Montana Department of Revenue

Mike Kadas
Director

Steve Bullock
Governor

Memorandum

To: Mike Kadas, Director

From: Dan Dodds, Senior Economist

Date: August 1, 2016

Subject: Small Business Impact Analysis for Proposed Rule Changes MAR 42-2-961

The proposed new subsections (2) through (6) in 42.17.105 require the department to adjust the withholding formula and tables for inflation once a year. Amendments for ARM 42.17.131 clarify the process that the department and employer are to follow when an employee claims more than ten allowances and makes the department's authority to examine an employee's W-4 explicit. Other proposed wording changes and definitions in this notice are not substantive.

Annual updating of the withholding formula and tables will have a minimal impact on some small businesses. Some may have to spend a small amount of additional time once a year on their payroll process. Others may have a small reduction in the time they spend on payroll. Many will not see any difference.

Many small businesses have their payroll done by a payroll company or use accounting or payroll software. These small businesses should not have to do anything different because of this rule. Annual changes will be made by the vendors they deal with, who are already used to incorporating periodic changes made by other states. Employers who use commercial software will need to be sure they are using the current version, which they should be doing anyway.

Small businesses who do payroll in-house without using commercial software will have to make a minimal additional effort to comply with the requirements of the proposed rule. Once a year they will need to obtain the updated withholding formula or tables. Small businesses who do payroll by hand will need to ensure that they are using the current formula or tables. Small businesses who use a spreadsheet to do payroll will need to enter the updated values once a year. Altogether, this should amount to a few minutes of additional work once a year.

For employees, the proposed annual inflation adjustment will make the relationship between tax withheld and tax liability more predictable and more stable over time. This should result in some reduction in the proportion of employees who submit a revised Form W-4 every year. This may result in some small businesses seeing a small reduction in the time they spend on payroll.

The only effect on small employers of the change to the process for when an employee claims more than ten allowances is that the employer would be given a deadline for sending the employee's W-4 to the department. This should impose minimal costs on affected employers.