

**WITHHOLDING AND PAYMENT OF INCOME TAXES
BY ELECTRONIC FUNDS TRANSFER**

REGULATION 2000-5

Pursuant to the authority vested in the Director of the Department of Finance and Administration and in compliance therewith, the Director and Commissioner hereby promulgate the following regulation for the proper administration of Act 1132 of 1999.

1. EFFECTIVE DATE

This regulation shall be effective ten (10) days after it has been filed by the Department with the Arkansas Secretary of State.

2. PURPOSE

This regulation has been promulgated to implement and facilitate the process by which Service Providers remit withholding taxes to the Department by electronic funds transfer.

3. DEFINITIONS

- a) "Client" shall mean an employer who utilizes a Service Provider to report and remit Arkansas withholding tax on behalf of the employer.
- b) "Department" shall mean Arkansas Department of Finance and Administration, Revenue Division.
- c) "Electronic Funds Transfer" ("EFT") shall mean any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account, commonly referenced as an automated clearinghouse credit. A transfer of funds by wire transfer which contains no electronic record from which to identify the taxpayer, tax type, tax account number, and tax period is not an electronic funds transfer.
- d) "Service Provider" shall mean a company or any other business enterprise which provides the service of reporting and remitting withholding tax on the wages paid to individuals working in Arkansas by their employers.
- e) "Taxpayer" or "Taxpayers" shall mean an employer or employers required under Arkansas law to withhold, report and remit Arkansas withholding tax from the wages of their employees.
- f) "Withholding tax" shall mean Arkansas income tax withheld from the wages of individuals working in Arkansas and remitted to the Department.

4. APPLICATION

- a) Act 1132 of 1999 applies only to those Service Providers who serve one hundred (100) or more taxpayers. Service Providers who serve ninety-nine (99) or fewer taxpayers are not required to remit Arkansas withholding tax via EFT.
- b) Service Providers who are required by Act 1132 of 1999 to remit Arkansas withholding tax via EFT must do so starting with the January, 2001 withholding tax reporting period. The due date for payment of monthly withholding taxes is the fifteenth (15th) day of the following month. Transfers must be made no later than the day before the due date. For example, the transfer of withholding tax for the January, 2001 tax period must be made on or before February 14, 2001.

5. EFT DEPOSIT REQUIREMENTS

- a) EFT by Automated Clearinghouse Credit. The following conditions must be met on or before the due date for the withholding tax payment:
 - i) The Service Provider initiates a successful prenote or test transaction containing necessary information in cash concentration or disbursement plus tax payment addendum (CCD + TXP) format. The term "tax payment addendum format" means a technical format for the communication of limited tax remittance data accompanying a payment through the automated clearinghouse system and includes a list of standard tax-type and account-type codes. The Arkansas withholding CCD + TXP format is attached as an addendum to this regulation;
 - ii) The transfer contains an electronic addenda which allows the Department to identify the names and account numbers of the taxpayers, tax type, tax periods, the amount of the payment and the amount of the payment to be applied to the account of each taxpayer;
 - iii) The Service Provider transfers the amount of funds due; and
 - iv) The Service Provider's designated bank account contains adequate funds to cover the credit transfer at the time the credit transaction is initiated and continuing through the due date of the tax payment.
- b) A Service Provider will be considered by the Department to have failed to pay withholding taxes by EFT if the conditions set forth in subsection 5(a) of this regulation are not satisfied. A Service Provider will be notified in writing by the Department when it fails to meet the conditions for a reporting period.
- c) A taxpayer required under *Ark. Code Ann.* § 26-19-105 to pay withholding taxes by EFT who fails to pay the amount due under Arkansas law on or before the due date for such taxes can be assessed a penalty of five percent (5%) of the total amount of taxes due.

6. REGISTRATION OF PARTICIPATING EMPLOYERS

a) All taxpayers (i.e., employers) who utilize a Service Provider to report and remit Arkansas withholding tax must be registered with the Department to withhold Arkansas income tax.

i) Current Clients -- In order to allow the Department to verify current clients of Service Providers, Service Providers shall immediately transmit to the Department a list identifying all of the Service Providers' clients who are required to withhold, report and remit Arkansas income tax. The transmission shall be performed electronically using the following format:

Record type	pic x (a-add, d-delete).
Service Provider FEIN	pic 9 (9).
Service Provider name	pic x (40).
Customer FEIN	pic 9 (9).
Customer name	pic x (40).

The information transmitted by the Service Providers will be compared to the Department's current withholding tax database. Service Providers will be notified by the Department of any clients who are not currently registered with the Department to withhold Arkansas income tax. Service Providers are responsible for promptly obtaining completed *Withholding Registration* forms (*AR4ER*) from such clients and submitting the forms to the Department.

ii) New Clients -- If a Service Provider's new client is already registered with the Department to withhold Arkansas income tax, the Service Provider must furnish proof to the Department that the new client is indeed registered. If the new client is not registered with the Department to withhold Arkansas income tax, the Service Provider is responsible for promptly obtaining a completed *Withholding Registration* form (*AR4ER*) from the new client and submitting the form to the Department.

Service Providers have a forty-five (45) day grace period from the date they initially enroll a new client during which time the Department will allow payment of a new client's withholding tax by check or money order. Service Providers must notify the Department within fifteen (15) days after the date that they cease to provide services for a client.

b) EFT Authorization Agreement

The Service Providers are responsible for enrolling their clients for Electronic Funds Transfer. The Department will provide an enrollment process. Soon after a client's enrollment form has been processed by the Department and the Department's bank, the client will be notified that it has been accepted into the EFT system.

7. QUESTIONS

Questions regarding any of the requirements imposed by this regulation should be directed to:

Individual Income Tax Section
Arkansas Department of Finance
and Administration
Revenue Division
Ledbetter Building, Room 229
7th & Wolfe Streets
P. O. Box 1272
Little Rock, AR 72203
(501) 682-1130 (Telephone)
(501) 682-1691 (Fax)

or

Individual Income Tax Section
EFT Withholding Group
Arkansas Department of Finance
and Administration
Revenue Division
Ledbetter Building
7th & Wolfe Streets
P. O. Box 8067
Little Rock, AR 72203
(501) 682-7225 (Telephone)
(501) 682-7292 (Fax)

Issued this 26th day of September, 2000 in the City of Little Rock, Pulaski County, Arkansas.

Dick Barclay

Dick Barclay, Director
Arkansas Department of Finance and Administration

Tim Leathers

Tim Leathers, Deputy Director and Commissioner of Revenue
Arkansas Department of Finance and Administration