



Office of Comptroller
Treasury Department
Annapolis, Maryland

J. Millard Tammes
Comptroller
Joseph C. McCusker
Chief Deputy

January 13, 1943

Mr. John M. Spellissy, Administrative Assistant
Executive Department
State House
Annapolis, Maryland

Dear Mr. Spellissy:

Since talking with you over the telephone the other day, I have given some thought to our income tax law, with a view to considering any changes in it which might be helpful to the taxpayer as well as our office.

I have always thought that it would be a very good thing to bring our law, basically, as near perfection as possible, that we could avoid making changes from time to time in the various provisions of the law and thereby save confusion both to the taxpayer and to our office in the administration of the law. We have felt that if we could produce a law which was basically correct, or pretty nearly so, the only thing which would have to change from time to time, as financial requirements warranted, would be the rate of tax. We do find, however, that at this time there might be some suggested changes, perhaps the most important of which would affect the persons in the armed services.

We believe it might be in order to amend the law to exclude from taxable income the compensation received by residents of the State of Maryland in military service and, further, that we should not regard as residents of Maryland any member of the armed service who claims domicile elsewhere when it might be possible for them to be technically classified as residents of the State because of having resided in the State for more than six months of the taxable year.

The complaints which we have received during the past year or two seem to show that the taxpayers are a little irritated by the provisions of our law and relate to two or three items, one of which is that we do not allow credit for federal income taxes or state income taxes in computing the liability under our income tax law. Our office is not favorable to allowing these taxes as a credit for reasons which are perhaps obvious to you. We might say, however, that the allowance of a credit for federal income taxes paid would result in most of our larger taxpayers finding themselves with a somewhat reduced tax liability to our State and this in turn would make it necessary, in order to provide the revenue we need for operating expenses, to increase the rate of tax.

Another thing about our law which has brought some criticism is the fact that we do not allow deductions for bad debts unless such debts are incurred in connection with a trade or business. We find that quite a few individuals make personal loans which they are unable to collect and that they feel they should be allowed to deduct these items in their returns. We are not averse to amending the law to allow individuals to take credit for bad debts because we believe

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that the total amount of tax involved in such cases would be almost negligible and at the same time it might cause the taxpayer to feel more kindly toward our income tax law.

The General Assembly of 1941 amended the income tax law to the extent that the claims for refunds must be filed with the State Tax Commission and the Commission must approve those claims before we are able to make the refunds. As a practical matter, our office passes upon most of the claims approved by the State Tax Commission because they originate in our office through our audit work and it is perhaps merely a formality that the claims have to pass through the State Tax Commission for review. We believe that the law should be amended to return to the Comptroller the right to decide upon claims for refunds although we would not object to the taxpayer having the right of appeal to the State Tax Commission in the event the taxpayer were not satisfied with our action upon his claim.

We are not inclined to favor any allowances for hospitalization or for doctor bills or some of the other allowances which may be taken by the taxpayer in filing his federal income tax return. We do not feel that these allowances would mean much to the taxpayer because of our low rate of tax and at the same time we feel that we don't want to go too far in surrendering our tax source to the Federal Government.

Very truly yours,

J. Millard Tawes, Comptroller

By



Chief Deputy Comptroller

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