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Subject: Deadline is Approaching for Maryland Corporate Income Tax Information Reporting

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To Our Clients and Friends:

The initial deadline for the new information reporting requirements for corporate groups in Maryland is fast approaching. By way of background, Maryland recently passed legislation requiring the reporting of certain information by members of a unitary corporate group. The information reports are required for all taxable years beginning after December 31, 2005 and before January 1, 2011. The deadline is October 15, 2008 for information reports for taxable years beginning after December 31, 2005 and before January 1, 2007. Subsequent information reports are due on or before seven months after the original due date of the corporation's Maryland tax return for the corresponding taxable year.

The information reports must be submitted electronically. The reports must include the following information: (1) a pro forma water's edge combined corporate income tax report, including taxable income of the corporate group, eliminations to account for intercompany transactions within the corporate group, and apportionment computed under both Joyce and Finnigan methods of apportionment; (2) a report that reflects the dollar value of all property that is shipped from an office, store, warehouse, factory, or other place of storage in Maryland where the purchaser is the United States government; (3) a report that reflects the dollar value of all property that is shipped from an office, store, warehouse, factory, or other place of storage in Maryland where the seller is not taxable in the state in which the purchaser takes possession; and (4) a report that reflects the amount and source of nonoperational income of each member of the corporate group whose commercial domicile is in Maryland.

Maryland is requiring the information to analyze the fiscal effect of implementing a combined reporting corporate income tax regime and several other corporate income tax changes, as well as other statistical information about Maryland's current corporate income tax. Failure to comply with the information reporting requirements will result in stiff penalties, namely (1) \$5,000 per day for each of the first 30 days following the due date during which a report has not been filed; and (2) \$10,000 per day for each day after the first 30 days that a report has not been filed. All penalties assessed will be collectible from all members of the corporate group.

It should be noted that there are separate information reporting requirements for manufacturing corporations with more than 25 employees that apportion income to Maryland using the single sales factor.

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If you have any questions about the Maryland corporate income tax information reporting requirements, or any other state and local tax matters, please do not hesitate to contact me.

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