1) moves into or locates in a RISE zone on or after the date that the zone is designated, or (2) is located within the zone prior to designation if the business entity makes a significant capital investment or expansion of its labor force after a RISE Zone is designated. To claim the credit, a business entity must be certified by DBED.

To provide the RISE zone income tax credit, these Acts alter the existing credit for wages paid in an enterprise zone (Tax-General Article Section 10-702) to include wages paid in a RISE zone. That section provides two credits: (1) the general income tax credit is a one-time \$1,000 credit per new employee filling a newly created position, or \$1,500 for each qualified new employee in a focus area; and (2) for economically disadvantaged employees, the credit increases to a total of \$6,000 per new employee, or \$9,000 per new employee in a focus area.

Effective Date: These Acts will take effect June 1, 2014 and shall be applicable to all taxable years beginning after June 30, 2013.

D. Senate Bill 908 (Chapter 359, Acts of 2014) and House Bill 1345 (Chapter 360, Acts of 2014) – Electric Vehicles and Recharging Equipment – Rebates and Tax Credits The Acts repeal the electric vehicle recharging equipment income tax credit and replace the credit with a rebate program administered by the Maryland Energy Administration (MEA). MEA may award an annual maximum of \$600,000 in rebates in fiscal 2015 through 2017, with funding for these rebates provided by transfers from the Strategic Energy Investment Fund.

Effective Date: This Act shall take effect July 1, 2014.

E. House Bill 198 (Chapter 389, Acts of 2014) – Income Tax – Earned Income Credit – Refundable Amount The Act expands the Maryland refundable earned income credit (REIC). The Act increases the REIC from 25% to 28% of the federal earned income credit (EIC). The Act phases in the increase over four years beginning with tax year 2015 where the credit

increases from 25% to 25.5 % of the federal earned income credit minus any pre-credit State income tax. The Act increases in 2016 to 26%, in 2017 to 27%, and then becomes 28% beginning in 2018.

Effective Date: This Act shall take effect July 1, 2014.

F. House Bill 510 (Chapter 601, Acts of 2014) – Sustainable Communities Tax Credit Program – Extension and Alteration The Act extends the termination date of the Sustainable Communities Tax Credit Program through fiscal 2017. The Act establishes credit eligibility for small commercial projects that meet certain requirements. The Maryland Historical Trust is authorized to award up to \$4.0 million in credits to small commercial projects. The Maryland Historical Trust may award residential tax credits through fiscal 2017.

The Act defines “small commercial project” to mean a rehabilitation of a structure primarily used for commercial, income-producing purposes if (1) the qualified rehabilitation expenditures do not exceed \$500,000; and (2) the structure is located in a sustainable community. “Small commercial project” includes a structure that is used for both commercial and residential rental purposes; and does not include a structure that is used solely for residential purposes. The Act defines “commercial rehabilitation” not to include a small commercial project. Under the Act, a small commercial project is subject to certain credit recapture provisions. The Act repeals eligibility for “qualified rehabilitated structures” to receive the tax credit under the commercial program.

On or before January 30, 2015, the Director of the Maryland Historical Trust shall provide a certain report to the Comptroller on the number of tax credits and the amount of the tax credits that have expired under the Sustainable Communities Tax Credit Program. Pursuant to the Act, the Director of the Maryland Historical Trust shall provide a certain report to the Comptroller on the number and amount of initial credit certificates that have been revoked with regards to an approved commercial rehabilitation for which, (1) an initial credit certificate was issued by the Maryland Historical Trust on or after July 1, 2006, but on or before June 30, 2014; and (2) the applicant does not submit to the Trust within 12 months of the

expiration date of the initial credit certificate a request for final certification of the rehabilitation.

Effective Date: This Act shall take effect June 1, 2014.

G. House Bill 668 (Chapter 417, Acts of 2014) – Income Tax Credit – Health Enterprise Zones - Modifications The Act makes changes to the existing Health Enterprise Zones income tax credits. It expands the income tax credit to include “health enterprise zone employers.” That term is defined as a Health Enterprise Zone practitioner, a for-profit entity, or a nonprofit entity that employs qualified employees and provides health care services in a Health Enterprise Zone.

The Act also provides that the Department shall certify to the Comptroller the applicability of the credit provided for each employer and the amount of credit assigned to an employer for each taxable year. The Act also provides that the Department shall give special consideration to applicants that are community-based and serve the overall goals of the Health Enterprise Zone that the applicant is seeking to serve.

Effective Date: This Act shall take effect June 1, 2014. It shall be applicable to all taxable years after December 31, 2012, but before January 1, 2017. It shall abrogate June 30, 2017.

SALES AND USE TAX

A. House Bill 786 (Chapter 424, Acts of 2014) – Sales and Use Tax – Tax-Free Weekend – Exemption for Light-Emitting Diode (LED) Lights Under the State sales and use tax law, there are two sales tax-free periods each year. The purchase of certain clothing and footwear is exempt from State sales tax during the seven-day period beginning the second Sunday in August through the following Saturday. Additionally, the purchase of certain Energy Star products or solar water heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February is exempt from the State sales tax. The Act expands the annual sales tax-free period for certain Energy Star products and solar water heaters to include light-emitting diode (LED) light bulbs to the items that are exempt.

Effective Date: This Act shall take effect July 1, 2014 and shall abrogate without further action at the end of June 30, 2017.

ESTATE TAX

A. House Bill 739 (Chapter 612, Acts of 2014) – Maryland Estate Tax – Unified Credit The Act gradually conforms the Maryland estate tax to the value of the unified credit under the federal estate tax, thereby increasing the amount that can be excluded for Maryland estate tax purposes. The increase in the amount that can be excluded for Maryland estate tax purposes is phased over five years and is equal to (1) \$1.5 million for a decedent dying in calendar year 2015; (2) \$2.0 million for a decedent dying in calendar year 2016; (3) \$3.0 million for a decedent dying in calendar year 2017; (4) \$4.0 million for a decedent dying in calendar year 2018; and (5) the amount excluded under the federal estate tax for a decedent dying on or after January 1, 2019.

Effective Date: This Act shall take effect July 1, 2014.

III. Administrative Releases

A. Administrative Release No. 6

Subject: Taxation of Pass-Through Entities Having Nonresident Members. This release was revised to add the 2014 tax rate and remove the reference to the modified federal Schedule K-1, which the Comptroller no longer accepts.

B. Administrative Release No. 14

Subject: Interest Rates for Refunds and Delinquent Taxes. This release was revised to reflect the 2015 interest rate.

C. Administrative Release No. 21

Subject: Income Tax Treatment of Employee Contributions under the Maryland Pension Pickup Program. This release was revised to incorporate the list of governmental units participating in the Employees' Retirement and Pension Systems as of June 30, 2013.

D. Administrative Release No. 26

Subject: Procedures for Computer-Printed Substitute Forms. This release was revised to provide for the new approval process and to update the relevant forms.

E. Administrative Release No. 27

Subject: Work, Not Welfare, Tax Incentive Act of 1995 with 1996, 1998, 2000, 2003, 2006, 2007, and 2008 Amendments (Employment Opportunity Credit). This release was revised to reflect the electronic filing requirement for the Form 500CR and to specify that the Schedule K-1 must be the Maryland Form 510 Schedule K-1.

F. Administrative Release No. 29

Subject: The Honorable Louis L. Goldstein Subtraction Modification Program for Volunteer Fire, Rescue or Emergency Medical Services Personnel. This release was revised to reflect the legislature enacted under cross-filed Senate Bill 1070 (Chapter 371, Acts of 2014) and House Bill 1228 (Chapter 372, Acts of 2014), which altered the amount of the subtraction modification.

G. Administrative Release No. 30

Subject: Maryland Estate Tax. This release was revised to reflect the legislation enacted under House Bill 739 (Chapter 612, Acts of 2014), which gradually conforms the Maryland estate tax

exemption amount to the value of the unified credit under the federal estate tax, thereby increasing the amount that can be excluded for Maryland estate tax purposes.

H. Administrative Release No. 33

Subject: Tax Credits for Hiring Individuals with Disabilities. This release was revised to reflect the electronic filing requirement for the Form 500CR and to specify that the Schedule K-1 must be the Maryland Form 510 Schedule K-1.

I. Administrative Release No. 34

Subject: Credit Against Withholding Taxes For Tax-Exempt Organizations. This release was revised to provide that the credit against withholding taxes is now taken on Form MW508CR instead of Form 500CR.

J. Administrative Release No. 35

Subject: The Honorable Louis L. Goldstein Subtraction Modification Program for United States Coast Guard Auxiliary Members. This release was revised to reflect the legislature enacted under cross-filed Senate Bill 1070 (Chapter 371, Acts of 2014) and House Bill 1228 (Chapter 372, Acts of 2014), which altered the amount of the subtraction modification.

K. Administrative Release No. 36

Subject: Tax Credit for Cost of Providing Commuter Benefits to Employees and the Commuter Benefits Acts of 2000 and 2002. This release was revised to reflect the electronic filing requirement for the Form 500CR and to specify that the Schedule K-1 must be the Maryland Form 510 Schedule K-1.

L. Administrative Release No. 39

Subject: Long-Term Employment of Qualified Ex-Felons Tax Credit. This release was revised to reflect the electronic filing requirement for the Form 500CR and to specify that the Schedule K-1 must be the Maryland Form 510 Schedule K-1.

M. Administrative Release No. 40

Subject: Claim of Right. Revisions update line references to Maryland Form 502CR.

IV. Regulations

A. New Regulations

INCOME TAX

03.04.15 Electronic Filing Requirements for Business Tax Credits - The new regulation provides that taxpayers claiming any business tax credit, excess carryover of a business tax credit, or a recapture of a business tax credit shall claim the credit on an electronically filed Maryland return. Required certification for the credit must also be electronically filed. Taxpayers claiming a business tax credit against fiduciary income tax and non-profit organizations are exempt from this filing requirement. The Sustainable Communities Tax Credit does not need to be claimed on an electronically filed return.

SALES AND USE TAX

03.06.01.46 Parent-Teacher Organization Fundraisers - The new regulation provides that sales of tangible personal property by parent-teacher organizations or other organizations within an elementary school, secondary school, or school system in Maryland are exempt from sales and use tax, with certain exceptions, pursuant to House Bill 232 (Chapter 609, Acts of 2013).

B. Proposed Action on Regulations:

INCOME TAX

03.01.01.01 General Regulations - Inspection of Public Records. Regulation is amended to update the address where a person may submit a certain written application to the Comptroller to inspect a certain public record.

03.01.02.02 Tax Payments - Immediately Available Funds - Requirements for Payment by Immediately Available Funds. Regulation is amended to specify that ACH credit and ACH debit may not be used to pay sales and use tax.

03.04.05.02 Tax Refund Intercept Program - Delinquent Debts - Duties of the Central Collection Unit. Regulation is amended to change the date by which the Central Collection Unit is required to provide a certain certification to

the Comptroller of certain debts owed to the State pursuant to House Bill 127 (Chapter 384, Acts of 2014).

03.04.07.03 Pass-Through Entity Nonresident Tax- Filing of Returns and Payment of Tax. Regulation is amended to specify that the Schedule K-1 must be a Form 510 Schedule K-1.

03.04.07.04 Pass-Through Entity Nonresident Tax - Statements to Nonresident Members. Regulation is amended to remove reference to the modified federal Schedule K-1, which the Comptroller no longer accepts.

03.04.10.04 Maryland Research and Development Tax Credit - Maximum Annual Credits. Regulation is amended to reflect the increase in the maximum research & development credits allowed, as provided by Senate Bill 570 (Chapter 525, Acts of 2014).

03.04.10.13 Maryland Research and Development Tax Credit - Partnerships, S Corporations, Limited Liability Companies, Business Trusts, Estates, and Trusts. Regulation is amended to remove reference to the modified federal Schedule K-1, which the Comptroller no longer accepts.

03.04.11.02 Arts and Entertainment Districts - Sales and Publication of Artistic Work. Regulation is amended to reflect changes in the definition of "qualifying residing artist" as provided by Senate Bill 1054 (Chapter 576, Acts of 2014).

03.04.11.03 Arts and Entertainment Districts - Production and Performance of Artistic Work. Regulation is amended to reflect changes in the definition of "qualifying residing artist" as provided by Senate Bill 1054 (Chapter 576, Acts of 2014).

03.04.15.01 Electronic Filing Requirements for Business Tax Credits - Definition. Regulation is amended to add the Endow Maryland tax credit to the definition of "business tax credit" pursuant to SB 486 (Chapter 511, Acts of 2014).

V. Court Cases

A. Brian and Karen Wynne v. Comptroller of the Treasury

Assessment affirmed by Maryland Tax Court. On appeal by Petitioners to the Circuit Court for Howard County reversed. Comptroller noted appeal to the Maryland Court of Special Appeals. Taxpayer filed a Petition for Writ of Certiorari to the Court of Appeals which was granted. The matter was argued in May 2012.

On January 28, 2013, in a 5-2 decision, the Maryland Court of Appeals affirmed the decision of the Circuit Court for Howard County. On May 27, 2014, the United States Supreme Court granted the State's Petition for Writ of Certiorari. Argument before the United States Supreme Court is expected in November 2014.

Taxpayers, Maryland residents, appealed to the Maryland Tax Court from the Comptroller's Notice of Final Determination affirming an assessment against them for income tax owed for the tax year 2006. In their appeal, the taxpayers raised two issues. First, they contested the applicability of Tax-Gen. Art. § 10-703(c)(1) for calculating a credit for taxes paid by the taxpayers or an S-corporation, in which they owned shares to other states on the income earned by them as 2.4% shareholders of the Maryland S-corporation. The second issue, raised in an amended Petition of Appeal, argued that Tax-Gen. Art., § 10-703 violates the Commerce Clause of the United States Constitution by "not allowing the credit against local income taxes."

The S-corporation operated in 39 states, some of which recognized its status as an S-corporation and some which did not. Consequently, in some states the taxpayer paid a tax on his income, whereas in other states the corporation paid a tax on its income apportioned to that state. Recognizing this situation, Tax-Gen. Art., § 10-703(c)(2) still allows a taxpayer to take a credit for taxes paid even though the tax was actually paid by the S-corporation in which he is a shareholder. The taxpayers' Commerce Clause argument asserts that the failure to allow a credit against the local (county) tax fails the fair apportionment prong (specifically the "internal consistency test") of the *Complete Auto Transit* test. The Maryland

Tax Court affirmed the assessment on December 10, 2009. The taxpayers appealed. On appeal they are only pursuing the Commerce Clause issue.

The Court of Appeals found that Tax-Gen. Art., § 10-703(a) was unconstitutional, violating the dormant Commerce Clause of the U.S. Constitution.

B. Nordstrom, Inc v. Comptroller of the Treasury; NIHC, Inc. v. Comptroller of the Treasury; N2HC, Inc. v. Comptroller of the Treasury

On August 18, 2014, the Court of Appeals, affirmed the decision of the Maryland Tax Court. The only issue on appeal was whether or not Maryland's requirement for related entities to file separate corporate income tax returns prevented Maryland from taxing the gain income that NIHC had reported on its Maryland return as Maryland taxable income. NIHC did not appeal the questions of nexus and whether the gain income was taxable by Maryland.

The Court of Appeals, agreed with the Tax Court that Maryland's separate reporting requirements did not prevent the taxing of Maryland income reported by NIHC. "There is no question at this juncture that the transactions carried out under the 'anti-*Geoffrey* strategy' shifted income related to Nordstrom's activities in Maryland to NIHC...While the failed anti-*Geoffrey* strategy was an effort to shift income beyond the geographical reach of a state tax collector, NIHC's current argument seeks to shift income to a time period beyond the reach of the state tax collector. It may be that appellate judges are not well-versed in the concepts that bend time and space, but we believe this argument is without merit on the facts of this case...There is no question the income related to Nordstrom's activities in Maryland during 2002 and 2003 tax years was shifted in part to NIHC... On the facts of this case, the separate reporting requirement does not eliminate the tax liability for the income reported, properly subject to tax, and not previously taxed."

The Tax Court affirmed the assessments against Nordstrom's two subsidiaries, NIHC and N2HC. The alternative assessment against Nordstrom was rescinded. Nordstrom and NIHC noted

appeals to the Circuit Court for Baltimore County. The Comptroller filed a cross-petition in the Nordstrom case. N2HC did not appeal.

In August, 2009, the Circuit Court issued an order and memorandum opinion remanding the cases back to the Tax Court. The Circuit Court directed the Tax Court to decide: 1) whether or not the IRC § 311(b) gain of NIHC, or any part thereof, constituted Maryland taxable income; 2) if so, whether the Maryland requirement of separate entity income tax returns prohibited taxing the § 311(b) deferred gain; and 3) whether Nordstrom's royalty payment deductions were ordinary and necessary business expenses.

The Tax Court initially affirmed the assessment against NIHC, but failed to answer the second question. On request of the Petitioner, the Tax Court revisited the matter and, on July 15, 2010, again affirmed the assessment. The Tax Court unequivocally determined that the income, characterized as § 311(b) gain was Maryland taxable income: "In the instant case, it is clear to this Court that but for the activities of Nordstrom and its use of the trademarks in Maryland, the gain of NIHC would not have been recognized...One cannot separate the value of the trademarks, the licensing of the trademarks and the gain recognized by NIHC from the Nordstrom activity in Maryland."

On the second question, the Court found that there is no prohibition arising from the separate reporting requirements when the income is attributed to the activity of the parent and its use of the marks in Maryland.

NIHC again noted an appeal to the Circuit Court. On December 7, 2011, the Circuit Court affirmed in part and reversed in part the decision of the Maryland Tax Court. The circuit court affirmed the Tax Court's finding that constitutional nexus existed because of the lack of economic substance of the affiliates and that "Nordstrom's business activities and use of the trademarks in Maryland produced the gain reported by NIHC and therefore sufficient nexus exists between NIHC and Maryland so that imposition of the Maryland income tax on the I.R.C. § 311(b) gain does not violate the Due Process or Commerce Clause of the Constitution." The court further held that the §311(b) gain was reasonably attributable

to NIHC's trade or business in Maryland and, therefore, Maryland taxable income.

The Circuit Court however reversed the Tax Court's decision with regard to the use of §311(b), holding that Maryland's requirement of separate reporting required the affiliate to have restated its income, thus reporting the entire gain in 1999.

C. Continental Surfaces, LLC v. Comptroller

The taxpayer in this matter is a manufacturer of granite and silestone countertops. Continental typically bought slabs of granite and silestone from suppliers and fabricated countertops from those materials. Most of Continental's sales were to Continental Surfaces of Pittsburgh, LLC ("Pittsburgh") and Continental USA Kitchen and Bath, LLC ("USA"). All three of these companies were owned by the same individual.

Both Pittsburgh and USA installed the countertops that they purchased from Continental. Pittsburgh installed the countertops in homes pursuant to "furnish and install" contracts it had with Lowe's and Home Depot. USA installed the countertops in apartments in the course of remodeling projects. Although Continental obtained resale certificates from Pittsburgh and USA for the sales of its countertops, because the countertops were installed by the purchasers, they were not "resold" as tangible personal property and therefore the certificates were invalid, pursuant to COMAR 03.06.01.19(A). These sales, therefore, were assessed sales tax by the Comptroller.

The Comptroller determined that Continental had not paid sales tax on a number of purchases of slabs. Continental argued that it did not owe sales tax because it intended to resell the slabs; the lack of a resale certificate was the fault of the vendor. The Comptroller assessed sales tax on these purchases.

Continental occasionally swapped slabs of material with another manufacturer, Artelye Marble and Granite ("Artelye"), when their inventories ran low. When Continental provided Artelye with a slab, it booked the transaction as a sale, but would not charge sales tax. Continental contended that it did not owe tax on these sales because it obtained a resale certificate from Artelye. The Comptroller assessed sales tax on these sales because Artelye manufactured countertops from the slabs. It did not resell them.

The case was tried in Tax Court and on October 31, 2013 the Court issued an order affirming the Comptroller's assessment, with a small adjustment agreed to by the parties. The assessment included tax of \$435,030.10, penalty of \$41,674.28 and interest of \$283,057.05.

D. John Zorzit/Nick's Amusements, Inc. v. Comptroller

This case involves an illegal gambling operation conducted by Nick's Amusements, Inc. John Zorzit was the President and sole shareholder of Nick's. A joint investigation into Nick's operations conducted by the Baltimore County Police Department and the IRS determined that illegal payouts were being made to customers who played the video poker machines that Nick's rented to various establishments. The investigation culminated in a raid on Nick's office and twenty-nine establishments that rented video poker machines from Nick's. The raid on Nick's Office uncovered cash totaling more than \$40,000 stashed in various locations throughout the office, including the ceiling of Mr. Zorzit's bathroom. Sixty-three video poker machines were confiscated from the establishments that were raided.

Although Nick's reported and paid Admissions & Amusement tax on the net revenue generated by the video poker machines, no tax was paid on the money paid out to customers. The Comptroller used data obtained by the BCPD from the confiscated machines to determine a "payout percentage": the percentage of gross receipts paid out to customers. The A&A tax was then applied to the payouts, and an assessment, including a fraud penalty, was issued to Nick's Amusements, Inc. and John Zorzit, individually, as the President of Nick's.

Nick's appealed the assessment on the grounds that the calculation of the tax was incorrect because the data obtained from the video poker machines did not provide a reliable basis for calculating the payout percentage. Nick's also contended that the calculation of tax was incorrect because the payout percentage was applied to all of the income reported by Nick's on its A&A returns, when some of the money reported came from non-video poker machines, such as pool tables and video games. The court found that, to the extent there were inaccuracies in the

calculations, these were due to the taxpayers' failure to maintain adequate and necessary records, and the tax assessment was affirmed.

Zorzit appealed the fraud penalty on the grounds that, having not read the *Rossville Vending v. Comptroller* case, he could not have known that illegal payouts were taxable. The Court found sufficient evidence to establish four badges of fraud, following the *Genie & Company v. Comptroller* case, and the fraud penalty. The court did reduce the fraud penalty to 50%, however, in recognition of the deficiencies in the audit calculations. The final assessment affirmed by the court on July 8, 2013, including tax, penalty and accruing interest, was \$5,770,353.18.

The taxpayers filed an appeal in the Circuit Court for Baltimore County. The taxpayers' appeal was heard in the Circuit Court for Baltimore County, before Judge Cahill, on April 24, 2014. On May 30, 2014 Judge Cahill issued an order affirming the Tax Court's ruling in its entirety.

The taxpayers have filed an appeal with the Court of Special Appeals.

E. State of Maryland, Comptroller of Maryland v. Shipe

The taxpayer filed a motion with the circuit court to release a recorded tax lien that was more than 12 years old, but not renewed by the Comptroller. The circuit court granted the taxpayer's motion holding that the General Assembly imposed time limits on the Comptroller's ability to enforce a tax lien once filed. The Comptroller timely filed its appeal to the Court of Special Appeals.

The basis of the Comptroller's appeal is that under Maryland law a recorded tax lien has the full force and effect of a judgment lien. The recorded tax lien continues until it is satisfied.

Judgment liens in favor of the state are not subject to the 12 year statute of limitations imposed on private judgments. Therefore, tax liens do not automatically expire after a certain period of time. Neither are judgments in favor of the state required to be renewed every twelve years as are those in favor of private creditors. *State of Maryland, Comptroller of Maryland v. Shipe*, Court of Special Appeals, No. 00009, September Term, 2014 is expected to be argued

in January 2015 before the Maryland Court of Special Appeals.

Carbond filed an appeal in the Circuit Court for Baltimore City and argument will likely be scheduled for late 2014.

F. Carbond, Inc. t/a Bayside Vending, et al. v Comptroller of the Treasury

Carbond, Inc. t/a Bayside Vending and two corporate officers, Carroll Bond III and August Papa (collectively "Carbond") appealed admissions and amusements tax assessments to the Maryland Tax Court. The Comptroller issued assessments for \$2,907,081.71 in admissions and amusements Tax, a 100% fraud penalty, and statutory interest against the corporation and the two presidents (with the officer assessments made in proportion to their tenure as officers). The assessments were issued because Carbond failed to remit admissions and amusements tax on payouts derived from electronic gaming devices for the period of April 1, 2000 through March 31, 2010.

The Comptroller worked with officers from the Baltimore County and Baltimore City Police Departments to determine the amount of money placed in the machines and estimate an amount that was paid out as winnings. A fraud penalty was assessed because Carbond did not maintain records of the pay outs, significantly and consistently under-remitted taxes, had knowledge that taxes were owed, and failed to cooperate with auditors.

The trial took place over three days, but did not include testimony from the assessed officers, Carroll Bond III and August Papa, who invoked Fifth Amendment privileges against self-incrimination. The Maryland Tax Court affirmed the Admissions and Amusements Tax due, 75% of the fraud penalty and statutory interest to date. Among other arguments, the taxpayers argued that the electronic gaming devices were not games of entertainment, and therefore, not subject to the admissions and amusement tax. This argument was expressly rejected by the Tax Court. The Tax Court also found unconvincing the testimony of the taxpayers' expert witness as to his conclusion that the payout percentage on the machines was 0% and expressly credited the findings of the Comptroller's auditor as to a 52% payout percentage.

VI. Changes in Tax Forms

Tax forms will continue to be available through various sources this year. Fill-in forms will be available on the Comptroller's Web site at www.marylandtaxes.com. Paper forms will be available upon request. A limited number of paper tax booklets have been made available to libraries which have requested them.

We will continue to provide forms in Spanish that can be downloaded from our Web site. While we have done our best to provide for an accurate translation into Spanish, where questions arise as to the meaning of these instructions, the English version will be deemed to be the accurate version.

A. Resident Returns

Form 502 - Maryland Resident Return

We have removed Attachment Sequence Numbers from the major Resident tax returns. The numbers did not generate the efficiencies on the 2013 tax returns which we had anticipated, so we have discontinued this pilot initiative.

Line 1c of Form 502 - This is a new line to report the amount of "capital gain or capital loss" reported on your federal income tax return.

Line 1d of Form 502 - This is a new line to report the amount of "taxable pension, IRA, or annuity" reported on your federal income tax return.

Line 1e of Form 502 - We have added a new checkbox for taxpayers to identify whether they have reported more than \$3,350 of investment income on their 2014 federal tax return. This checkbox is needed to help validate earned income tax credit claims.

Line 36 of Form 502 - We have updated the contribution fund name to the Developmental Disabilities Services and Support Fund.

We have removed the Identity Protection PIN Box from the return.

Form 503 - Resident Short Form -- Discontinued

We have discontinued Form 503. Maryland no longer has a "short form." All resident

taxpayers are required to file the Maryland Resident Return, Form 502.

Instructions to 502

- **Instruction 1** - The minimum filing requirements have changed. The new amount for a single person under 65 is \$10,150.
- **Instruction 11** - We include instructions for the new line 1c to enter the amount of capital gains and losses reported as income on line 13 of the federal Form 1040.
- **Instruction 11** - We include instructions for the new line 1d to enter the total amount of pension, IRA, and annuities reported as income on lines 15b and 16b of the federal Form 1040, or lines 11b and 12b of the federal Form 1040A.
- **Instruction 11** - We include instructions for the new checkbox (identified as 1e) for taxpayers to indicate whether investment income exceeds \$3,350. This checkbox will help us validate earned income tax credit claims.
- **Instruction 12** - Letter code "e" has been updated to remove reference to the expired credit for the Long-Term Employment of Qualified Ex-Felons Tax Credit. In addition, we remind taxpayers that they must reflect an addition modification using letter code "e" if they are claiming a carryover of the expired Maryland Employment Opportunity Tax Credit.
- **Instruction 12** - We have removed letter code "p," which was used to report Maryland's decoupling with the federal itemized deduction limitation threshold. Maryland will limit itemized deductions at the same income level as the IRS for 2014; therefore an addition modification is no longer required.
- **Instruction 13** - The maximum allowable pension exclusion is \$29,000.
- **Instruction 13** - We have updated the amount claimed for letter code "v," used for the Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue and Emergency Medical Services Personnel

Subtraction Modification Program, to \$3,750.

- **Instruction 13** - Letter code “w” is now used for a subtraction of up to \$1,500 of approved unreimbursed expenses that a foster parent incurs on behalf of a foster child.
- **Instruction 13** - Letter code “nn” is used for a subtraction of the amount of student loan indebtedness discharged due to total or permanent disability or death.
- **Instruction 13** - Letter code “oo” is used for a subtraction of the amount of qualified principal residence indebtedness included in federal adjusted gross income that was allowable as an exclusion under the Mortgage Debt Relief Act of 2007. The subtraction is limited to \$100,000 for taxpayers filing as Single or Married Filing Separately. The limit is \$200,000 for taxpayers filing Jointly, Head of Household, or as a Qualified Widow or Widower.
- **Instruction 14** - We have updated our instructions for itemized deductions as Maryland is no longer decoupled from the federal itemized deduction limitation threshold.
- **Instruction 14** - We have updated the Itemized Deduction Worksheet (14A) used by taxpayers who have had their federal itemized deductions limited. If these taxpayers have taken a deduction for state and local income taxes, that deduction has been limited. This worksheet calculates the amount of state and local taxes that were limited so that taxpayers can make the appropriate adjustment on the Maryland tax return.
- **Instruction 18** - We have removed the Long-Term Employment of Qualified Ex-Felons Tax Credit from the list of nonrefundable business tax credits as that credit has expired. Taxpayers who have earned this credit may be eligible for a carryover for up to five years, but no new credits may be earned.
- **Instruction 18** - Line 26 instructions (Letter code “q”) informs taxpayers that the Electric Vehicle Recharging

Equipment Tax Credit is only available to taxpayers who purchased the qualifying equipment prior to July 1, 2014.

- **Instruction 18** - Line 26 instructions introduce the new Qualified Vehicle Tax Credit, which allows up to a \$400 nonrefundable tax credit for each Class F Tractor titled and registered in Maryland.
- **Instruction 18** - We have updated the Poverty Income Guidelines, which begins at \$11,670.
- **Instruction 19** - Three counties have changed their 2014 local tax rates. Caroline County has increased its rate to 2.73%. Carroll County has decreased its rate to 3.04%. Charles County has increased its rate to 3.03%.
- **Instruction 20** - We have updated the contribution fund to its new name: the Developmental Disabilities Services and Support Fund.
- **Instruction 21** - References the new Cybersecurity Investment Incentive Tax Credit as one of the refundable business tax credits which may be carried over from Form 500CR.

Form 502AE - Arts and Entertainment District Subtraction Form

We have updated the instructions on the back of Form 502AE to change the definition of “qualifying artist” to provide that the artist created artistic work in ANY arts and entertainment district; owns or rents residential real property in Maryland; and conducts business in ANY arts and entertainment district.

Form 502B - Dependents’ Information

We have removed the field related to the dependent being under 19.

We have removed the question related to medical insurance.

We have added room for dependent information for five dependents. Previously, we only provided space for four dependents on page 1 of the Form 502B.

Form 502CR - Income Tax Credits for Individuals

PART E - The maximum amount of credit that can be claimed for long-term care premiums in Part E has been increased to \$370 for those insured who are age 40 or less. This change also has been made to the related instructions.

PART G - We have streamlined Part G to allow the Health Enterprise Zone Practitioner Tax Credit to be based upon the amount of credit certified by the Department of Health and Mental Hygiene.

PART G Instructions - Updated to state that the credit must be claimed on an electronically-filed amended return.

Form 502D - Declaration of Individual Estimated Tax

Form 502D has been updated to reflect the new 2015 local tax rate for Carroll County, which decreased its tax rate to 3.03%.

Form 502INJ - Injured Spouse Form

We have removed the column that contained information from the discontinued Short Form 503.

Form 502S - Sustainable Communities Tax Credit

We have removed the 10% tax credit which was available for certain expenditures prior to 2014.

We have modified this form to resemble the format of other business tax credits.

Form 502SU - Subtractions from Income

Letter code "w" is now used for a subtraction of up to \$1,500 of approved unreimbursed expenses that a foster parent incurs on behalf of a foster child.

Letter code "nn" is used for a subtraction of the amount of student loan indebtedness discharged due to total or permanent disability or death.

Letter code "oo" is used for a subtraction of the amount of qualified principal residence indebtedness included in federal adjusted gross income that was allowable as an exclusion under the Mortgage Debt Relief Act of 2007.

Form 502V - Subtraction for Certain Charitable Travel Expenses

We have changed the Form 502V to reflect the new charitable travel expenses modification. For the travel expenses incurred during 2014, the rate is 56 cents per mile.

Form 502X Instructions - Maryland Amended Return

- **Instruction 4** - We have removed the Special Note which referenced the completion of the special Itemized Deduction Worksheet required by itemizers with income greater than \$178,150 (\$89,075 if Married Filing Separately).
- **Instruction 7** - Reflects updated local tax amounts.

B. Nonresident Returns

Form 505 - Nonresident Return

Line 40 - We have updated the contribution fund name to the Developmental Disabilities Services and Support Fund.

Line 45 - We have updated our reference from Instruction 20 to Instruction 22.

We have removed the Identity Protection PIN Box from the return.

Instructions to Form 505

- **Instruction 4** - The minimum filing requirements have changed. The new minimum filing level for a single person under 65 is \$10,150.
- **Instruction 12** - Letter code "c" has been updated to remove reference to the expired credit for the Long-Term Employment of Qualified Ex-Felons Tax Credit. In addition, we remind taxpayers that they must reflect an addition modification using letter code "e" if they are claiming a carryover of the expired Maryland Employment Opportunity Tax Credit.
- **Instruction 12** - We have removed letter code "p," which was used to report Maryland's decoupling with the federal itemized deduction limitation threshold. Maryland will limit itemized deductions at the same income level as the IRS for

2014; therefore an addition modification is no longer required.

- **Instruction 13** - We have updated the amount claimed for letter code “v,” used for the Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue and Emergency Medical Services Personnel Subtraction Modification Program, to \$3,750.
- **Instruction 13** - Letter code “nn” is used for a subtraction of the amount of student loan indebtedness discharged due to total or permanent disability or death.
- **Instruction 13** - Letter code “oo” is used for a subtraction of the amount of qualified principal residence indebtedness included in federal adjusted gross income that was allowable as an exclusion under the Mortgage Debt Relief Act of 2007.
- **Instruction 13** - Letter code “pp” is now used for a subtraction of up to \$1,500 of approved unreimbursed expenses that a foster parent incurs on behalf of a foster child.
- **Instruction 16** - We have updated the Itemized Deduction Worksheet (16A) used by taxpayers who have had their federal itemized deductions limited. If these taxpayers have taken a deduction for state and local income taxes, that deduction has been limited. This worksheet calculates the amount of state and local taxes that were limited so that taxpayers can make the appropriate adjustment on the Maryland tax return.
- **Instruction 20** - We have removed the Long-Term Employment of Qualified Ex-Felons Tax Credit from the list of nonrefundable business tax credits as that credit has expired. Taxpayers who have earned this credit may be eligible for a carryover for up to five years, but no new credits may be earned.
- **Instruction 20** - Line 36 instructions introduce the new Qualified Vehicle Tax Credit, which allows up to a \$400 nonrefundable tax credit for each Class F Tractor (vehicle) titled and registered in Maryland.

- **Instruction 20** - We have updated the Poverty Income Guidelines, which begins at \$11,670.
- **Instruction 21** - We have updated the contribution fund to its new name: the Developmental Disabilities Services and Support Fund.
- **Instruction 22** - Line 46 instructions reference the new Cybersecurity Investment Incentive Tax Credit as one of the refundable business tax credits which may be carried over from Form 500CR.

Form 505SU - Nonresident Subtractions from Income

Part I Subtractions

Letter code “nn” is used for a subtraction of the amount of student loan indebtedness discharged due to total or permanent disability or death.

Letter code “oo” is used for a subtraction of the amount of qualified principal residence indebtedness included in federal adjusted gross income that was allowable as an exclusion under the Mortgage Debt Relief Act of 2007.

Part II Subtractions

Letter code “pp” is now used for a subtraction of up to \$1,500 of approved unreimbursed expenses that a foster parent incurs on behalf of a foster child.

Instructions to Form 505X

- **Instruction 4** - We have removed the Special Note which referenced the completion of the special Itemized Deduction Worksheet required by itemizers with income greater than \$178,150 (\$89,075 if Married Filing Separately).

Form 515 - Nonresident Local Income Tax Return

Line 47 - We have updated the contribution fund name to the Developmental Disabilities Services and Support Fund.

Instructions to Form 515

- **Instruction 2** - The minimum filing requirements have changed. The new amount for a single person under 65 is \$10,150.
- **Instruction 11** - We have removed letter code “p,” which was used to report Maryland’s decoupling with the federal itemized deduction limitation threshold. Maryland will limit itemized deductions at the same income level as the IRS for 2014; therefore an addition modification is no longer required.
- **Instruction 15** - We have updated the Itemized Deduction Worksheet (15A) used by taxpayers who have had their federal itemized deductions limited. If these taxpayers have taken a deduction for state and local income taxes, that deduction has been limited. This worksheet calculates the amount of state and local taxes that were limited so that taxpayers can make the appropriate adjustment on the Maryland tax return.
- **Instruction 19** - We have updated the Poverty Income Guidelines, which begins at \$11,670.
- **Instruction 20** - Three counties have changed their 2014 local tax rates. Caroline County has increased its rate to 2.73%. Carroll County has decreased its rate to 3.04%. Charles County has increased its rate to 3.03%.

C. Corporation Returns

Instructions to Form 500

- **Instruction 8** - Line 7f instructions have been updated for letter code “B.” We have removed reference to the Long-Term Employment of Qualified Ex-Felons Credit. We have also added a reminder that an addition is required when a taxpayer is taking a carryover of the Maryland Work Opportunity Tax Credit.
- **Instruction 8** - We have added the Qualified Vehicle Tax Credit to the list of nonrefundable credits.

- **Instruction 8** - We have added the Cybersecurity Investment Incentive Tax Credit to the list of refundable credits.

Form 500CR - Maryland Business Income Tax Credits - (Available only to electronic filers)

Part A - We have added a checkbox in the Summary of Part A for the purpose of identifying businesses which are claiming the Enterprise Zone Tax Credit by virtue of being located in a Regional Institution Strategic Enterprise (RISE) Zone.

Part B - The Health Enterprise Zone Hiring Tax Credit has been made available through 2016. We will now allow entries in the data fields that had previously reserved for the second year of the program.

Part G - The Long-Term Employment of Qualified Ex-Felons Credit has expired and we have removed it from Part G. In its place we have a new credit: the Qualified Vehicle Tax Credit (Tractor-Trailer Vehicle Registration Credit). This is a nonrefundable credit of up to \$400 for each Class F Tractor registered and titled in Maryland.

Part H - We have the new refundable Cybersecurity Investment Incentive Tax Credit in Part H.

Instructions to Form 500CR

Parts A - Our instructions have been updated to advise businesses located in Regional Institution Strategic Enterprise (RISE) Zones that they are permitted to claim the Enterprise Zone Tax Credit.

Part B - We have updated the instructions to expand the eligibility to certain profit and not-for-profit entities which employ qualified employees and provide health care services in a Health Enterprise Zone.

Part G - We have added instructions to allow a nonrefundable tax credit of up to \$400 for each Class F tractor (vehicle) which has been registered and titled in Maryland. These instructions replace the Long-Term Employment of Ex-Felons Tax Credit which has expired. The Qualified Vehicle Tax Credit can be claimed on registrations made during a tax year through December 31, 2016.

Part H - We have provided instructions to claim the new Cybersecurity Investment Incentive Tax Credit. Part H allows a refundable tax credit for 33% of an investment in a qualified Maryland cybersecurity company, not to exceed \$250,000 per investment.

Part V - This Electric Vehicle Recharging Equipment Tax Credit has expired as of July 1, 2014. Only equipment purchased prior to July will be certified and eligible for a tax credit on the 2014 tax return.

Part W - We have updated the instruction for the summary of Form 500CR to provide for the listing of those credits to which Maryland addition modification applies. We also remind taxpayers who are using a carryover of the expired Maryland Work Opportunity Tax Credit, that the amount of the carryover used is also an addition modification to income.

Part Y - We have updated the instruction for the listing of the refundable tax credits. The Cybersecurity Investment Incentive Tax Credit has been added.

On the last page of the instructions, we have updated the chart reflecting carryovers. We have added to the chart those credits which have expired that still have excess carryover provisions.

Form 500UP - Calculation of Underpayment of Estimated Tax

We have removed reference to the Maryland Heritage Rehabilitation Tax Credit from line 3a of this form.

D. Pass-Through Entities (PTEs)

Schedule K-1 (Form 510)

We have updated the list of nonrefundable tax credits to reflect the removal of the Long-Term Employment of Qualified Ex-Felons Tax Credit, as well as the addition of the Qualified Vehicle Tax Credit.

We have updated the list of refundable tax credits to reflect the addition of the Cybersecurity Investment Incentive Tax Credit.

E. Fiduciaries

Form 504 - Fiduciary Tax Return

Line 27 of Form 504 - We have updated the contribution fund name to the Developmental Disabilities Services and Support Fund.

- **Instruction 15** - Three counties have changed their 2014 local tax rates. Caroline County has increased its rate to 2.73%. Carroll County has decreased its rate to 3.04%. Charles County has increased its rate to 3.03%.
- **Instruction 16** - We have updated the contribution fund name to the Developmental Disabilities Services and Support Fund.

Form 504CR - Fiduciary Business Income Tax Credits

The changes that we have made on the Form 504CR and its instructions correspond to the changes which we have made to Form 500CR.

Form 504D - Declaration of Fiduciary Estimated tax

Form 504D has been updated to reflect the new 2015 local tax rate for Carroll County which has decreased its tax rate to 3.03%.

G. Electronic Filing

Form EL101

We have removed the text from Form EL101 which had allowed the form to be used as a transmittal form for business tax certifications.

H. Withholding

Form MW508 - Annual Employer Withholding Reconciliation Return

Form MW508 has been reformatted to allow W-2 and 1099 information to be separately stated.

Form MW508CR - Business Tax Credit Form for Tax-Exempt Entities

Form MW508CR has been updated to refer to the appropriate line number on Form MW508.

I. Sales and Use Tax

Form 202 - Sales and Use Tax Return

We have added clarifying language to lines 17a through 17c of Sales and Use Tax Return

Form 202 related to the calculation of the discount for Prepaid Wireless E 9-1-1 fees that have been collected.

VII. 2013 RAD Fiscal Year Statistics

A. Total 2013 personal tax returns (received through 6/30/14)	2,760,486
B. Total number of refund returns (does not include Amended).....	2,162,688
C. Total refunds issued on above returns.....	\$2,380,376,264
D. Amount paid with returns	\$468,281,158.00
E. Amount of refunds applied to 2014 estimated tax (54,750).....	\$132,789,049
F. Amount of refunds transferred to	\$6,697,923
(33rd year –11,206 returns) (11,206)	
G. Amount of refunds transferred to CCU.....	\$46,894,544
(29th year – 95,890 returns) (95,890)	
H. Amount of refunds applied to business taxes	\$689,519
(24th year – 720 returns) (720)	
I. Amount of refunds transferred to other states.....	\$1,763,257
• Connecticut (7th year – 69 returns)	\$31,071
• Delaware (15th year – 764 return)	\$250,124
• New Jersey (8th year – 285 returns)	\$94,948
• New York (7th year –416 returns)	\$204,831
• Washington, DC (2nd year-1,854 return)	1,182,283
J. Employer withholding receipts	\$11,672,161,166
K. Personal estimated tax	\$1,795,372,896
L. Amount of local tax distributed.....	\$4,796,516,126
M. Amount of corporate tax distributed	\$221,576,113
N. Amount of earned income credit claimed.....	\$88,792,779
O. Amount of refundable earned income credit claimed.....	\$163,791,938
P. Amount of poverty level credit claimed	\$4,952,592
Q. Chesapeake Bay Endangered Species Fund contributions	\$960,065
R. Developmental Disabilities Service and Support Contribution	\$254,432
S. Maryland Cancer Fund	\$438,835

VIII. 2014 Compliance Fiscal Year Statistics

A. Number of active delinquent individual income tax cases as of 6/30	276,778
B. Number of active delinquent business tax cases as of 6/30	40,457
C. Number of payment agreements entered	86,597
D. Number of cases certified to IRS for offset	140,444
E. Number of tax liens filed	66,760
F. Number of salary garnishments filed.....	2,481
G. Number of bank attachments filed	7,577
H. Dollars collected on delinquent income tax cases as of 6/30.....	\$320,139,024
I. Dollars collected on delinquent business tax cases	\$268,955,103
J. Dollars collected from MITS activities	\$53,299,789
K. Estimated number of business tax accounts as of 6/30.....	455,000
L. Number of 1st notices sent for individual income tax cases as of 6/30.....	197,755
M. Number of business tax discovery notices sent	26,135
N. Number of business tax audits and investigations	1,153
O. Dollars assessed for business tax audits (millions).....	\$71.8
P. Percent of auditors (employed at least 18 months) cross-trained	65.5%
Q. Dollars assessed on business tax discovery activities	\$517,596
R. Dollars assessed for individual income tax (millions)	\$291.1
S. Percent of business tax accounts audited or investigated	0.26%
T. Number of unclaimed property holder reports received	10,939
U. Number of notices sent to owners.....	118,587
V. Number of unclaimed property claims paid.....	51,059
W. Dollars of unclaimed property reported (millions).....	\$150.4
X. Dollars of unclaimed property paid to owners (millions).....	\$62.0
Y. Percent of names added to system within 90 days	100%

IX. 2013 Tax Year Procedures

A. Electronic Filing Program (eFile)

1. Electronic Filing Statistics

This past filing season, we received 2,339,845 electronically-filed returns. This represents a 5.50% increase over the prior year.

- Of the 2,339,845 returns filed, 1,771,105 returns requested refunds.
- 1,375,849 of the electronic returns requested a direct refund deposit (77.9%)
- 116,713 of the 383,370 total balance due returns requested payment by direct debit (30.4%)
- The 2,339,845 electronic returns were filed in the following ways:
 - 1,414,445 were filed by professional preparers
 - 731,500 were filed by the taxpayer using purchased or online software
 - 152,154 were filed using Maryland's free i-File application

Taxpayers may file electronically or print tax forms or instructions from our Web site at www.marylandtaxes.com or contact the nearest branch office for assistance.

2. Electronic Filing Mandate for Business Tax Credits

For returns filed for Tax Years beginning after December 31, 2012, taxpayers must file their tax returns electronically to claim certain business tax credits. If you wish to claim credits filed on Form 500CR, you **must** file using software which supports the electronic filing of the Form 500CR. We track this information at www.marylandtaxes.com under Tax Professionals > Vendors and Developers > Approved Vendors > Approved eFile Software Vendors (select individual or business).

3. Electronic filers must submit documentation electronically to claim out-of-state or Schedule K-1 credits

Returns claiming out of state credits on Form 502CR must submit the other state(s) returns with the electronic return or the credit will be disallowed. Returns claiming credits from Schedule K-1s must include the Schedule K-1 with the electronic return. In both cases, a binary attachment (PDF) will suffice. You **must** make sure that the software you use supports the electronic filing of the Form 500CR. We track this information at www.marylandtaxes.com under Tax Professionals > Vendors and Developers >

Approved Vendors > Approved eFile Software Vendors (select individual or business).

B. Updates and Reminders for Next Filing Season

1. Resident Tax Booklets

For tax year 2014, Resident tax booklets again will be available at local libraries.

The paper version of Form 500CR has been discontinued. More information is available in our Form 500CR instructions which may be downloaded at www.marylandtaxes.com.

Eligible non-profit tax-exempt employers may continue to claim certain business income tax credits against their withholding taxes (if they have no unrelated business income) using Form MW508CR.

Fiduciary taxpayers who qualify for a business income tax credit may claim a credit using Form 504CR.

2. Income tax returns are due April 15, 2015. – If the return is for a fiscal year taxpayer, it is 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.)

3. Electronic Filing Mandate – Preparers who completed 100 or more original Maryland income tax returns for tax year 2013 are required to file all original individual income tax returns electronically for tax year 2014. The exception to this is if the taxpayer specifically requests the preparer to file by paper or when a preparer has asked for and received a written waiver from the Comptroller. For those filing paper returns in excess of these thresholds, the Comptroller may impose a \$50 per return penalty not to exceed \$500 per preparer. A taxpayer may opt out of the eFile requirement by checking the box on the return. These returns will not be counted as returns prepared for penalty purposes.

4. Tax Preparer's Website - The Comptroller's Office pServices is designed to assist tax preparers through the Comptroller's Web site at www.marylandtaxes.com. It allows tax preparers who have been authorized by their clients to view those clients' Forms 1099-G. Future enhancements to pServices are being developed to include the ability to view clients' estimated payments, tax liabilities and prior returns, and to bulk-file extensions for their clients. As these enhancements become available, they will be announced on the Comptroller's Web site at www.marylandtaxes.com.

5. Social Security Number Validation - All taxpayers' primary and secondary Social Security Numbers will be validated through the Internal Revenue Service before the processing of the return is completed. Filings with an invalid Social Security Number(s) may result in processing delays and denial of any credits.

If you have a dependent that was placed with you for legal adoption and you do not know his/her Social Security Number, you must apply for an Adoption Taxpayer Identification Number (ATIN) from the Internal Revenue Service (IRS).

If you have contacted the IRS concerning identity theft and received a 6-digit Identity Protection Personal Identification Number (IP PIN), you should enter it in the box near the signature area of the return.

6. Earned Income Credit - The Comptroller will publish the maximum income eligibility for State earned income credit (EIC) on or before January 1 of each calendar year.

A mailing to employers in October of this year included a Withholding Tax Alert along with the Withholding Tax Facts.

7. Electronic Returns, with Balance Due - As we have done previously, Revised Income Tax Notices for balance due returns that did not request direct debit will not be mailed until after the payment due date and all payments received have been posted.

8. Quick Response Codes - On select forms we are continuing the use of Quick Response (QR) codes which smartphone and tablet users can scan to go straight to our web pages to iFile, to see estimated payments history, to check a refund status, to review Form 1099-G, etc.

9. Tax Returns Submitted Without Form W-2s or Form 1099s - Tax returns received with a withholding amount and without a wage statement, Form W-2 or Form 1099, will be returned to the taxpayer.

10. Direct Debit for Payment Plans - Maryland has online direct debit payment plans for personal income tax liabilities. Taxpayers may use this online service by completing a registration application online and setting up a payment plan within the guidelines of the program.

11. Direct Debit for Online Bill Payments - Taxpayers are able to set up bill payments for individual and business liabilities. We also plan to include business extensions and estimated payments.

12. Certification Requirement for Electronically Filed Returns - Returns requiring certification will have those credits disallowed unless we receive a copy of the certification with the return. The eFile Handbook lists the credits requiring certification on pages 9 and 10.

C. Free Internet Filing for Individuals (iFile)

1. Taxpayers may file their Resident and Nonresident returns for the current year (tax year 2014) and two prior years (tax years 2012 and 2013) on our Web site.

2. Residents also may file amended returns, provided the taxpayer has iFiled the original return. You may access our web site at www.marylandtaxes.com

3. The following services are available through iFile: personal extension requests, estimated payments, pay a bill, set-up a payment plan and sign up to electronically receive your Form 1099-G.

D. Free Internet Filing for Businesses (bFile)

1. bFile allows businesses to file their employer withholding, Sales and Use Tax (SUT), and Admissions and Amusement Tax returns on our Web site and pay by direct debit or credit card. Employers also may upload wage data files or key up to 250 Form W-2s and their Form MW508s, directly to our Web site at www.marylandtaxes.com

2. bFile Advantages

- bFile allows registered users to view the history of past filings 24/7.
- bFile allows the user to schedule a payment in advance up to the due date.
- bFile provides a written confirmation the user can print.
- bFile registration allows the user to save their FEIN, CRN and bank information, so it will pre-fill for future filings thus eliminating keying errors.
- bFile allows the user to edit previously submitted filings up to 2 days before the debit date.
- bFile allows nones (zero filings) to be filed.
- bFile allows a return to be filed without a payment for balance-due Withholding and SUT returns. This new capability was implemented for fiscal year 2014 SUT returns and for calendar year 2013 Withholding returns.
- bFile allows the registered user to file their annual withholding reconciliation and report their W-2s.
- bFile allows the user to file current year filings as well as two previous years.
- bFile calculates the discount on timely filed SUT filings when applicable.
- Multiple accounts may be accessed by a single registration.

E. Electronic Funds Withdrawal (Direct Debit) is Available for the Following:

1. Electronically filed returns can have a withdrawal date up to April 30th.
2. Personal extension payments via iFile.
3. Personal estimated payments via iFile.
4. Employer withholding returns.
5. Personal and business bill payments via Bill Pay.

F. Alternative Payment Methods

For alternative methods of payment, such as a credit card, visit the Comptroller's Web site at www.marylandtaxes.com.

NOTE: Credit card payments are considered electronic payments for the purpose of the April 30th extended due date if you filed your return electronically by April 15th.

G. Mailing of Forms

1. Tax booklets will be mailed to taxpayers upon request only.
2. Spanish forms and instructions are available only on our Web site.
3. Employer withholding coupon books will be mailed by the end of December except for accelerated filers whose booklets will be mailed mid-November.
4. Personal estimated tax vouchers will be mailed mid-January.

H. Most Common Errors

1. Incorrect banking account and routing numbers for direct deposit of refunds.
2. Calculation of local income tax / no local tax calculated.
3. State and local earned income credit.
4. Forms 505NR and 504NR not included with the return.
5. Poverty level credit.
6. Forms 502CR and 504CR and MW508CR are incomplete without required documentation.
7. Special nonresident tax not computed.
8. Personal tax returns claiming Maryland withholding submitted without wage statements (W-2s or 1099s).

- 9. Standard and Itemized Deduction box not checked.
- 10. Total Exemption box not completed.
- 11. Nonresident tax paid by a pass-through entity on wrong line or documentation (Maryland Schedule K-1) not attached.
- 12. Business income tax credits and required certification(s) not electronically filed.

I. Taxpayer Service

WALK-IN SERVICE

Free, in person tax assistance is provided at our taxpayer service offices. Please bring a completed copy of your federal return and all W-2 statements. Offices are open Monday - Friday, 8:30 a.m. - 4:30 p.m. except for State holidays. For accommodations for a disability, please call 410-260-7980 from Central Maryland or 800-638-2937 from elsewhere before your visit.

TELEPHONE SERVICE

The Comptroller of Maryland offers extended hours for free telephone assistance from February 2 - April 15, 2015. During this period, telephone assistance is available from 8:30 a.m. until 7:00 p.m., Monday through Friday except for State holidays.

EMAIL SERVICE

Email to: taxhelp@comp.state.md.us. Please include your name, address and the last four digits of your Social Security Number in your email message. This will help us generate a quick response to your inquiry.

REFUND INFORMATION

Central Maryland410-260-7701
 Elsewhere1-800-218-8160

Special Assistance

Hearing impaired individuals may call:
 Maryland Relay Service (MRS) 711
 Larger format tax forms410-260-7951

J. Important Information

Web site address: www.marylandtaxes.com
 Tax Practitioner hotline: 410-260-7424
 Tax Practitioner e-mail address:
taxprohelp@comp.state.md.us
 eFile Tax Pro hotline: 410-260-7753
 eFile Tax Pro e-mail address:
efile@comp.state.md.us
 Tax Forms e-mail address:
taxforms@comp.state.md.us

Guide to Business Tax Credits is available on our Web site. You may go directly to that page by entering the following Web address: http://taxes.marylandtaxes.com/Business_Taxes/General_Information/Business_Tax_Credits/
 Larger format tax forms. . 410-260-7951

L. Important Information

Web site address: www.marylandtaxes.com
 Tax Practitioner hotline: 410-260-7424
 Tax Practitioner e-mail address:
taxprohelp@comp.state.md.us
 eFile Tax Pro hotline: 410-260-7753
 eFile Tax Pro e-mail address:
efile@comp.state.md.us
 Tax Forms e-mail address:
taxforms@comp.state.md.us

Guide to Business Tax Credits is available on our Web site. You may go directly to that page by entering the following Web address: http://taxes.marylandtaxes.com/Business_Taxes/General_Information/Business_Tax_Credits/

2014 Maryland Income Tax Forms

Availability

We strongly encourage you to electronically file your income tax returns. Individual Maryland income tax forms are available upon request at any of our taxpayer service locations throughout Maryland. In addition, many public libraries have small quantities of the resident tax booklet as a courtesy to patrons at no charge. To download forms from the Internet and for other electronic services, visit us at www.marylandtaxes.com

Reproducible forms

You may photocopy these forms in black and white when you need only a few copies. However, you may not use these **facsimiles as camera-ready copy for printing, nor may you change their graphic design. The Maryland Revenue Administration Division has a procedure concerning photocopying income tax forms. See Administrative Release No. 26.**

FORM NUMBER	DESCRIPTION
500	Corporation Income Tax Return 
500D	Maryland Corporation Declaration of Estimated Income Tax 
500DM	Decoupling Modification
500E	Application for Extension of Time to File Corporation Income Tax Return 
500MC	Report of Maryland Multistate Manufacturing Corporation
500UP	Underpayment of Maryland Income Tax by Corporations and Pass-Through Entities 
500X	Amended Corporation Income Tax Return 
EL 101B	Maryland Income Tax Declaration for Business Electronic Filing
EL 102B	Maryland Income Tax Payment Voucher for Business Electronic Filers
502	Maryland Tax Return (Resident Individual) Long Form 
502AC	Subtraction for Contribution of Artwork
502AE	Subtraction for Income Derived Within an Arts and Entertainment District 
502B	Maryland Dependents' Information 
502CR	Income Tax Credits for Individuals and Instructions 
502D	Maryland Personal Declaration of Estimated Income Tax 
502E	Automatic Extension Payment for Maryland Personal Income Tax 
502INJ	Injured Spouse Claim Form 
502S	Sustainable Communities Tax Credit 
502SU	Maryland Resident Subtractions 
502TP	Computation of Tax Preference Income
502UP	Underpayment of Estimated Maryland Income Tax by Individuals
502V	Use of Vehicle for Charitable Purposes 
502X	Amended Maryland Tax Return 
EL 101	Maryland Income Tax Declaration for Electronic Filing 
EL 102	Maryland Income Tax Payment Voucher for Electronic Filers
504	Fiduciary Income Tax Return 
504CR	Business Income Tax Credits for Fiduciaries 
504K-1	Maryland Schedule K-1 (Form 504) – Beneficiary Information

2014 Maryland Income Tax Forms

(List Continued from Previous Page)

504NR	Maryland Nonresident Fiduciary Income Tax Calculation ☞
504D	Maryland Fiduciary Declaration of Estimated Income Tax ☞
504E	Application for Extension of Time to File Fiduciary Income Tax Return ☞
504UP	Underpayment of Estimated Income Tax by Fiduciaries
505	Maryland Tax Return (Nonresident Individual) ☞
505 NR	Maryland Nonresident Income Tax Calculation ☞
505SU	Maryland Nonresident Subtractions ☞
505X	Nonresident Amended Maryland Tax Return ☞
510	Pass-Through Entity Income Tax Return and Schedule B: Pass-Through Entity Members' Information ☞
510C	Maryland Composite Pass-Through Entity Income Tax Return ☞
510D	Declaration of Estimated Pass-Through Entity Nonresident Tax ☞
510E	Application for Extension of Time to File Pass-Through Entity Income Tax Return ☞
510 K-1	Maryland Schedule K-1 (Form 510) – Member Information ☞
515	Maryland Tax Return (Nonresident Local Tax) ☞
588	Direct Deposit of Maryland Income Tax Refund to More Than One Account.
MW507	Employee's Maryland Withholding Exemption Certificate
MW507M	Military Spouse Withholding Exemption Certificate
MW507P	Request for Maryland Withholding for Annuity, Sick Pay and Retirement Distributions
MW508	Annual Employer Withholding Reconciliation Return ☞
MW508CR	Business Income Tax Credits for 501(c)(3) Organization Use Only ☞
COM/ST-118A/B	Consumer Use Tax Return for Out-of-State Purchases
CRA	Combined Registration Application

☞ Denotes Form is included in Appendix