

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1233 (Delegate Frick)
Ways and Means

Budget and Taxation

Income Tax - Withholding Statements - Electronic Submission

This bill requires employers or payors of payments subject to State withholding taxes to submit required withholding tax information on magnetic media or in other machine-readable form or electronic format that the Comptroller requires if the employer or payor submits to the Comptroller 25 or more statements in a calendar year.

Fiscal Summary

State Effect: Minimal increase in general fund revenues due to increased efficiency in tax processing and enforcement activities at the Comptroller's Office in FY 2012 and beyond. Potential minimal decrease in processing expenditures at the Comptroller's Office in FY 2012 and beyond.

Local Effect: Potential minimal increase in local income tax revenues due to increased efficiency in tax processing and enforcement activities beginning in FY 2012. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Current Law/Background: An employer or payor required to withhold income taxes must submit a statement that shows for the previous calendar year: (1) the name of the employer or payor; (2) the name of the person receiving the payment; (3) the total amount of the wages or payment; (4) the total amount of tips reported by the employee; (5) the total amount of income tax withheld; (6) any amount by which the income tax withheld on tips exceeds other net wages paid to the employee; and (7) any other information the Comptroller requires by regulation. Two copies of this statement must be

provided to the individual by January 31 of each year and one copy must be provided to the Comptroller by February 28 of each year.

Chapter 37 of 2006 required employers or payors of payments subject to State withholding taxes to submit required withholding tax information on magnetic media or in other machine-readable form or electronic format that the Comptroller requires if the employer or payor submitted to the Comptroller (1) 150 or more statements in 2006; or (2) 100 or more in 2007 and beyond. If at any time the employee or payor is subject to a lower threshold for federal income tax reporting purposes, the federal threshold applies for State withholding tax reporting requirements.

Section 6011 (e) of the Internal Revenue Code requires the Secretary of the U.S. Treasury to promulgate regulations specifying which statements must be filed in machine-readable form. The regulations must take into account the ability of the taxpayer to comply at a reasonable cost with the requirement and may not require any person to file statements on magnetic media unless the person is required to file at least 250 statements annually. Partnerships with more than 100 partners, however, are required to file returns in machine-readable form.

State Fiscal Effect: General fund revenues could increase minimally beginning in fiscal 2012 due to increased efficiencies in tax processing and enforcement activities. The Comptroller's Office advises that receiving additional withholding tax information electronically could allow it to reallocate resources. General fund revenues could increase minimally on a one-time basis in fiscal 2012 due to accelerated payments. In addition, completing the processing of payment statements earlier each year may lead to increased efficiency in tax enforcement activities beginning in fiscal 2012 due to the earlier identification of underreporting and underpayments. Requiring additional withholding statements to be submitted electronically could potentially decrease tax processing expenditures at the Comptroller's Office minimally in fiscal 2012 and beyond.

Local Fiscal Effect: To the extent that additional income tax revenues are collected, local revenues may also increase beginning in fiscal 2012.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 21, 2011
ncs/jrb

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