

HOUSE RESEARCH

Bill Summary

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Subject: Eliminate income tax withholding

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Overview

Eliminates employer withholding of income tax from employee wage income, and replaces it with monthly estimated tax payments, effective beginning in tax year 2016

Section

- 1 **Employer withholding.** Eliminates the filing requirement for employers' income tax withholding returns. Section 10 repeals the withholding requirement.
- 2 **Withholding statement.** Removes the requirement that employers provide employees and the Department of Revenue (DOR) with annual withholding statements.
- 3 **Deposit and electronic funds transfer.** Removes the requirement that employers deposit withholding tax payments and the requirement to make payments via electronic funds transfer if their annual withholding exceeds the federal threshold for electronic funds transfer.
- 4 **Estimated tax on wages.** Requires employees receiving wages to make monthly estimated tax payments to the commissioner. The payments are due on the 15th of the month following the month in which the wages were earned.
- 5 **Liability for payment of withholding tax.** Removes the requirement that an employer pay withholding tax equal to three percent of the wages paid to an employee if the employer is required to withhold taxes but fails to do so as a result of treating the employee as not being an employee. Also strikes a reference to third-party bulk filer liability made obsolete by the elimination of employer withholding.

Section

- 6 Timely filing of withholding.** Strikes a reference to employer timely filing made obsolete by the elimination of employer withholding.
- 7 Overpayment of withholding tax.** Strikes a reference to employer overpayment of withholding made obsolete by the elimination of employer withholding.
- 8 Penalties related to withholding statements.** Strikes penalties related to false employer-provided withholding statements made obsolete by the elimination of employer withholding.
- 9 Estimated tax exemptions.** Changes the current withholding tax exemptions to estimated tax exemptions. The number of estimated tax exemptions allowed at the state level would equal the number of withholding tax exemptions allowed at the federal level.
- 10 Estimated tax tables.** Eliminates the requirement that employers deduct withholding tax from wage payments made to employees and related provisions.
- 11 Nonresident withholding.** Strikes provisions requiring employer withholding for nonresidents made obsolete by the elimination of employer withholding.
- 12 Alternate method of estimating tax.** Strikes references to employers from provisions allowing the commissioner to grant authority for individuals subject to withholding tax to calculate the withholding amount by a method other than use of withholding tables.
- 13 Withholding allowed as credit against tax.** Strikes a provision allowing amounts withheld by employers as a credit against tax.
- 14 Application for withholding account number.** Strikes a reference to employers made obsolete by the elimination of employer withholding.
- 15 Duty to pay withholding tax.** Strikes a reference to employers made obsolete by the elimination of employer withholding.
- 16 Extension of withholding.** Makes a technical conforming change to a provision requiring withholding when an individual's required payments do not include the correct taxpayer identification number. This provision would remain in effect.
- 17 Withholding on pari-mutuel winnings.** Makes a technical conforming change to a provision requiring withholding on pari-mutuel winnings. Withholding on pari-mutuel winnings would remain in effect.
- 18 Withholding on payments to horse racing license holders.** Makes a technical conforming change to a provision requiring withholding on payments to horse racing license holders. Withholding on these payments would remain in effect.
- 19 Withholding on lottery prizes.** Makes a technical conforming change to a provision requiring withholding on lottery prizes. Withholding on lottery prizes would remain in effect.
- 20 Withholding for entertainers.** Strikes cross-references to employer withholding made obsolete by the elimination of employer withholding.
- 21 Rulemaking; technical changes.** Directs the commissioner to prepare a bill for introduction in the 2016 legislative session making any additional technical and conforming changes to

Section

statute made necessary by the elimination of employer withholding. Authorizes the commissioner to adopt rules to implement the bill.

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Repealer. Repeals sections that

- ▶ allow the commissioner to disclose withholding returns for administrative purposes;
- ▶ provide criminal penalties for provision of false information by an employee subject to withholding;
- ▶ prescribe withholding under irregular pay periods;
- ▶ entitle employees with exemptions from withholding;
- ▶ provide for employer verification of withholding exemptions;
- ▶ require information filing when employee compensation is not in cash;
- ▶ allow the commissioner to enter an agreement with the secretary of the treasury regarding withholding;
- ▶ exempt employees without liability from withholding; and
- ▶ subject third-party bulk filers to liability for withholding and require third-party bulk filers to register with the commissioner.