CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 16, 2004

H.R. 3463
SUTA Dumping Prevention Act

As cleared by the Congress on July 22, 2004, and signed by the President on August 9, 2004

SUMMARY

H.R. 3463, enacted as Public Law 108-295, amends the Social Security Act with respect to administration of unemployment taxes and benefits under state unemployment tax acts (SUTA). Section 2 requires, as a condition of state eligibility for grants for unemployment compensation administration, changes to state unemployment compensation laws to provide for transfer of unemployment experience upon transfer or acquisition of a business. It also requires the Secretary of Labor to study and report to the Congress no later than July 15, 2007, on the status and appropriateness of state actions to meet the requirements.

Section 3 of the act directs the Secretary of Health and Human Services to disclose information on individuals and their employers in the National Directory of New Hires to a state agency for purposes of administering a state or federal unemployment compensation law. The state agency shall reimburse the Secretary for the costs incurred in supplying that information.

The Congressional Budget Office estimates that H.R. 3463 will increase revenues by $432 million over the 2005-2009 period, and by $342 million over the 2005-2014 period, net of income and payroll tax offsets. In addition, CBO estimates it will reduce direct spending by about $7 million in 2005, $50 million over the 2005-2009 period, and $116 million over the 2005-2014 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 3463 on revenues and direct spending over the 2005-2014 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Changes in receipts	0	119	152	107	54	12	-13	-27	-31	-31
Changes in outlays	-7	-9	-10	-12	-12	-13	-13	-13	-13	-14

BASIS OF ESTIMATE

Revenues

Transfer of Unemployment Experience of a Business. State unemployment taxes are taxes paid by employers to fund unemployment benefits to unemployed workers in the state. The tax rate applicable to an employer depends on the unemployment experience of the employer. SUTA dumping occurs when employers disguise their true unemployment experience for the purpose of lowering their unemployment experience rating. Under current unemployment compensation laws for some states, employers can use the more beneficial unemployment experience rating of an acquired or newly formed company rather than use the experience rating based on their existing employees. Some firms have abused the system in certain ways such as by forming new entities in name only to obtain a better experience rating and therefore lower their unemployment insurance taxes.

Section 2 requires, as a condition of state eligibility for grants for unemployment compensation administration, that state unemployment compensation laws provide for transfer of unemployment experience upon transfer or acquisition of a business. CBO expects that section 2 will prompt various states to change their laws governing unemployment compensation to ensure that companies use the actual unemployment compensation rating based on their workforce's experience.

The changes in the state laws are expected to begin during fiscal year 2005, and not become effective until fiscal year 2006. This change in state laws will cause some employers who otherwise would have avoided the use of their true unemployment experience to pay higher unemployment taxes to the states than they would pay under the current state laws. Those

higher payments to the states will result in higher deposits into the unemployment insurance trust funds. Such deposits are considered revenues in the federal budget.

CBO estimates that the act will result in a revenue increase of $429 million over the 2006-2014 period. CBO estimates that revenues will increase by $474 million from 2006 through 2010 as a result of the unemployment experience provisions of the act, but then be unchanged in 2011 and decline by $45 million from 2012 through 2014. CBO assumes that in the year following increased deposits to the trust funds, states will respond by lowering their unemployment insurance taxes, often through automatic triggering mechanisms that exist. In this way, states are assumed to maintain their trust fund balances at relatively stable levels.

Use of New Hire Information. Section 3 allows states, beginning in fiscal year 2005, to access information in the national database of new hires to help detect fraud in the unemployment compensation system, and requires state agencies to reimburse the federal government for the costs of furnishing the information. Currently, most states may access the information that they send to the national registry. However, without access to the national information, a state may not receive important data regarding recent hires by national corporations that may report in other states. Only a few states have examined potential savings that could be realized if they had access to the national data, and their estimates are small—less than 0.1 percent of total outlays. Nevertheless, states generally believe that access to the national data will be a valuable tool in detecting fraud earlier, as the information on new hires is more current than that contained in quarterly wage reports on which many states now rely.

CBO estimates that allowing states to obtain more information regarding individuals who file unemployment compensation claims will reduce fraud and the overpayment of claims to individuals. That reduction of payments of claims will cause a decrease in outlays. In turn, the trust funds will not need as much funding because claims will be reduced, leading states to reduce their unemployment insurance taxes. CBO estimates that federal revenues will decline by about $19 million over the 2005-2009 period, and by about $87 million over the 2005-2014 period. The effects of those provisions on direct spending is discussed below.

Direct Spending

Based on information provided by the National Association of State Workforce Agencies, CBO estimates that about 40 percent of the states would make use of the national information in the new hire database in the year that it became available, with additional states taking advantage of the national information within the next few years. CBO estimates that this proposal would result in a reduction in spending for unemployment compensation of

$7 million in 2005 and $116 million over the 2005-2014 period. (Combined with the estimated reduction in federal revenues discussed above, CBO estimates that this section will result in a net deficit reduction of $29 million over the 10-year period.)

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