

Adverse impact notification sent to Joint Commission on Administrative Rules, House Committee on Appropriations, and Senate Committee on Finance (COV § 2.2-4007.04.C): Yes Not Needed

If/when this economic impact analysis (EIA) is published in the *Virginia Register of Regulations*, notification will be sent to each member of the General Assembly (COV § 2.2-4007.04.B).



Virginia Department of Planning and Budget Economic Impact Analysis

23 VAC 10-140 Income Tax Withholding
Department of Taxation
Town Hall Action/Stage: 4562/7554
July 5, 2016

Summary of the Proposed Amendments to Regulation

The Department of Taxation (Department) proposes to revise or repeal several definitions related to income tax withholding.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

This regulation contains definitions related to income tax withholding that are either unnecessary in light of clear and unambiguous statutes or are in conflict with statutes or current tax policy. For example, the current definition of “employee” does not conform to Chapter 519 of 1992 Acts of Assembly and therefore the Department proposes a new definition to replace the old one. The definition of “wages” is also being revised due to enactment of various other statutes. The Department further proposes to repeal definitions of “commissioner”, “miscellaneous payroll period”, and “payroll period” because they are unnecessary. Since the proposed amendments have no impact on existing tax policy, no significant economic impact is expected. However, the proposed changes are beneficial because they will improve the clarity of the regulation.

Businesses and Entities Affected

This regulation applies to individuals and businesses subject to income tax withholding. In fiscal year 2014, approximately 244,598 entities paid Virginia income tax withholding. In addition, according to the 2013 North American Industry Classification System, there were 1,154 certified public accountant (CPA) establishments, 628 non-CPA tax preparation establishments, and 1,187 non-CPA establishments offering accounting, bookkeeping, or billing services along with payroll services in Virginia.

Localities Particularly Affected

The proposed changes apply statewide.

Projected Impact on Employment

No impact on employment is expected.

Effects on the Use and Value of Private Property

No impact on the use and value of private property is expected.

Real Estate Development Costs

No impact on real estate development costs is expected.

Small Businesses:**Definition**

Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as “a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.”

Costs and Other Effects

The Department of Taxation estimates that there are about 143,612 small businesses with employees in Virginia. In addition, almost all tax preparation or payroll service providers are small businesses. The proposed amendments do not impose costs on these entities, but will benefit them by improving the clarity of the regulation.

Alternative Method that Minimizes Adverse Impact

No adverse impact on small businesses is expected.

Adverse Impacts:**Businesses:**

A small percentage of the entities this regulation applies to is believed to be non-small businesses. The proposed amendments do not impose any adverse impact on them.

Localities:

The proposed amendments will not adversely affect localities.

Other Entities:

The proposed amendments will not adversely affect other entities.

Legal Mandates

General: The Department of Planning and Budget has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order Number 17 (2014). Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the report should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5) the impact on the use and value of private property.

Adverse impacts: Pursuant to Code § 2.2-4007.04(C): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance within the 45-day period.

If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

000