

House Bill 1314

Overview and Analysis

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What Does HB 1314 Seek To Accomplish?

- HB 1314 proposes to transfer the collection of UI taxes from the VEC to the Department of Taxation
- HB 1314 could be interpreted as transferring all of the UI Tax Program from VEC to Taxation
- Thus, the bill has been analyzed broadly and narrowly by both agencies

Current State of UI Tax Collection

- All Virginia employers file quarterly payroll and tax reports with the VEC
- Payroll data is used to determine UI benefit eligibility and is one factor in computing employers' tax rates
- Over past five years VEC collected an average of \$411 million per year in UI taxes

Deposit of UI Taxes

- UI taxes are deposited in the Federal Unemployment Trust Fund pursuant to Section 60.2-301
- Trust fund revenues can be used only to pay benefits to eligible claimants
- Federal standards with respect to the deposit and use of the Trust fund

Administration of UI Program

- Cost of administering UI program, including all tax functions, is federally funded from FUTA taxes
- Virginia generally receives \$33 - \$36 million annually to administer UI
- 26% (\$9.7 million) of FY 2008 allocation earmarked for tax activities

Relationship between Benefits and Tax Components of UI

- The payment of UI claims (Benefits) and the financing of those benefits (Tax) are inextricably inter-related in the same way as an insurance company's claims and underwriting departments
- Claims paid directly impact employer tax rates and trust fund solvency
- Employer payroll reports are essential to determining benefit eligibility

Scope of UI Tax Collections

- Collecting UI taxes is more than receiving and depositing payments, and includes:
 - Receiving and processing 189,000 wage and payroll reports each quarter
 - Posting payments to the correct accounts
 - Reconciliation of receipts
 - Error resolution
 - Meeting all federally imposed standards

Issues and Concerns

- Transfer of any portion of UI Tax program will not save VEC any administrative funds
- Any savings achieved would only benefit the federal government, not the Commonwealth
- Transfer will limit flexibility of VEC Commissioner to exercise “bottom line authority” over UI administrative grant
- No federal funding would be available for start-up costs incurred by Taxation; would have to come from UI administrative grant or state general fund

Issues and Concerns (continued)

- Transfer will increase administrative complexity by virtue of two agencies being involved in the tax collection process
- Because of the decreasing level of federal funding, UI administrative grant will not likely be sufficient to cover all reasonable costs incurred by VEC and Taxation

Issues and Concerns

UI Modernization Project

- VEC currently evaluating bids received in response to an RFP for a new, highly integrated UI Benefits & Tax System
- If any part of UI Tax program was transferred to Taxation, would bring project to a halt
- Project would have to be re-scoped and a revised RFP issued
- Would delay project by a minimum of 12 months
- Increase project risk due to increase in project complexity

Options

- VEC and Taxation have identified three potential options under HB 1314
- Option 1: Transfer entire tax program
- Option 2: Lockbox services
- Option 3: Lockbox & return processing

Review of Options

- The Department of Taxation has prepared preliminary cost estimates for each of the three options
- These estimates are set out in your notebooks behind the HB 1314 tab
- Commissioner Bowen and her staff will now brief you on these options and their perspective on the bill and the challenges it could present