It's a Lot of Work; Collecting All Those New Taxes

Maryland Comptroller Peter Franchot will be ready to collect the $1.3 billion in new taxes passed in the special session, but he won't be happy about it.

"It's all hands on deck here," Franchot said last week. "Now we have an extra amount to do."

It will be Franchot's job to collect the new revenues: The sales tax was raised from 5 percent to 6 percent and expanded to some computer services, and the income tax was restructured, some corporate taxes were raised and cigarette tax doubled.

"We've already sent out about a half a million notices to businesses about new withholdings" on income taxes, Franchot said.

The comptroller was a vocal opponent of both the special session and new taxes. But, he said, knowing that there would be some sort of "legislative product" coming from the special session, "we planned ahead for changes."

Although the higher sales, tobacco and income taxes will take effect as soon as Jan. 3, tax collectors elsewhere said they believe the Maryland office is up to the job.

"I have seen it done in a month," said Verenda Smith, government affairs associate for Federal Tax Administrators, a national organization of state tax officials. "I mean, it is a challenge, even with a good agency like Maryland has. They'll be up to it."

Smith added that most of what Franchot's office will have to deal with immediately is "just a rate change."

"It might even be easier on the tax agency than on retailers, who have to change their cash registers, too," Smith said.

Patricia O'Connor, of the National Association of State Auditors, Comptrollers and Treasurers, said Franchot's position as tax collector is a unique to two states, Maryland and Texas.

"Generally, our members are not responsible for that," she said. "Maryland is an exception where the comptroller is in charge of collecting revenue."

The most difficult task Franchot's office will face is figuring how to extend the sales tax to certain computer services: support, custom programming, disaster recovery services and installations, among others.

Franchot urged legislators not to pass the computer services tax for several reasons.

"Many states have repealed it after the revenues have not been there," he said. "It's hard to define and find, and it's a portable industry."

He was also concerned over companies outsourcing the computer work if it is taxed here, and about taxing "knowledge-based" industries.

It is a "real possibility that Maryland-based tech companies would flee the state to avoid the tax," said Ron Wineholt, vice president for government affairs at the Maryland Chamber of Commerce. "There's many, many unknowns in terms of how this tax will be applied and collected."

Taxing computer services is expected to raise about $200 million, according to estimates from the Department of Legislative Services.

Smith agreed that the tax expansion would be lots of work for the comptroller.

"They have to define the particulars in advance as best they can, determine who is eligible, and get people the information," Sm