CERTIFICATION OF ENROLLMENT

SUBSTITUTE SENATE BILL 6524

Chapter 72, Laws of 2010

61st Legislature 2010 Regular Session

UNEMPLOYMENT INSURANCE--DELINQUENT EMPLOYERS

EFFECTIVE DATE: 06/10/10 - Except section 2, which becomes effective 01/01/11.

Passed by the Senate February 16, 2010 YEAS 48 NAYS 0

BRAD OWEN

President of the Senate

Passed by the House February 28, 2010 YEAS 96 NAYS 0

FRANK CHOPP

Speaker of the House of Representatives

Approved March 15, 2010, 3:17 p.m.

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is SUBSTITUTE SENATE BILL 6524 as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

Secretary

FILED

March 15, 2010

CHRISTINE GREGOIRE

Governor of the State of Washington

Secretary of State State of Washington

SUBSTITUTE SENATE BILL 6524

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Passed Legislature - 2010 Regular Session

State of Washington

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follows:

61st Legislature

2010 Regular Session

By Senate Labor, Commerce & Consumer Protection (originally sponsored by Senators King, Kohl-Welles, Kastama, Holmquist, Keiser, Honeyford, Regala, Franklin, McDermott, Hewitt, and Kline; by request of Employment Security Department)

READ FIRST TIME 01/28/10.

- AN ACT Relating to unemployment insurance penalties and contribution rates for employers who are not "qualified employers"; reenacting and amending RCW 50.29.025; adding a new section to chapter 50.12 RCW; creating a new section; prescribing penalties; and providing an effective date.
- 6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:
- 7 **Sec. 1.** RCW 50.29.025 and 2009 c 493 s 2 and 2009 c 3 s 14 are 8 each reenacted and amended to read as follows:
- 9 (1) For contributions assessed for rate years 2005 through 2009, 10 the contribution rate for each employer subject to contributions under 11 RCW 50.24.010 shall be the sum of the array calculation factor rate and 12 the graduated social cost factor rate determined under this subsection, 13 and the solvency surcharge determined under RCW 50.29.041, if any.
- 14 (a) The array calculation factor rate shall be determined as
- (i) An array shall be prepared, listing all qualified employers in ascending order of their benefit ratios. The array shall show for each

18 qualified employer: (A) Identification number; (B) benefit ratio; and

(C) taxable payrolls for the four consecutive calendar quarters immediately preceding the computation date and reported to the employment security department by the cut-off date.

(ii) Each employer in the array shall be assigned to one of forty rate classes according to his or her benefit ratio as follows, and, except as provided in RCW 50.29.026, the array calculation factor rate for each employer in the array shall be the rate specified in the rate class to which the employer has been assigned:

9	Benefit Ratio		Rate	Rate
10	At least	Less than	Class	(percent)
11		0.000001	1	0.00
12	0.000001	0.001250	2	0.13
13	0.001250	0.002500	3	0.25
14	0.002500	0.003750	4	0.38
15	0.003750	0.005000	5	0.50
16	0.005000	0.006250	6	0.63
17	0.006250	0.007500	7	0.75
18	0.007500	0.008750	8	0.88
19	0.008750	0.010000	9	1.00
20	0.010000	0.011250	10	1.15
21	0.011250	0.012500	11	1.30
22	0.012500	0.013750	12	1.45
23	0.013750	0.015000	13	1.60
24	0.015000	0.016250	14	1.75
25	0.016250	0.017500	15	1.90
26	0.017500	0.018750	16	2.05
27	0.018750	0.020000	17	2.20
28	0.020000	0.021250	18	2.35
29	0.021250	0.022500	19	2.50
30	0.022500	0.023750	20	2.65
31	0.023750	0.025000	21	2.80
32	0.025000	0.026250	22	2.95
33	0.026250	0.027500	23	3.10
34	0.027500	0.028750	24	3.25
35	0.028750	0.030000	25	3.40
36	0.030000	0.031250	26	3.55

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1	0.031250	0.032500	27	3.70
2	0.032500	0.033750	28	3.85
3	0.033750	0.035000	29	4.00
4	0.035000	0.036250	30	4.15
5	0.036250	0.037500	31	4.30
6	0.037500	0.040000	32	4.45
7	0.040000	0.042500	33	4.60
8	0.042500	0.045000	34	4.75
9	0.045000	0.047500	35	4.90
10	0.047500	0.050000	36	5.05
11	0.050000	0.052500	37	5.20
12	0.052500	0.055000	38	5.30
13	0.055000	0.057500	39	5.35
14	0.057500		40	5.40

- (b) The graduated social cost factor rate shall be determined as follows:
 - (i)(A) Except as provided in (b)(i)(B) and (C) of this subsection, the commissioner shall calculate the flat social cost factor for a rate year by dividing the total social cost by the total taxable payroll. The division shall be carried to the second decimal place with the remaining fraction disregarded unless it amounts to five hundredths or more, in which case the second decimal place shall be rounded to the next higher digit. The flat social cost factor shall be expressed as a percentage.
- (B) If, on the cut-off date, the balance in the unemployment compensation fund is determined by the commissioner to be an amount that will provide more than ten months of unemployment benefits, the commissioner shall calculate the flat social cost factor for the rate year immediately following the cut-off date by reducing the total social cost by the dollar amount that represents the number of months for which the balance in the unemployment compensation fund on the cut-off date will provide benefits above ten months and dividing the result by the total taxable payroll. However, the calculation under this subsection (1)(b)(i)(B) for a rate year may not result in a flat social cost factor that is more than four-tenths lower than the calculation under (b)(i)(A) of this subsection for that rate year.

For the purposes of this subsection, the commissioner shall determine the number of months of unemployment benefits in the unemployment compensation fund using the benefit cost rate for the average of the three highest calendar benefit cost rates in the twenty consecutive completed calendar years immediately preceding the cut-off date or a period of consecutive calendar years immediately preceding the cut-off date that includes three recessions, if longer.

- (C) The minimum flat social cost factor calculated under this subsection (1)(b) shall be six-tenths of one percent, except that if the balance in the unemployment compensation fund is determined by the commissioner to be an amount that will provide:
- (I) At least twelve months but less than fourteen months of unemployment benefits, the minimum shall be five-tenths of one percent; or
- (II) At least fourteen months of unemployment benefits, the minimum shall be five-tenths of one percent, except that, for employers in rate class 1, the minimum shall be forty-five hundredths of one percent.
- (ii)(A) Except as provided in (b)(ii)(B) of this subsection, the graduated social cost factor rate for each employer in the array is the flat social cost factor multiplied by the percentage specified as follows for the rate class to which the employer has been assigned in (a)(ii) of this subsection, except that the sum of an employer's array calculation factor rate and the graduated social cost factor rate may not exceed six and five-tenths percent or, for employers whose North American industry classification system code is within "111," "112," "1141," "115," "3114," "3117," "42448," or "49312," may not exceed six percent through rate year 2007 and may not exceed five and seven-tenths percent for rate years 2008 and 2009:
- 29 (I) Rate class 1 78 percent;
- 30 (II) Rate class 2 82 percent;
- 31 (III) Rate class 3 86 percent;
 - (IV) Rate class 4 90 percent;
- 33 (V) Rate class 5 94 percent;
- 34 (VI) Rate class 6 98 percent;
- 35 (VII) Rate class 7 102 percent;
- 36 (VIII) Rate class 8 106 percent;
- 37 (IX) Rate class 9 110 percent;
- 38 (X) Rate class 10 114 percent;

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(XI) Rate class 11 - 118 percent; and

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- 2 (XII) Rate classes 12 through 40 120 percent.
- 3 (B) For contributions assessed beginning July 1, 2005, through 4 December 31, 2007, for employers whose North American industry 5 classification system code is "111," "112," "1141," "115," "3114," 6 "3117," "42448," or "49312," the graduated social cost factor rate is zero.
 - (iii) For the purposes of this section:
- (A) "Total social cost" means the amount calculated by subtracting 9 the array calculation factor contributions paid by all employers with 10 respect to the four consecutive calendar quarters immediately preceding 11 12 the computation date and paid to the employment security department by 13 the cut-off date from the total unemployment benefits paid to claimants 14 in the same four consecutive calendar quarters. To calculate the flat social cost factor for rate year 2005, the commissioner shall calculate 15 the total social cost using the array calculation factor contributions 16 17 that would have been required to be paid by all employers in the calculation period if (a) of this subsection had been in effect for the 18 relevant period. To calculate the flat social cost factor for rate 19 years 2010 and 2011, the forty-five dollar increase paid as part of an 20 21 individual's weekly benefit amount as provided in RCW 50.20.1201 shall 22 not be considered for purposes of calculating the total unemployment benefits paid to claimants in the four consecutive calendar quarters 23 24 immediately preceding the computation date.
 - (B) "Total taxable payroll" means the total amount of wages subject to tax, as determined under RCW 50.24.010, for all employers in the four consecutive calendar quarters immediately preceding the computation date and reported to the employment security department by the cut-off date.
 - (c) For employers who do not meet the definition of "qualified employer" by reason of failure to pay contributions when due:
 - (i) The array calculation factor rate shall be two-tenths higher than that in rate class 40, except employers who have an approved agency-deferred payment contract by September 30th of the previous rate year. If any employer with an approved agency-deferred payment contract fails to make any one of the succeeding deferred payments or fails to submit any succeeding tax report and payment in a timely

- manner, the employer's tax rate shall immediately revert to an array calculation factor rate two-tenths higher than that in rate class 40; and
 - (ii) The social cost factor rate shall be the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection.
 - (d) For all other employers not qualified to be in the array:
 - (i) For rate years 2005, 2006, and 2007:
 - (A) The array calculation factor rate shall be a rate equal to the average industry array calculation factor rate as determined by the commissioner, plus fifteen percent of that amount; however, the rate may not be less than one percent or more than the array calculation factor rate in rate class 40; and
 - (B) The social cost factor rate shall be a rate equal to the average industry social cost factor rate as determined by the commissioner, plus fifteen percent of that amount, but not more than the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection.
 - (ii) For contributions assessed for rate years 2008 and 2009:
 - (A) The array calculation factor rate shall be a rate equal to the average industry array calculation factor rate as determined by the commissioner, multiplied by the history factor, but not less than one percent or more than the array calculation factor rate in rate class 40;
 - (B) The social cost factor rate shall be a rate equal to the average industry social cost factor rate as determined by the commissioner, multiplied by the history factor, but not more than the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection; and
 - (C) The history factor shall be based on the total amounts of benefits charged and contributions paid in the three fiscal years ending prior to the computation date by employers not qualified to be in the array, other than employers in (c) of this subsection, who were first subject to contributions in the calendar year ending three years prior to the computation date. The commissioner shall calculate the history ratio by dividing the total amount of benefits charged by the total amount of contributions paid in this three-year period by these employers. The division shall be carried to the second decimal place with the remaining fraction disregarded unless it amounts to five

one-hundredths or more, in which case the second decimal place shall be rounded to the next higher digit. The commissioner shall determine the history factor according to the history ratio as follows:

4		History		History
5		Ratio		Factor
6				(percent)
7		At least	Less than	
8	(I)		.95	90
9	(II)	.95	1.05	100
10	(III)	1.05		115

- (2) For contributions assessed in rate year 2010 and thereafter, the contribution rate for each employer subject to contributions under RCW 50.24.010 shall be the sum of the array calculation factor rate and the graduated social cost factor rate determined under this subsection, and the solvency surcharge determined under RCW 50.29.041, if any.
- (a) The array calculation factor rate shall be determined as follows:
- (i) An array shall be prepared, listing all qualified employers in ascending order of their benefit ratios. The array shall show for each qualified employer: (A) Identification number; (B) benefit ratio; and (C) taxable payrolls for the four consecutive calendar quarters immediately preceding the computation date and reported to the employment security department by the cut-off date.
- (ii) Each employer in the array shall be assigned to one of forty rate classes according to his or her benefit ratio as follows, and, except as provided in RCW 50.29.026, the array calculation factor rate for each employer in the array shall be the rate specified in the rate class to which the employer has been assigned:

29	Bene	Benefit Ratio		Rate
30	At least	Less than	Class	(percent)
31		0.000001	1	0.00
32	0.000001	0.001250	2	0.11
33	0.001250	0.002500	3	0.22

1	0.002500	0.003750	4	0.33
2	0.003750	0.005000	5	0.43
3	0.005000	0.006250	6	0.54
4	0.006250	0.007500	7	0.65
5	0.007500	0.008750	8	0.76
6	0.008750	0.010000	9	0.88
7	0.010000	0.011250	10	1.01
8	0.011250	0.012500	11	1.14
9	0.012500	0.013750	12	1.28
10	0.013750	0.015000	13	1.41
11	0.015000	0.016250	14	1.54
12	0.016250	0.017500	15	1.67
13	0.017500	0.018750	16	1.80
14	0.018750	0.020000	17	1.94
15	0.020000	0.021250	18	2.07
16	0.021250	0.022500	19	2.20
17	0.022500	0.023750	20	2.38
18	0.023750	0.025000	21	2.50
19	0.025000	0.026250	22	2.63
20	0.026250	0.027500	23	2.75
21	0.027500	0.028750	24	2.88
22	0.028750	0.030000	25	3.00
23	0.030000	0.031250	26	3.13
24	0.031250	0.032500	27	3.25
25	0.032500	0.033750	28	3.38
26	0.033750	0.035000	29	3.50
27	0.035000	0.036250	30	3.63
28	0.036250	0.037500	31	3.75
29	0.037500	0.040000	32	4.00
30	0.040000	0.042500	33	4.25
31	0.042500	0.045000	34	4.50
32	0.045000	0.047500	35	4.75
33	0.047500	0.050000	36	5.00
34	0.050000	0.052500	37	5.15
35	0.052500	0.055000	38	5.25
36	0.055000	0.057500	39	5.30
37	0.057500		40	5.40

1 (b) The graduated social cost factor rate shall be determined as follows:

- (i)(A) Except as provided in (b)(i)(B) and (C) of this subsection, the commissioner shall calculate the flat social cost factor for a rate year by dividing the total social cost by the total taxable payroll. The division shall be carried to the second decimal place with the remaining fraction disregarded unless it amounts to five hundredths or more, in which case the second decimal place shall be rounded to the next higher digit. The flat social cost factor shall be expressed as a percentage.
- (B) If, on the cut-off date, the balance in the unemployment compensation fund is determined by the commissioner to be an amount that will provide more than ten months of unemployment benefits, the commissioner shall calculate the flat social cost factor for the rate year immediately following the cut-off date by reducing the total social cost by the dollar amount that represents the number of months for which the balance in the unemployment compensation fund on the cut-off date will provide benefits above ten months and dividing the result by the total taxable payroll. However, the calculation under this subsection (2)(b)(i)(B) for a rate year may not result in a flat social cost factor that is more than four-tenths lower than the calculation under (b)(i)(A) of this subsection for that rate year.

For the purposes of this subsection, the commissioner shall determine the number of months of unemployment benefits in the unemployment compensation fund using the benefit cost rate for the average of the three highest calendar benefit cost rates in the twenty consecutive completed calendar years immediately preceding the cut-off date or a period of consecutive calendar years immediately preceding the cut-off date that includes three recessions, if longer.

- (C) The minimum flat social cost factor calculated under this subsection (2)(b) shall be six-tenths of one percent, except that if the balance in the unemployment compensation fund is determined by the commissioner to be an amount that will provide:
- (I) At least ten months but less than eleven months of unemployment benefits, the minimum shall be five-tenths of one percent; or
- (II) At least eleven months but less than twelve months of unemployment benefits, the minimum shall be forty-five hundredths of one percent; or

- 1 (III) At least twelve months but less than thirteen months of unemployment benefits, the minimum shall be four-tenths of one percent; 3 or
 - (IV) At least thirteen months but less than fifteen months of unemployment benefits, the minimum shall be thirty-five hundredths of one percent; or
 - (V) At least fifteen months but less than seventeen months of unemployment benefits, the minimum shall be twenty-five hundredths of one percent; or
- 10 (VI) At least seventeen months but less than eighteen months of unemployment benefits, the minimum shall be fifteen hundredths of one percent; or
- 13 (VII) At least eighteen months of unemployment benefits, the 14 minimum shall be fifteen hundredths of one percent through rate year 15 2011 and shall be zero thereafter.
 - (ii) The graduated social cost factor rate for each employer in the array is the flat social cost factor multiplied by the percentage specified as follows for the rate class to which the employer has been assigned in (a)(ii) of this subsection, except that the sum of an employer's array calculation factor rate and the graduated social cost factor rate may not exceed six percent or, for employers whose North American industry classification system code is within "111," "112," "1141," "115," "3114," "3117," "42448," or "49312," may not exceed five and four-tenths percent:
 - (A) Rate class 1 78 percent;
 - (B) Rate class 2 82 percent;
 - (C) Rate class 3 86 percent;
- 28 (D) Rate class 4 90 percent;
- 29 (E) Rate class 5 94 percent;
- 30 (F) Rate class 6 98 percent;
- 31 (G) Rate class 7 102 percent;
- 32 (H) Rate class 8 106 percent;
- 33 (I) Rate class 9 110 percent;
- 34 (J) Rate class 10 114 percent;
- 35 (K) Rate class 11 118 percent; and
- 36 (L) Rate classes 12 through 40 120 percent.
- 37 (iii) For the purposes of this section:

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- (A) "Total social cost" means the amount calculated by subtracting the array calculation factor contributions paid by all employers with respect to the four consecutive calendar quarters immediately preceding the computation date and paid to the employment security department by the cut-off date from the total unemployment benefits paid to claimants in the same four consecutive calendar quarters.
- (B) "Total taxable payroll" means the total amount of wages subject to tax, as determined under RCW 50.24.010, for all employers in the four consecutive calendar quarters immediately preceding the computation date and reported to the employment security department by the cut-off date.
- (c) For employers who do not meet the definition of "qualified employer" by reason of failure to pay contributions when due:
 - (i) For rate years through 2010:

- (A) The array calculation factor rate shall be two-tenths higher than that in rate class 40, except employers who have an approved agency-deferred payment contract by September 30th of the previous rate year. If any employer with an approved agency-deferred payment contract fails to make any one of the succeeding deferred payments or fails to submit any succeeding tax report and payment in a timely manner, the employer's tax rate shall immediately revert to an array calculation factor rate two-tenths higher than that in rate class 40; and
- $((\frac{(ii)}{)}))$ (B) The social cost factor rate shall be the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection.

(ii) For rate years 2011 and thereafter:

- (A)(I) For an employer who does not enter into an approved agency-deferred payment contract as described in (c)(ii)(A)(II) or (III) of this subsection, the array calculation factor rate shall be the rate it would have been if the employer had not been delinquent in payment plus an additional one percent or, if the employer is delinquent in payment for a second or more consecutive year, an additional two percent;
- (II) For an employer who enters an approved agency-deferred payment contract by September 30th of the previous rate year, the array calculation factor rate shall be the rate it would have been if the employer had not been delinquent in payment;
- 37 <u>(III) For an employer who enters an approved agency-deferred</u> 38 payment contract after September 30th of the previous rate year, but

p. 11 SSB 6524.SL

- within thirty days of the date the department sent its first tax rate
 notice, the array calculation factor rate shall be the rate it would
 have been had the employer not been delinquent in payment plus an
 additional one-half of one percent or, if the employer is delinquent in
 payment for a second or more consecutive year, an additional one and
 one-half percent;
 - (IV) For an employer who enters an approved agency-deferred payment contract as described in (c)(ii)(A)(II) or (III) of this subsection, but who fails to make any one of the succeeding deferred payments or fails to submit any succeeding tax report and payment in a timely manner, the array calculation factor rate shall immediately revert to the applicable array calculation factor rate under (c)(ii)(A)(I) of this subsection; and
 - (B) The social cost factor rate shall be the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection.
 - (d) For all other employers not qualified to be in the array:
 - (i) The array calculation factor rate shall be a rate equal to the average industry array calculation factor rate as determined by the commissioner, multiplied by the history factor, but not less than one percent or more than the array calculation factor rate in rate class 40;
 - (ii) The social cost factor rate shall be a rate equal to the average industry social cost factor rate as determined by the commissioner, multiplied by the history factor, but not more than the social cost factor rate assigned to rate class 40 under (b)(ii) of this subsection; and
 - (iii) The history factor shall be based on the total amounts of benefits charged and contributions paid in the three fiscal years ending prior to the computation date by employers not qualified to be in the array, other than employers in (c) of this subsection, who were first subject to contributions in the calendar year ending three years prior to the computation date. The commissioner shall calculate the history ratio by dividing the total amount of benefits charged by the total amount of contributions paid in this three-year period by these employers. The division shall be carried to the second decimal place with the remaining fraction disregarded unless it amounts to five one-hundredths or more, in which case the second decimal place shall be

rounded to the next higher digit. The commissioner shall determine the history factor according to the history ratio as follows:

3		History		History
4		Ratio		Factor
5				(percent)
6		At least	Less than	
7	(A)		.95	90
8	(B)	.95	1.05	100
9	(C)	1.05		115

(3) Assignment of employers by the commissioner to industrial classification, for purposes of this section, shall be in accordance with established classification practices found in the North American industry classification system code.

NEW SECTION. Sec. 2. A new section is added to chapter 50.12 RCW to read as follows:

An employer that knowingly fails to register with the department and obtain an employment security account number, as required under RCW 50.12.070(2), is subject to a penalty not to exceed one thousand dollars per quarter or two times the taxes due per quarter, whichever is greater. This penalty is in addition to all other penalties and is in addition to higher rates for employers that do not meet the definition of "qualified employer" under RCW 50.29.010. This penalty does not apply if the employer can prove that it had good cause to believe that it was not required to register with the department.

NEW SECTION. Sec. 3. If any part of this act is found to be in conflict with federal requirements that are a prescribed condition to the allocation of federal funds to the state or the eligibility of employers in this state for federal unemployment tax credits, the conflicting part of this act is inoperative solely to the extent of the conflict, and the finding or determination does not affect the operation of the remainder of this act. Rules adopted under this act must meet federal requirements that are a necessary condition to the

- 1 receipt of federal funds by the state or the granting of federal
- 2 unemployment tax credits to employers in this state.
- 3 <u>NEW SECTION.</u> **Sec. 4.** If any provision of this act or its
- 4 application to any person or circumstance is held invalid, the
- 5 remainder of the act or the application of the provision to other
- 6 persons or circumstances is not affected.
- 7 <u>NEW SECTION.</u> **Sec. 5.** Section 2 of this act takes effect January
- 8 1, 2011.

Passed by the Senate February 16, 2010.

Passed by the House February 28, 2010.

Approved by the Governor March 15, 2010.

Filed in Office of Secretary of State March 15, 2010.