

SENATE BILL REPORT

SHB 2510

As Reported By Senate Committee On:
Commerce & Trade, February 19, 2004

Title: An act relating to tax delinquency assessments for successor employers.

Brief Description: Modifying provisions concerning unemployment compensation.

Sponsors: House Committee on Commerce & Labor (originally sponsored by Representatives Conway, McCoy, Condotta, McMorris and Chase; by request of Employment Security Department).

Brief History:

Committee Activity: Commerce & Trade: 2/19/04 [DP].

SENATE COMMITTEE ON COMMERCE & TRADE

Majority Report: Do pass.

Signed by Senators Honeyford, Chair; Hewitt, Vice Chair; Franklin, Keiser and Mulliken.

Staff: Jennifer Strus (786-7316)

Background: Washington's unemployment insurance system requires each covered employer to pay contributions on a percentage of his or her taxable payroll, except for certain employers who reimburse the Employment Security Department (ESD) for benefits the agency pays to these employers' former workers. For most covered employers, unemployment insurance contribution rates are determined by the rate in the employer's assigned rate class under the unemployment insurance tax schedule in effect for that calendar year (or, beginning in 2005, the combined rate assigned to the employer based on layoff experience, social costs, and solvency surcharge, if any). The highest contribution rate in 2004 is 5.4 percent. Beginning in 2005, the highest rate will vary but may not exceed 6.5 percent plus a solvency surcharge, if any.

Some covered employers are not qualified to be assigned a rate class. These unqualified employers include employers who are delinquent in paying contributions and certain successor employers who were not employers at the time of acquiring a business. Delinquent employers pay at a contribution rate of 5.6 percent or, beginning in 2005, two-tenths higher than the highest rate. Until a new successor employer becomes a qualified employer, the rate for these successor employers is the lower of the rate class assigned to the predecessor employer (or, beginning in 2005, the assigned rate) or the average industry rate with a 1 percent minimum rate.

For a business transfer on or after January 1, 2005, a new successor employer who has substantial continuity of ownership and management of the predecessor's business is not permitted to use the optional average industry rate. A new successor employer must pay at the rate assigned to the predecessor employer, and will have the experience of the predecessor

employer transferred to the successor as part of its array calculation factor rate beginning in January following the transfer.

In 2003, a penalty was enacted that applies to an employer who is delinquent in paying unemployment taxes because of an intent to evade the successorship requirements and to businesses that are promoting such evasion. For five calendar quarters, these businesses will be assigned the highest contribution rate.

Summary of Bill: The penalty is changed for businesses that are delinquent in paying unemployment contributions because of an intent to evade the successorship requirements and for businesses that are promoting such evasion. Instead of being assigned the highest contribution rate for five quarters, these businesses will be assigned a rate that is the highest contribution rate, plus 2 percent, for the calendar year in which the commissioner of ESD makes the penalty determination.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The computer systems at the Employment Security Department cannot calculate the penalty based on five calendar quarters, so they had to come up with a different calculation and this bill represents that calculation.

Testimony Against: None.

Testified: PRO: Mary Clogston, Employment Security Department.