

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 455
Ways and Means

(The Speaker)(By Request - Office of the Comptroller)

Budget and Taxation

Comptroller - Electronic Tax and Fee Return Filing Requirements

This departmental bill generally requires the electronic filing of specified fee and tax returns, specifically: (1) for periods beginning after December 31, 2026, tire recycling fee returns, bay restoration fee returns, admissions and amusement tax returns, alcoholic beverage tax returns, digital advertising gross revenues tax returns, motor fuel tax returns, sales and use tax returns, and tobacco tax returns; (2) beginning in tax year 2027, income tax withholding returns, income tax returns for pass-through entities, and income tax returns for corporations with at least 15 employees; and (3) beginning in tax year 2030, individual income tax returns, subject to specified exceptions. Additionally, the bill prohibits a tax return preparer or software company from charging a separate fee for the electronic filing of authorized tax documents; a violation is subject to a civil penalty of \$500 for a first violation or \$1,000 for a second or subsequent violation. **The bill generally takes effect July 1, 2024; prohibitions relating to tax return preparers and software companies take effect January 1, 2030.**

Fiscal Summary

State Effect: The Comptroller’s Office can implement the bill’s requirements within the contemplated timeframe and likely realizes operational efficiencies once fully implemented. Potential minimal increase in general fund revenues beginning in FY 2030 due to the bill’s civil penalty provisions.

Local Effect: None.

Small Business Effect: The Office of the Comptroller has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Exemptions from Electronic Filing Requirements

Notwithstanding any other provision of law, a person is not required to file a return, schedule, or report with the Comptroller electronically if (1) the person has a disability as defined in the federal Americans with Disabilities Act; (2) the person has religious beliefs that prohibit the person's use of electronic filing technology; or (3) the person is determined by the Comptroller to have a special need to file a paper return, schedule, or report.

Additionally, the bill's electronic filing requirement for individual income tax returns does not apply to an individual who:

- is at least 65 years old as of December 31 of the tax year for which the return is being filed;
- is single or a dependent taxpayer and whose Maryland adjusted gross income (MAGI) is less than \$200,000;
- is married filing separately, a head of household, or a qualifying widow or widower with a dependent child and whose MAGI is less than \$400,000; or
- is married filing jointly and whose MAGI is less than \$400,000.

Prohibitions Relating to Tax Return Preparers and Software Companies

As noted above, effective January 1, 2030, the bill prohibits a tax return preparer or software company (defined as a developer of tax software) from charging a separate fee for the electronic filing of authorized tax documents (defined as tax documents that the Comptroller has authorized or requires to be filed electronically). The bill further prohibits a software company from selling a version of the company's tax software that charges a separate fee for the electronic filing of authorized tax documents and a version of the same tax software that does not charge the separate fee.

Each transaction in which a customer is charged a prohibited fee or each sale to a customer of tax software that charges a prohibited fee is an independent violation. Before a civil penalty is imposed, the Comptroller must provide to the person against whom the civil penalty will be imposed notice of the alleged violation and an opportunity for a hearing, and a person against whom a civil penalty is imposed may seek review of the penalty under the Administrative Procedure Act. Civil penalties collected under the bill must be paid into the general fund.

Current Law: State law generally allows for, but does not require, the electronic filing of fee and tax returns with the Comptroller. Subject to specified exceptions, an income tax return preparer must file all qualified returns that the income tax return preparer prepares by electronic means as prescribed by the Comptroller if the income tax return preparer has prepared more than 100 qualified tax returns in the prior tax year.

Background: The Comptroller's Office advises that it currently accepts nearly three-quarters of a million pieces of paper from returns across all tax types; this significant volume of paper correspondence must be processed by Comptroller staff, resulting in delayed processing times as well as the potential for processing errors. Digital returns allow for faster processing of returns and refunds, fewer errors, and additional staff time for more complex, customer-facing work. The Comptroller's Office further advises that digital returns allow for faster capture of State data, thus allowing for better financial estimates and economic forecasts on shorter deadlines, as well as the development of an online return and refund status tracking system for taxpayers.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 677 (The President)(By Request - Office of the Comptroller) - Budget and Taxation.

Information Source(s): Comptroller's Office; Maryland Department of the Environment; Baltimore City; Kent, Montgomery, and Worcester counties; North East Maryland Waste Disposal Authority; City of Laurel; Town of La Plata; Maryland Association of Counties; Maryland Municipal League; Department of Legislative Services

Fiscal Note History: First Reader - February 6, 2024
km/hlb Third Reader - March 19, 2024
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Comptroller - Electronic Tax and Fee Return Filing Requirements

BILL NUMBER: HB0455

PREPARED BY: Justin Hayes, Director of State Affairs

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This bill sets a timeline for all business tax filings and personal income taxes to be filed electronically. There are exemptions to the online filing requirement for both small businesses and some individuals. Below is a brief summary of the phased implementation process and the specific exemptions:

1. All business fees and taxes will need to be filed online in calendar year 2026.
2. Personal income taxes will need to be filed online in calendar year 2030.
3. Exceptions to the online filing requirements include the following:
 - a. Age 65 or older
 - b. Single filers under \$200,000 or joint filers under \$400,000
 - c. Marylanders with disabilities
 - d. Small businesses with 15 or fewer full-time employees

No significant impact on small businesses should be anticipated for this move to electronic – rather than hardcopy – business tax filings.