



COMPTROLLER
of MARYLAND
Serving the People

MARYLAND SALES AND USE TAX FACTS

A newsletter for sales and use tax licensees

July 2006 - June 2007

TAX-FREE SHOPPING, AUGUST 23, 2006 THROUGH AUGUST 27, 2006

From August 23, 2006 through August 27, 2006, qualifying clothing and footwear sold in Maryland and priced at \$100.00 or less will be exempt from Maryland's 5% sales and use tax. The five-day event will give shoppers a money saving incentive to shop in Maryland for back-to-school, summer clearance, fall fashion, and other purchases while helping Maryland merchants compete with retail markets in neighboring states.

Certain clothing and footwear designed to be worn on or about the human body will be eligible for the sales and use tax exemption. Qualifying apparel include belts, coats, jackets, pants, shoes, socks and sweaters. Special clothing or footwear designed primarily for protective use and not for normal wear, such as football pads, do not qualify. In addition, accessory items such as jewelry, watches, watchbands, handbags, handkerchiefs, umbrellas, scarves, ties, headbands, and belt buckles do not qualify for the exemption and remain taxable during this period.

Each qualifying article of clothing or footwear selling for \$100.00 or less will be exempt regardless of the number of items sold at the same time. For example, two sweaters sold at \$60 each at the same time are both exempt even though the total price is more than \$100.00.

Items priced at more than \$100.00 will be taxable even if they would otherwise be eligible. The first \$100.00 of the price of an item does not qualify for the exemption. Therefore, if an item costs \$110.00, tax is due on the entire amount.

NEW EXEMPTION FOR VETERANS ORGANIZATIONS

Veterans organizations, their auxiliaries, or their units may now qualify for the issuance of the Maryland sales and use tax exemption certificate covering a three year period from July 1, 2006 through June 30, 2009. An organization, its auxiliary and unit must complete the Combined

Registration Application which can be printed from the Comptroller's website at www.marylandtaxes.com. The organization must also submit a copy of its 501(c)(19) IRS determination letter with the application as evidence that the organization qualifies for this exemption.

CHANGE IN VENDOR DISCOUNT FOR TIME- LY FILING

The vendor discount for timely filing of the sales and use tax return for collections not exceeding \$6,000 has been restored to 1.2% and the vendor discount for timely filing for collections exceeding \$6,000 has been restored to .9% effective with the July 2006 return due August 20, 2006. For additional information, please see the enclosed 2006 Changes in the Sales and Use Tax Law and the Admissions and Amusement Law bulletin.

SALES AND USE TAX REPORTING FORMS

If you are issued a coupon book for monthly or quarterly filing, they will be mailed in mid-June. If you file reports to meet a seasonal, semi-annual, or annual filing requirement, those reports will also be mailed to you in June this year. If you misplace a report, you may call our Taxpayer Service Office for a replacement. However, you should consider using our on-line filing system instead. The process is safe, convenient and free. In 2005, over 280,000 business returns were filed using our bFile application at www.marylandtaxes.com saving hours of paperwork. You will need only your 8 digit central registration number, federal employer's identification number, the reporting period end date, and the amount owed to complete the b-file process. Just go to our website and click on bFile to begin. It's that easy. In addition, if you have no tax due for a reporting period, you may telefile your report at 410-260-7225.

FREQUENTLY ASKED QUESTIONS

Q - How can I obtain a tax I.D. number to give to vendors when I make a purchase for resale?

A - If you are making purchases of products for resale

SAVE TIME use bFile at www.marylandtaxes.com

as tangible personal property or for incorporation into a product that will be sold as tangible personal property, you are required to obtain a sales and use tax license for the collection and remittance of the sales tax. The license authorizes a person to issue resale certificates to vendors containing the purchaser's sales and use tax account number. For more information, request business tax tip #4.

Q - Are shipping and handling charges subject to the tax?

A - Separately stated shipping charges are not taxable; however, handling charges are a part of the taxable price. Therefore, when the charges are combined, the shipping charge loses its exemption and the entire amount is subject to the tax.

Q - How can I determine if a church or other non-profit organization qualifies for exemption on its purchases?

A - The church or organization is required to produce a copy of its exemption certificate issued by the Comptroller. You should make a note of the exemption number and its expiration date on your copy of the invoice. You may not accept an exemption certificate issued by another jurisdiction as evidence that the church or organization is exempt in Maryland. You may also verify the validity of an exemption number at the Comptroller's website. For more information, request business tax tip #6.

Q - I am a manufacturer of the products I sell. How do I claim exemption on items purchased for use in production activities?

A - When purchasing manufacturing machinery and equipment, you need only provide the seller with a certification letter that the equipment will be used predominantly in a production activity. The certification should be retained by the seller with the record of sale. Items purchased which are consumed during the manufacturing process may be purchased tax free by issuing vendors a resale certificate. Manufacturers claiming exemption on the purchase of utilities to run the exempt equipment must complete form ST 206 which can be obtained from the Comptroller's Taxpayer Service Section. For more information, request business tax tip #9.

Q - I am a government contractor. Am I entitled to an exemption on my purchases of materials and supplies?

A - Yes and No. If you are purchasing materials that will be incorporated into the realty of a federal, state, or local government agency, you are not entitled to an exemption from the tax. You should pay the tax to your suppliers at the time of purchase. However, if you are purchasing merchandise for resale in its original form to a governmental entity, you may obtain a sales and use tax license that will enable you to issue resale certificates to your vendors. Equipment and tools purchased for your use in fulfilling a contract is taxable even if ownership will pass to the governmental entity after use. For more information, request business tax tip #18.

Q - Has the Maryland General Assembly provided

for tax free shopping in 2007?

A - No, no legislation was introduced in the 2006 Session, and the tax free shopping for qualified clothing and footwear that was signed into law in 2005 is only for the period August 23, 2006 through August 27, 2006.

You may request the following publications by calling the Baltimore Taxpayer Service office at 410-767-1300 (Baltimore area) or 1-800-492-1751 (elsewhere in Maryland).

Business Tax Tips

- # 1 Preparing your sales and use tax return
- # 2 What sales records do I need to keep?
- # 3 Sales and use tax on out-of-state purchases
- # 4 If you make purchases for resale
- # 5 How are sales of food taxed in Maryland?
- # 6 Retail sales involving exemption certificates
- # 7 Are repairs to personal property taxable?
- # 8 Computing Maryland's sales and use tax
- # 9 Sales and use tax exemptions for production activities
- #10 Delinquent tax collections and you...
- #11 Sales and use tax exemptions for agriculture
- #12 Fabrication labor is subject to tax
- #13 Opening a new business in Maryland
- #14 When sales at flea markets are subject to tax
- #15 Direct debit, business taxes and you
- #16 Maryland's tire recycling fee and you
- #17 How to prepare your Maryland tire fee return
- #18 Contractors and Maryland taxes
- #19 Reporting unclaimed property
- #20 Computing admissions and amusement taxes
- #21 Filling out the admissions and amusement tax return
- #23 International Fuel Tax Agreement
- #24 Admissions & amusement tax at recreational facilities
- #58 Offer in Compromise

NEED HELP:

Web site: www.marylandtaxes.com

Taxpayer Service: General information regarding completing sales & use tax reports, request forms and publications, register by phone, lost coupon book. 410-767-1300 (Baltimore area) or 1-800-492-1751 (elsewhere in Maryland).

Central Registration Unit: Help in completing the Combined Registration Application for multiple registrations - 410-767-1313.

Central Registration Unit Fax: To fax the Combined Registration Application - 410-767-1571.

Refund Unit, Compliance Division: Sales & Use Tax, Admissions and Amusement Tax and Tire Fee Refunds - 410-767-1538.

License Bureau, Investigative Services Unit: To determine if special licenses are required - 410-260-6240.

Telefile no tax due for the filing period - 410-260-7225.