

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Howell

2. **Bill Number** SB 833

3. **Committee** Passed Senate and House

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** EFT Requirement for Payroll Processing
Firms

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would require payroll processing firms to remit the withholding they collect on behalf of other taxpayers by an electronic funds transfer ("EFT") payment. The payroll processing firms subject to this requirement would be defined as those who remit withholding payments on behalf of 100 or more taxpayers/employers. These firms would also be required to complete their EFT payment via an automatic clearinghouse credit transaction.

This requirement would not become effective until July 1, 2004, to allow adequate time for implementation.

This is a Department of Taxation bill.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	GF
2003-04	\$0	GF
2004-05	<\$50,219>	GF

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

The estimated impact on General Fund revenues of this proposal cannot be accurately determined as the Department does not track the number of taxpayers that use a payroll processing firms to remit withholdings. However, it is expected that this proposal would increase General Fund revenues by a minimum of \$200,000 annually beginning in FY 2005. This increase in revenues would be due to the additional interest the Commonwealth would earn on the funds remitted sooner via EFT.

The Department's administrative costs would be decreased by \$50,219 in FY 2005 and fiscal years thereafter as a result of this proposal. The cost savings generated by this proposal are due to the decreased number of checks that would have to be handled by the Department and the forgone costs associated with handling those checks.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Background

In January 1996, the Department implemented a voluntary EFT program with hopes of generating additional interest earning and reducing the Department's administrative costs. Despite significant efforts by the Department to encourage taxpayers to voluntarily use EFT for tax payments, the additional interest earnings and savings fell short of the anticipated amounts. As a result, legislation was enacted in 1997 to require taxpayers to make payments by EFT if their average monthly tax liability exceeds \$20,000. This requirement, which is current law, applies separately to the corporate income tax, the retail sales and use tax, and the withholding tax.

Payroll processing firms are not required to remit the withholding they collect to the Department via EFT because the average monthly tax liability threshold of \$20,000 is computed on an single taxpayer/employer basis rather than on the collective clients of the payroll processing firm as a whole.

Proposal

This bill would require payroll processing firms to remit the withholding they collect on behalf of other taxpayers by an electronic funds transfer ("EFT") payment. The payroll processing firms subject to this requirement would be defined as those who remit withholding payments on behalf of 100 or more taxpayers/employers. These firms would also be required to complete their EFT payment via an automatic clearinghouse credit transaction.

This new requirement would expedite the processing of tax payments, increase interest earnings, reduce paperwork, and decrease operating costs. The Department would collect taxes more efficiently if paper vouchers and checks could be eliminated or reduced. Also, both the Department and the payroll processing firms would realize savings in wages, printing, postage, and storage.

Other Legislation

House Bill 2351 is identical to this bill.