

SENATE BILL REPORT

SHB 2604

As Reported By Senate Committee On:
Labor, Commerce & Financial Institutions, February 28, 2002

Title: An act relating to new and successor employer unemployment contribution rates.

Brief Description: Modifying new and successor unemployment contribution rates.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Clements, Conway, McMorris and Wood).

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 2/26/02, 2/28/02
[DPA-WM].

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Prentice, Chair; Keiser, Vice Chair; Deccio, Fairley, Franklin, Honeyford, Rasmussen, Regala and Winsley.

Staff: Matthew Adams (786-7784)

Background: 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. Rates under the 2002 tax schedule range from 0.47 percent to 5.4 percent, not including various statutory surcharges.

Some covered employers, however, are not qualified to be assigned a rate class. Unqualified employers include those who do not report enough periods of employment during the previous three years. These employers pay the average industry rate in their industry, as determined by the commissioner of the Employment Security Department, but not less than 1 percent. (Under the Federal Unemployment Tax Act, states must set a 1 percent minimum rate for unqualified employers to maintain the credit that employers in the state may take against their federal unemployment insurance tax.)

The average industry rate also applies to certain successor employers who were not employers at the time of acquiring a business. Until a new successor employer becomes a qualified employer, the rate for these successor employers is the lower of the rate assigned to the predecessor employer or the average industry rate with a 1 percent minimum rate.

To be a qualified employer, an employer must report some employment in the 12-month period beginning with the qualification date. Current law defines "qualification date" as April 1 of the third year preceding the computation date (July 1 of any year).

Summary of Amended Bill: The unemployment insurance contribution rate for certain unqualified employers is modified. The rate is changed from the average industry rate to a rate that is the average industry rate plus 20 percent (with the minimum rate remaining at 1 percent). The maximum rate that may be assigned to these employers is the rate that applies in rate class 20 for the rate year (5.4 percent for 2002).

These provisions apply to (1) employers who are not qualified to be in the tax array (except for those disqualified for nonpayment of contributions); and to (2) successor employers who were not employers at the time the business was transferred and whose contribution rate is lowest when using the option of the average industry rate plus 20 percent.

The qualification date is reduced to April 1 of the second year preceding the computation date. This reduction changes the amount of time it takes for a new employer to qualify for experiencing rating and to move from the new employer tax rate to a tax rate reflecting the employer's benefit payment history.

These changes in the contribution rate apply beginning January 1, 2003.

Amended Bill Compared to Substitute Bill: The committee amendment reduces by a full year the time it takes for a new employer to qualify for experience rating and move from the new employer tax rate to a tax rate reflecting the employer's benefit payment history.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: A recent study of Washington's unemployment insurance (UI) system found that the state has high rates of business inactivation and new employer formation. This bill will reduce the current incentive to reincorporate simply to escape unemployment insurance taxes ("gaming") by increasing the new employer UI rate by 20 percent. This bill will also reduce the costs that new employers impose on existing employers; for example, "socialized costs" such as "inactive charges" when employers go out of business. The bill does not, however, impact benefits or the actuarial soundness of the UI trust fund reserve.

Testimony Against: None.

Testified: PRO: Clif Finch, AWB; Mr. Raffnell, Weyerhaeuser; Rick Slunaker, AGC; Jan Gee, WA Retail Assoc. and WA Food Industry. CONCERNS: Mark Johnson, NFIB.