

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1050

Amendment Number: H1

Bill Subtitle: TO REDUCE THE NUMBER OF EMPLOYEES REQUIRED TO MANDATE THE ELECTRONIC FILING OF ANNUAL WITHHOLDING STATEMENTS.

Basic Change :

Sponsor: Rep. Jett

House Amendment No. 1 --- HB1050-H1 amends the bill to mandate electronic filing of annual withholding tax statements for employers with 50 or more employees. HB1050-H1 authorizes the Secretary of the Department of Finance and Administration to waive the requirement of electronic filing for employers with fewer than 250 employees if electronic filing would cause an undue hardship for the employer.

Original Bill --- HB1050 amends § 26-51-909 to reduce the number of employees required to mandate electronic filing of annual withholding tax statements from 250 employees to 25 employees.

HB1050 would be effective for tax years beginning on and after January 1, 2021.

Revenue Impact :

None.

Taxpayer Impact :

Employers with less than the current 250 employees required for mandatory filing by electronic method but more than 50 employees who do not already voluntarily file electronically would now be included in the electronic filing requirement. Department records for W2s received during 2020 indicated 1,594 employers filed paper statements and had between 50 and 250 employees, while 3,370 (68%) filed by electronic methods.

Resources Required :

None.

Time Required :

None.

Procedural Changes :

Updates to the Income Tax Withholding rules will need to be promulgated and updated instructions published. Department employees will need to be educated as well as the taxpayer community.

Other Comments :

Receipt of electronically filed W2s is an automated process that allows W2s to be processed in one or two days rather than 60-90 days to manually key the W2 taxpayer data. Electronic data provides quicker processing time which allows timely income tax return verification reducing the number of potentially fraudulent income tax returns being processed. Additionally, electronic filing allows taxpayer

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income tax refunds to be processed more quickly.

HB1050 would bring Arkansas more in line with other states' requirements for electronic submission of W2s. The Taxpayer First Act of 2019, enacted July 1, 2019, authorized the IRS and Department of the Treasury to issue regulations that could reduce the 250 return limit to 100 and then to 10, potentially starting with respect to 2020 returns required to be filed in 2021.

Legal Analysis :

None.