

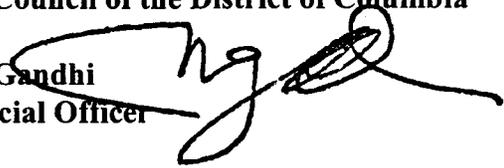
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: JAN 10 2006

SUBJECT: Fiscal Impact Statement: "Unemployment Compensation Employer Contributions Federal Conformity Act of 2006"

REFERENCE: Draft Legislation to be Introduced – No Number Available

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Conclusion

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the provisions of the proposed legislation. No additional staff or resources will be required. Failure to conform local law to the federal State Unemployment Tax Act Dumping Prevention Act (P.L. 108-295) could result in the loss of Federal grant funds to the District.

Background

Federal law requires enactment of the proposed legislation for the tax year beginning January 1, 2006, as a matter of federal conformity. States (and the District of Columbia) that do not enact such legislation risk the possible curtailment of federal unemployment administrative grant funds and jeopardize offset credits for local employers which are allowed under the Federal Unemployment Tax Act.¹ Such a curtailment could result in a \$10 million loss to the District which allocates these funds annually to the District Department of Employment Services.

1. The Federal Unemployment Tax Act (FUTA) was passed in 1939 to guarantee financing for a national employment security system. The current maximum tax imposed is at a rate of 6.2 percent on the first \$7,000 paid annually by employers to each employee, including the "temporary" surtax of 0.2 percent that was added in 1976 and extended through 2007.

The proposed legislation conforms local law to the federal SUTA Dumping Prevention Act.² The proposed legislation would prohibit certain business practices that manipulate the 'experience rating system' to produce artificially low unemployment tax contribution rates. In addition, the proposed legislation would prohibit certain actions involving business acquisitions and compensation practices that also result in artificially low unemployment tax contribution rates. The proposed legislation establishes civil and criminal penalties for failure to comply with the newly established law.

Financial Plan Impact

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan implement the proposed legislation. No additional staff or resources will be required. Although the proposed legislation could have a positive impact on unemployment tax revenue, the fiscal effects of implementing the proposed legislation cannot be determined at this time.

2. State Unemployment Tax Act (federal) Dumping Prevention Act; Public Law 108-295; enacted August 9, 2004.