



COMMONWEALTH of VIRGINIA

*Department of Taxation
Richmond, Virginia 23282*

August 14, 1992

NOTICE TO NORTHERN VIRGINIA TAX OFFICIALS

MARYLAND LAW CHANGE

Maryland has recently amended its tax law to eliminate its reciprocity with Virginia except for Virginia residents who earn wages in Maryland. The law change is effective for taxable years beginning on and after January 1, 1992.

In addition, Maryland now requires partnerships and S corporations to make estimated tax payments on behalf of their nonresident partners and shareholders. Due to the elimination of the out-of-state credit, such partners and shareholders are now required to pay Maryland income tax on their Maryland source business income.

Impact on Taxpayers

Prior to the Maryland law change, Virginia residents who earned any type of income from Maryland sources were entitled to claim a credit against their Maryland tax liability for the taxes paid to Virginia on the Maryland source income.

Virginia residents who are no longer entitled to claim the Maryland out-of-state credit on Maryland source non-wage income will be entitled to the Virginia out-of-state credit for taxes paid to Maryland on such income.

As a result of Maryland's denial of the out-of-state credit to Virginia residents, Maryland residents will no longer be entitled to the Virginia out-of-state credit on non-wage Virginia source income and will, therefore, have to pay income taxes to Virginia on such income.

Virginia residents who are partners or shareholders of a partnership or S corporation with Maryland source income may reduce their Virginia estimated tax payments by an amount that corresponds to the credit that such individuals will be entitled to claim for having to pay taxes to Maryland on the Maryland source income.

Maryland and Virginia are currently finalizing the terms of the written agreement which will memorialize the wage earner reciprocity. Under the terms of the agreement, individuals will not have to pay taxes or file an income tax return to the nonresident state on earnings from such employment. I will furnish you with copies of the final agreement upon its signature by the Maryland Comptroller.



W. H. Forst
Tax Commissioner

c: Northern Virginia Legislators