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MARYLAND WITHHOLDING TAX FACTS

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William Donald Schaefer
Comptroller of Maryland

This edition of Withholding Tax Facts offers information about filing your employer withholding tax form, reconciliation statement and other forms you'll find in your 2006 return booklet.

INCOME TAX RATE

Maryland's top marginal tax rate continues at 4.75 percent and the personal exemption is \$2,400 for tax year 2006. The local income tax is computed without regard to the impact of the state tax rate.

COUNTY RATES

Local tax is based on taxable income and not on Maryland state tax. If you use the percentage method to calculate the amount of state and local tax to be withheld, simply add the **actual** local tax rate to the state rate of 4.75 percent to get the combined state and local tax rate. The combined state and local tax rate should then be applied to the taxable income.

Listed below are the **actual** 2006 local income tax rates.

Allegany	2.93%	Howard	3.20%
Anne Arundel	2.56%	Kent	2.85%
Baltimore County	2.83%	Montgomery	3.20%
Calvert	2.80%	Prince George's	3.20%
Caroline	2.63%	Queen Anne's	2.85%
Carroll	3.05%	St. Mary's	3.00%
Cecil	2.80%	Somerset	3.15%
Charles	2.90%	Talbot	2.25%
Dorchester	2.62%	Washington	2.80%
Frederick	2.96%	Wicomico	3.10%
Garrett	2.65%	Worcester	1.25%
Harford	3.06%	Baltimore City	3.05%

We provide separate tables for the convenience of employers who do not withhold using an automated or computerized system, or who prefer to look up the amounts to be withheld manually. For these tables, we have continued our practice of grouping the local income tax rates into rate brackets. For 2006, we will use nine brackets: 1.25%, 2.25%, 2.60%, 2.65%, 2.85%, 2.95%, 3.00%, 3.10% and 3.20%. Refer to the county listing above and use the table that agrees with or is closest to without going below the actual local tax rate.

Taxpayers who make quarterly estimated tax payments should make the necessary adjustments for the 2006 tax year. They can use the estimated tax calculator on the Comptroller's Web site at www.marylandtaxes.com to help make the calculation.

Withholding tables can be downloaded from the Comptroller's Web site at www.marylandtaxes.com. If you do not have Internet access, you may call 410-260-7951 from Central Maryland or 1-800-MD TAXES from elsewhere.

FOR YOUR INFORMATION

1. Lottery winnings are subject to withholding at a rate of 7.75 percent for Maryland residents or 6.00 percent for nonresidents.
2. When a rollover distribution is subject to a mandatory federal withholding, the eligible rollover distributions of Maryland residents is now subject to a mandatory state withholding of 7.75 percent.
3. Beginning July 1, 2005, Maryland law authorizes the Comptroller of Maryland to require an employer withhold income tax on the basis of one exemption when the Comptroller's Office notifies the employer that the employee has not filed a required Maryland income tax return.

Current law allows the Comptroller of Maryland to notify an employer that an individual employee has an unpaid tax liability. The notification provision was expanded on July 1, 2005, to include a notification that an individual employee is subject to a tax refund interception request. A refund intercept request can be submitted by the IRS for delinquent federal income taxes, the Department of Human Resources for delinquent child support or the Central Collection Unit for other Maryland liabilities, and certain states that have a reciprocal offset agreement with Maryland. In these cases, withholding is calculated based on the number of exemptions actually allowed on the employee's prior year's tax return.

For questions concerning the withholding of Maryland and local taxes, please call Taxpayer Service at 410-767-1300 from Central Maryland or 1-800-492-1751 from elsewhere. You may also e-mail your questions to taxhelp@comp.state.md.us.

(Continued on back)

ELECTRONIC FILING

Save time and money by meeting your business tax filing obligations electronically. The payment methods listed below qualify as Electronic Fund Transfers and will meet the EFT requirement as explained in item #4 under "For Your Information." These electronic filing and payment options are also available to taxpayers who must file and pay Maryland sales tax.

File over the Internet and pay by direct debit: Use bFile, the Comptroller's free Internet filing service for businesses, to file and pay online at www.marylandtaxes.com. bFile is a **free service** that allows you to file and make your payment by electronic funds withdrawal (direct debit). Zero reports may also be filed through the bFile service.

File and pay by ACH Credit: File and pay through your bank using the ACH Credit method. Contact your bank to see if it offers this service. Your bank may charge a nominal fee for an ACH Credit transaction. If you are an accelerated filer using ACH Credit, please see item #3 under "For Your Information" for important information about accelerated filing via ACH Credit.

File and pay by phone: Use your telephone and the free ACH Debit Electronic Funds Transfer (EFT) service to pay your employer withholding, sales and use tax, motor fuel tax and corporation income tax payments. You must preregister for EFT payments. Visit the Comptroller's Web site at www.marylandtaxes.com or call 410-260-7601 for more information on the EFT program and registration requirements.

File and pay by credit card: Pay with your MasterCard®, VISA®, Discover® or American Express® card by calling Official Payments Corp. at 1-800-2PAYTAX or by visiting www.officialpayments.com. Official Payments Corp., a private credit card payment services provider, charges a 2.5 percent convenience fee per transaction. The state does not receive this fee.

File zero reports by phone: If you **did not** withhold any Maryland income tax for a reporting period, **do not mail us your MW 506**. Instead, call 410-260-7225 to file the zero report by phone. Please have the form in front of you when you call so you will have all of the information you need to file by phone.

ANNUAL WITHHOLDING FILERS

Annual withholding tax filers receive a coupon book with four quarterly reports. Use the report with the quarter ending that corresponds with your tax end. For example, if your tax year ends between October 1 and December 31, use the fourth quarter coupon to report and pay tax withheld. The annual reconciliation Form MW 508 and state copy of federal Form W-2's issued for the previous calendar year is due on the last day of February, regardless of the quarter in which your year ends.

ANNUAL REPORT DUE FEB. 28, 2007

The annual employer withholding reconciliation report (MW 508) included in the coupon book is due February 28, 2007. You must send in the MW 508, along with the state copy of Form W-2 for each person for whom income tax was withheld.

Use your account number on all correspondence and checks relating to your income tax withholding account.

FILING YOUR RETURN

- The number one error is sending in the wrong coupon. Send in the coupon marked for the correct month.
- The number two error is incorrect figures. Please double-check your entries.
- You must complete forms MW 506, MW 506A, MW 506M, MW 506AM, MW 508 and MW 508A in black ink.
- File the "final report" form in your coupon book if you are closing your business to avoid unnecessary delinquent notices and collection action.
- You must provide each employee with a wage and tax statement, federal Form W-2, on or before January 31 each year.
- If you don't have the window envelope but do have your Form MW 506, mail it with your payment to: Revenue Administration Division, P.O. Box 17132, Baltimore, MD 21297-0175.

MAGNETIC MEDIA

If you are required under federal law to provide wage and tax information on magnetic media, you must also submit your Maryland withholding information on magnetic media.

- **The layout for the "RS" record has been modified for tax year 2005 to include a two-digit field called the Employee Withholding Allowance.** The two-digit field is located in positions 368-369 of the "RS" record. This two-digit field is the exemption allowance found on Form W-4, Employee's Withholding Allowance Certificate. **This new field will be requested for tax year 2005, however, it will be required for tax year 2006.** To obtain a copy of the Magnetic Media Specification Booklet, please visit our Web site at www.marylandtaxes.com.
- Do not report duplicate information. If you file returns magnetically, identical paper documents **must not** be filed. This may result in erroneous balance due notices and/or penalty notices.
- Failure to comply may result in a penalty of \$50 for each violation. Each Form W-2/1099 issued that is not properly filed is a separate violation subject to the above penalty per Section 13-706 of the Tax-General Article, Annotated Code of Maryland.

FOR QUESTIONS ABOUT...

Withholding, obtaining withholding guides or forms, lost or destroyed return booklets, corporation income tax, personal income tax, nonresident shareholders' or partners' tax – contact taxhelp@comp.state.md.us, or call 410-260-7980 from Central Maryland or 1-800 MD TAXES from elsewhere.

If you have a delinquent withholding tax collection problem, call 410-649-0633.

For the hearing impaired: TTY users call via Maryland Relay at 711 in Maryland or 1-800-735-2258 from anywhere. If you need a reasonable accommodation for a disability, or need the information in this *Tax Facts* in an alternate format, contact the Comptroller's Office.