THE IMPACT OF THE TARGETED HARMONIZED WAGE CODE ON UNEMPLOYMENT INSURANCE

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Social programs that provide benefits and protection to workers are generally funded by taxes levied on employer payrolls. Key among the laws governing these taxes are the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA) and the individual State Unemployment Insurance Laws (SUI). The diversity and complexity of the state and federal laws governing taxes and withholding have been identified as creating a burden for the business community.

In response to these concerns the federal government established a multi-agency task group called the Simplified Tax and Wage Reporting System (STAWRS) to review the tax and wage reporting process and to develop strategies for a simplified reporting system to replace the multitude of laws currently in effect.

One of the principal initiatives of the STAWRS Group is the Harmonized Wage Code (HWC) project. The HWC project group reviewed some 100 laws relating to the reporting of wages by employers, both federal and state, to identify the similarities and differences among them and, once identified, ascertained whether a measure of harmonization or uniformity would be feasible. During this process it became apparent that the differing objectives among income tax withholding laws and employment tax laws added materially to the project's complexities. To facilitate their work, the project divided into two segments – one for income tax withholding and one for employment tax laws (i.e., FICA, FUTA, and SUI).

The group further recognized that complete harmony was not necessary to achieve a high degree of success for a majority of the nation's employers. The group then focused on employers with 20 or fewer employees, since they comprise 85% of employers in the United States, and deal with fewer of the differing components of wages.

This approach became known as the Targeted Harmonized Wage Code (THWC). It addresses 14 elements or components of payroll that are most common to small employers. The intent of the THWC is to produce a set of recommendations which, if adopted, more closely harmonizes or aligns the wage components identified among the federal and state employment tax laws. States could achieve harmony with minimal modifications to existing laws; preferably in some cases by administrative action rather than statutory changes; and accomplish a large measure of harmony within a relatively short period. The group believed that the proposed changes would have minimal negative economic impact on state revenues.

While endorsing the concepts of simplification and efficiency, the U. S. Department of Labor made note of the fact that to the extent that in those states where redefinitions could serve to reduce wages subject to SUI, there will be a commensurate reduction in SUI revenues financing the unemployment insurance system. Further, such redefinitions may reduce the unemployment insurance benefits payable to qualified workers or eliminate some of them from eligibility. Therefore, DOL and the IRS authorized this study to obtain feedback on what small employers perceive to be burdensome in tax and wage reporting systems and obtain suggestions from employers, and to determine the probable impact of the THWC on SUI revenues and benefits.

For the task of eliciting opinions on what is perceived to be burdensome in the wage code and obtain suggestions for changes and simplification, qualitative input was obtained from interviews with UI administrators and focus groups of small employers and payroll processors.

A number of Unemployment Insurance administrators were of the mistaken opinion that the THWC recommendations appear to be addressed to benefit large multi-state employers and accounting and payroll providers, and have little or no value to the majority of small employers who conduct business in only one state. Legislative staff in the nine states visited were unanimous in opinion that if a state is asked to change the way a component is currently reported for UI tax purposes and if the removal of the component would result in any significant reduction in benefits of individuals by income class or occupational category, it is unlikely that state legislatures would be amenable to the proposal.

Approximately fifty small employers were surveyed in focus groups. The majority stated that any plan for simplification should not have a negative impact on workers, especially in reducing worker benefits even though such a plan might produce an economic or administrative benefit to them.

Employer groups interviewed seemed generally unaware of many of the current differences in the reporting of some of the wage components for federal and state unemployment purposes. Employers are probably not reporting correctly. However, as is stated in the report, they were not too concerned with the *burden* of tracking the different components of wages for federal and state requirements.

Small employers expressed dissatisfaction with the differences in reporting times and payment schedules. They would like greater uniformity in this area, including some consolidation of the periodic payment processes. Almost everyone was in favor of reporting simplification, but looked upon harmonization of wage definitions as being of little value in reducing the employer reporting burden when compared to other wage and tax issues of greater concern to them: such as treatment variances in sales tax reporting requirements, complications in tip reporting rules, severity of penalties for late payment of taxes, difficulty in communicating with the government offices, and distinguishing between employees and independent contractors.

To estimate the impact of the THWC on SUI revenue and benefits, two types of wage record and benefit data were needed from a sample of states. A major payroll service with a nationwide presence agreed to assist in the study and provided one quarter of employee wage record information, disaggregated by the THWC components, for a sample of states for calendar year 1999. SUI revenue and benefit data on the universe of employers for each of the sampled states for 1999 was also needed. Five states provided this needed data: California, Georgia, Minnesota, Montana and Pennsylvania. Collectively, these states had a fair representation of the wage component differentials in their UI laws. The data from the payroll service and SUI agencies were combined and a series of calculations and simulations were performed.

The impact on SUI revenues is the difference between UI taxes collected under current laws and the taxes collected if the THWC items were harmonized. The application of the ratios of the components in the sample payroll files to the state wage files was tailored to the state being studied to recognize the annual taxable wage base limit involved.

The impact of the THWC on benefits involved a similar set of calculations. The annual dollar value of each THWC component derived from the payroll sample was converted to a weekly benefit amount (WBA) in keeping with the state's principal method of computation. Since the components represented reductions in gross wages, the conversion represented a potential reduction in an individual's WBA. For each individual in the UI claimant file, an adjustment to the WBA was made based on the estimated parameters determined by the payroll sampling. The total estimated benefits paid is the sum of all the adjusted WBAs in the UI claimant file. The total estimated benefits paid was compared to the actual benefits paid for the time period covered by the data to determine the expected impact of the THWC on claimants.

One of the selection criteria used by the STAWRS Group in advancing the THWC initiative was to select wage components for harmonization that were most common to the small employer. The study's computations show that the selected components met this criterion, particularly when assessing the impact of the relevant components on SUI revenues. The impact on state revenue was minimal. However it must be noted that the study was conducted using the most current data, therefore the revenue impact was measured for 1999 when average employer contribution rates were among the lowest in the past 10 years. Should these rates increase, the impact would increase as well. The relative impact on revenues increases as taxable wage bases increase because a greater portion of the affected wage components falls within the greater taxable wage base.

Unlike revenues the impact on claimant benefits are not directly linked to the taxable wage base. Rather, they are more closely related to workers' occupations, industries in which they are employed, and their level of earnings. The number of claimants as a percentage of the entire claimant population was quite small, less than 1% in the sample states. The impact on claimants who would be affected, however is more substantial. The reductions in their weekly benefit rate ranges on average from 7% to 30%.

As expected, the major impact would be from the THWC recommendation of the *meals and lodging* provision[1] that excludes the value of meals and lodging as designed in determining taxable wages and benefits for SUI purposes. At present, 23 states treat meals and lodging as wages in their laws and would be affected by this recommendation[2]. These states include California (included in this study), New Jersey, New York, and Texas. They represent in excess of 26% of the nation's work force. In terms of impact on affected claims, analysis of California's data indicate the average benefit claim over its duration is $2,433 and the average value of the exclusion of the meals and lodging component on affected claims is $487, amounting to 20% of the claim of the workers affected. This percentage of reduction, or one close to it, could occur in New Jersey, New York and Texas as well.

It is important to remember that the impacts on benefits were measured at a time when benefit outlays were near, or at, a 10-year long low. Should there be an increase in unemployment rates, the impacts would increase as well. During periods of economic recession, an increase in the unemployment rate does not apply equally among all industries or categories of workers. In past recessions, those industries associated with hospitality services – hotels, restaurants, resort areas – generally sustained an earlier, greater and more prolonged impact than other industries. Since the meals and lodging component exists in hospitality services to a far greater degree than in other industries, the THWC's impact on the percentage of affected claimants, benefit duration and weekly benefit reductions would be considerably greater.

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[1] "This recommendation has caused a great deal of concern in the *non-conforming* states primarily because of the possible impact such payments (payments for meals and lodging) if made excludable might have on the amount of revenue available and the payment of benefits." STAWRS – The Targeted Harmonized Wage Code, August 2000, p2-8

[2] Prior to 1983, all states and the federal government treated meals and lodging as wages. After 1983, the federal law changed to exclude meals and lodging, and, subsequently, 27 states changed their laws to eliminate these items as wages. As noted, 23 states did not.

On the basis of the results of this study, we recommend the draft model state legislation that incorporates the THWC proposal be advanced by the STAWRS Group to the individual states for their consideration. In addition to its stated purpose, it could serve as a point of departure for broader discussion on the entire issue of tax reporting and its need for simplification and greater utility of available electronic technologies.

CHAPTER 1 INTRODUCTION

This report presents the results of a study on the impact of the Targeted Harmonized Wage Code on Unemployment Insurance revenue and benefits commissioned by the Employment and Training Administration (ETA) of the U.S. Department of Labor (USDOL) and the Internal Revenue Service (IRS).

The report begins with an overview of the mission of the Simplified Tax and Wage Reporting System group (STAWRS), the Harmonized Wage Initiative and the events leading to the Targeted Harmonized Wage Code (THWC). Next, the objectives of this study and the study design are described. The report then presents the feedback obtained from selected unemployment insurance (UI) administrators, proprietors of small businesses, and payroll preparation staff concerning simplification of the tax and wage reporting process and the proposed THWC. Next, for selected states, the report presents the potential impact of the THWC components on UI tax revenues and benefits. Finally, the report presents the findings and recommendations.

1.1 Background

Social programs that provide benefits and income protection to workers are generally funded by taxes levied on employer payrolls. Chief among the laws governing these taxes are the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA) and State Unemployment Insurance Laws (SUI) of the individual states. Each of these laws contains provisions applicable to the operation of that particular law that causes employers to question:

- Who is an employer, and how and when is that status determined?
- Under what conditions, and at what point, does an employer become subject to the tax?

- What activities performed by an individual for an employer are considered employment subject to tax?
- What are the kinds of remuneration payable to an employee that are considered taxable wages?
- What portion of an employee's total wages is subject to tax?
- What are the rates of tax imposed on the taxable wages?
- When, and in what format, are these wages and taxes to be reported to the appropriate taxing authority?

While these basic questions are common to each of the payroll taxes, in some jurisdictions, the answers are different in their definitions and applicability. These differences are a reflection of economic needs prevailing at the times the taxes were enacted and the current social and political philosophies of the jurisdiction.

The principal differences are among the individual SUI tax laws and between the SUI taxes and the FICA and FUTA laws. These differing provisions and definitions have long been an expressed concern to the business community. They are viewed as an administrative burden on the reporting process, not only to the perceived complexities of the process itself but in the effort needed to remain abreast of any modification of these differences by either the state or federal government. This is particularly true for an employer who conducts business in more than one state. It is this concern, i.e., differing provisions and definitions, as well as other administrative and economic issues, that has given rise to the increasing usage of payroll processing services.

1.2 The Simplified Wage and Tax Reporting System

The diversity and complexity of the state and federal laws governing taxes and withholding have been identified as an important cause of employer burdens.[3] In response to these concerns the

[3] STAWRS – The Targeted Harmonized Wage Code, August 2000, p 1-5

federal government established a multi-agency task group to review the entire wage reporting process and to develop strategies fostering simplification and efficiencies both for the public and government. This group became known as the Simplified Tax and Wage Reporting System group (STAWRS). It is comprised of representatives of the Department of Labor, the Internal Revenue Service, the Department of Treasury, the Social Security Administration, and the Small Business Administration.

The mission of STAWRS is to reduce employer tax and wage reporting burdens while improving the effectiveness of government operations. The program's overall objective is to develop strategies for a simplified tax reporting system that would replace the multitude of complex tax reporting laws currently in effect.[4] Among its goals are to encourage simplification in federal and state employment laws, to decrease the number of tax and wage forms used in the process, to provide leadership in developing increases in electronic usage within the process, and to support efforts to develop and promote electronic processing strategies.

Among the many initiatives completed or under development are:

- Analyses of withholding and employment tax laws of some 100 jurisdictions and compilation of relevant definitional and reporting requirements into an electronic database readily available for use by tax practitioners and the taxing jurisdictions.
- Developing and installing informational websites detailing information useful to employers.
- Assisting states to link their tax informational websites to a national site and to each other.
- Streamlining the process of obtaining a federal employer registration number.
- Advancing a process whereby employers would be able to file their annual W-2 Forms electronically to a single point so that they would be available to multiple user jurisdictions.

[4] Ibid, p 1-2

- Developing an electronic Form 8850 (Pre-Screening for Work Opportunity and Welfare-to-Work Credits) for employers.
- Cooperating with software developers to produce an electronic capability to enable employers to submit required wage and tax information to a single location.
- Assisting in the development of a means for states to receive employers' reports electronically at a single point.

The ongoing work of STAWRS is more fully described at the website www.employers.gov

1.3 The Harmonized Wage Code Project

One of the principal initiatives of the STAWRS Group is the Harmonized Wage Code project, which recognizes that the current tax and wage reporting laws are one of the root causes of the burden placed on employers.[5] Under Section AO8.2 of the Treasury Department's Government Information Technology Services Plan, the STAWRS Program Office was charged with the responsibility of managing the project. In approaching this plan, the STAWRS group was expanded to promote participation from representatives of the employer community, payroll processors and state unemployment insurance agencies.

Early on in the HWC project, it became apparent to the project team that the differing objectives underlying income tax withholding tax laws and employment tax laws added to their diversity and complexities. Income tax withholding tax laws are designed to raise revenues for the operation of government. Employment tax laws, while incorporating a revenue-generating component, are designed primarily to provide financial benefits to the nation's workforce – social security benefits and unemployment insurance benefits. The project was then divided into two parts, income tax withholding and employment taxes.

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[5] Ibid, p 1-5

The starting point of the HWC project was the review of some 100 laws, both federal and state, to identify the similarities and differences among them. The differences identified were of such variety and magnitude that an approach of gradual implementation might be appropriate if the project was to move forward with any degree of timeliness.[6] The committee focused on employers with 20 or fewer workers because they comprise 85% the majority of employers in the United States and deal with fewer provisions in state and federal tax laws than larger employers. This approach would provide maximum potential benefits to the greatest number of employers in the shortest amount of time.

1.4 The Targeted Wage Code Initiative

The work group recognized that complete harmony among the various laws is not necessary to achieve a high degree of success in benefiting most of the nation's employers. The work group sought an approach that would benefit the greatest number of employers.

To meet these criteria, efforts were directed to small employers - those with 20 or fewer workers who comprise 85% of the nation's employer population. As a group, they generally deal with a smaller number of wage components yet, in the aggregate, bear the greatest per employee costs associated with the payroll reporting process. The differing tax provisions were then examined to identify those that are most common to small employers.

This approach became known as the Targeted Harmonized Wage Code (THWC) Initiative[7]. It addresses 14 components of payroll[8]. Among the selected components, two are wage inclusions

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[6] Ibid, p 1-7

[7] The Targeted Harmonized Wage Code is available for viewing or downloading at www.employers.gov

[8] The 14 components are: vacation pay, health insurance, payments for jury duty, cafeteria plans, meals and lodging, moving expenses, group term life insurance, death benefits, dependent care, sick pay, qualified pension plans, tips, fringe benefits, and employee business expenses reimbursements.

and 12 are primarily wage exclusions. If an employer must deal with one or more of these 14 components and they are harmonized, then that employer would have the benefit of a reduction in burden because of the reduced number of definitions they have to be concerned with in record keeping and reporting.

1.5 Purpose of the Targeted Harmonized Wage Code

The intent of the THWC is to produce a set of recommendations, which if adopted, would more closely harmonize or align the several wage components identified among the federal and state employment tax laws. Additionally, it is possible that the THWC may be an alternative to the Harmonized Wage Code, which addresses the remaining provisions. Congress and the states may find it less difficult to adopt this concept of a less extensive HWC targeted to the benefit of smaller employers.

Description of Components

The HWC Project, as a result of the deliberations, selected the 14 wage components. These components identified as the Targeted Harmonized Wage Code project, described below, are the subject of this analysis.

1. Vacation Pay

These are payments made to an employee for paid vacation time and are considered taxable wages. With one minor exception, this component is treated uniformly among all laws.

2. Health Insurance

These are employer payments of all or a portion of health insurance premiums under a plan or system for employees or their dependents. The payments are considered non-taxable and this treatment is uniform among all laws.

3. Payments for Jury Duty

These are wage-continuation payments by an employer to an employee while that employee is serving on jury duty. This component is considered taxable and this treatment is uniform among all laws.

4. Cafeteria Plans

These are employer plans that offer employees a choice among a variety of benefits, including cash. For federal tax purposes in all but 14 states, the receipt of any benefit chosen would be taxable to the extent it would otherwise be taxable if there were no plan. For example, a payment of cash would be taxable, whereas the payment of health insurance premiums would not. For SUI purposes, there appear to be some differing treatments – one being that if one of the payment options is cash, then all payments become taxable.

5. Meals and Lodging

The value of meals and lodging is treated as excludable from taxable wages for federal tax purposes, under certain described circumstances, i.e., for the convenience of the employer, and are provided on the premises of the employer. For SUI purposes, 26 states do not exclude the value of meals and lodging under any circumstance and treat their value as taxable wages.

6. Moving Expenses

These are payments made to or on behalf of an employee, directly or indirectly, as payment for, or reimbursement of, the cost of business-related moving. The general rule is that these payments are treated as non-taxable for both federal and SUI purposes if the payment meets the requirements of IRC 217.

7. Group Term Life Insurance

These are payment of premiums by an employer for Group Term Life Insurance. There are a variety of rules designed to assure that this benefit is made available on an equitable basis to all employees. The entire premium is excludable from FUTA, whereas only the premiums on the first $50,000 of coverage are excluded from FICA. SUI laws, in the main, treat all premium payments as excludable.

8. Death Benefits

These are payments made to a survivor or the estate of a former employee on account of and upon death, under a plan established by the employer for employees. Any payment made after the calendar year of death is also not included. Employer provided death benefits are not included as wages for FICA, FUTA and SUI.

9. Dependent Care

These are payment for household and/or dependent care or assistance paid directly or indirectly, or provided to an employee under a dependent care assistance program that covers only an employer's employees. Payments up to $5,000 excluded from wages. Generally, SUI laws are silent on this component and thus are included in wages.

10. Sick Pay

These are amounts paid, directly or indirectly, under a plan established by an employer that is available to employees generally or to classes of employees because of temporary absences from work due to injury, sickness or disability. For federal purposes, these payments are generally included as wages for the first six months. The SUI laws in fifteen states exclude these payments from taxable wages.

10a. Sick Pay After Six Months

Sick pay amounts, as described above, paid after six calendar months following the last calendar month in which an employee worked are excludable as taxable wages for federal tax laws. Most SUI laws follow this treatment.

11. Tips

These are payments made to, or on behalf of an employee that are made by a customer without compulsion. Cash tips in excess of $20 per month, reported in writing to the employer, by the employee, are subject to federal tax. In general, they are taxable for SUI purposes as well, except that the conditions and manner in which they are reportable to employers vary in a few of the states.

12. Fringe Benefits

Fringe benefits are those benefits that are excludable from gross income under IRC 132, such as: no additional cost service – e.g., free seat on plane for airline employees; qualified employee discount working condition benefit – e.g., company car for business use; de minimis benefit qualified transportation benefit – e.g., passes, parking, etc. Most SUI laws follow the federal rules.

13. Employee Business Expense Reimbursement

These are advances or reimbursements to an employee for expenses incurred in the conduct of the employer's business. The general rule for federal tax purposes is that these payments are not included in wages if they are substantiated or documented under an accountable plan. Conversely, if there is no accounting or an accountable plan, such payments are wages. Most SUI laws follow this treatment, although in some cases the accountable plan provision is not as precisely defined.

14. Contributions to Qualified Pension Plans

Employer contributions to qualified pension plans are generally excluded from the definition of wages for FICA or FUTA. State UI laws follow similar rules.

CHAPTER 2 RESEARCH DESIGN

While endorsing the concepts of simplification and efficiency, the U. S. Department of Labor noted that to the extent that harmonization could serve to reduce wages in those states which are not in harmony, there will likely be a reduction in SUI revenues that finance the unemployment insurance system in those states. Further, such harmonization would serve to reduce the weekly unemployment benefits payable to qualified workers or possibly eliminate them from eligibility entirely.

2.1 Relationship of the THWC to Unemployment Insurance

Taxable wages, together with the various components that are includable or excludable, are critical to the unemployment insurance process. They are the basis for determining employer tax liability as well as the amount of benefits that a worker may receive during a period of unemployment.

To illustrate the impact on tax revenues, consider the following: An employer has an employee in state A and an employee in state B and each earns $20,000 per year. State A has a taxable wage base of $10,000 as opposed to state B's $21,000. (Taxable wage base is that portion of an employee's total wages subject to SUI tax). Consider as well that the reduction in taxable wages resulting from these definitional changes is $1,000 per year. There would be no impact in state A inasmuch as the portion of the employee's taxable wages would be unchanged. However, in state B taxable wages would be reduced from $20,000 to $19,000 and there would be a commensurate reduction in tax paid by the employer.

When considering worker unemployment benefits, there are two types of impacts that can occur. First, there are minimum earnings levels in each state that must be met before an unemployed worker becomes eligible for benefits. If any reduction in wages would drop a worker's earnings below the minimum earnings level, that worker would no longer be eligible for benefits. As states have differing minimum earnings levels, an unemployed worker in one state might lose eligibility whereas a worker in another state with the same pattern of earnings would retain eligibility.

Second, and more likely, is the potential reduction in weekly benefit amounts (WBA). These amounts are calculated on a worker's earnings, generally a combination of annual earnings and high-quarter earnings. Any reduction of annual or high-quarter earnings reduces the worker's WBA. The earnings of some workers are well beyond the amount that qualifies them for the maximum weekly benefit. If the reduction in annual or high quarter earnings does not fall below that amount, the weekly benefit rate would not be reduced. Typically, about one-third of all benefit recipients are in this group.

2.2 Purpose of the study

To obtain a more balanced and informed position on implementation of the proposed THWC, DOL and the IRS authorized a study to determine the probable impact on UI trust fund inflows and outflows and the populations likely to be impacted. This study also provides DOL and the IRS feedback from UI agency administrators, small employers, and payroll practitioners on the THWC recommendations and on the payroll reporting process in general.

The specific objectives of this study are to:

- Review and validate the data and material contained in the existing HWC database that is relevant to the implementation of the THWC in selected states.
- Elicit opinions of employers, payroll preparation companies and other payroll practitioners on the advantages and disadvantages of adopting the THWC. This includes:

- Feedback on what employers perceive to be burdensome requirements in the existing wage code, and suggestions for changes and simplification,
- Additional components to be considered for inclusion or deletion from the THWC concept.

- Determine the relevant characteristics of the employer population that would be affected by the THWC.
- Determine the impact of the THWC on worker eligibility for UI, the amounts of benefits payable, and SUI revenue.

2.3 Data Collection, Sources and Instruments

The first step was to identify the different sources and types of data required for the analyses of the specific research areas in a sample of states.

Two types of quantitative data are required:

- Employee wage record information disaggregated by the THWC components is available from employers and payroll companies representing employers who process the payroll and comply with federal and state reporting requirements. We contacted three payroll providers with nationwide presence, verified the existence of the required data items in their databases, and requested their participation in the study. One of them, the Paychex Corporation, agreed to participate.[9] They provided one calendar quarter of disaggregated gross wage data for 1999 for a sample of states. Details on the sample are shown in Table 1 of appendix A.

- We also required SUI revenue, benefit, and claimant information on the universe of employers for each sample state employment security agency (SESA). SESAs maintain wage record data by quarter on employment and earnings (size of employer, industry type, SIC code, quarterly gross wages and UI taxes paid), UI claims data on entitlements (weekly benefit amount, total entitlement), and UI benefits received (number of weeks, total benefits). Five states complied with our request for one year's data.

For the next task of eliciting opinions of stakeholders on what they perceive to be burdensome in the existing wage code and suggestions for changes and simplification, qualitative information was required:

- In-depth interviews of SESA personnel were required to obtain perspective on the status of reporting requirements and burden, filing procedures, mediums, the agencies (private and public) involved, and challenges anticipated in implementing the proposed changes. We also needed information on previous collaborative experiences of federal and state agencies on simplified record keeping and recently implemented changes (if any) to validate the information in the HWC database. An interview guide was prepared and a package (shown in appendix B) was mailed to each agency listing the types of information required of them.

- We also needed input from small businesses owners, CPAs and payroll providers in the sample states on the burden of payroll reporting and simplification of tax laws. The research instrument used was the focus group[10]. A pilot questionnaire (shown in appendix C) was prepared and field-tested in Minneapolis for the two-hour focus group session of 10 to 12 participants.

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[9] Their cooperation was vital to this research and their ongoing assistance during the data compilation were invaluable.

[10] Lake, Snell and Perry in Washington, D.C. conducted the focus groups in California, Georgia, Maryland, and Texas. Planmatics staff conducted the focus group in Minnesota.

2.4 State Selection

The next step was the selection of a sample of states. The 12 states selected are: California, Connecticut, Georgia, Iowa, Louisiana, Mississippi, Minnesota, Montana, Nevada, New Jersey, Pennsylvania, and Texas. We considered the degree of SUI conformity with the THWC provisions, geographic distribution, size of population, previous participation in STAWRS related activities, and the willingness of state administrators to provide wage record and claims files in the formats needed.

The more items that required changes in the way they are reported for SUI in order to conform to the THWC, the more significant would be the impact of their removal or inclusion on SUI revenues and benefits. Therefore, the primary selection criterion was to select states that had several components requiring harmonization. Each state's definition of gross wages was researched in the HWC database to select states in which the THWC is likely to have the greatest impact. As shown in Table 3 in appendix A, the matrix lists all the states and whether each state’s UI law is fully or partially harmonized for each component. Among the 14 components, each of the 12 selected states were not in harmony with the THWC for some of the items such as meals and lodging, dependent care, sick pay, cafeteria plans and sick pay after six months. Lack of harmonization of these specific items was a secondary criterion for selecting states.

Six states were unable to participate; the principal reason given was that their tax and/or benefit accounting systems were in the process of change to new or upgraded systems. Another was eliminated after the site visit and focus group were conducted because of time and commitment constraints. Ultimately, five states provided comprehensive data for the study: California, Georgia, Minnesota, Montana and Pennsylvania.

CHAPTER 3 FOCUS GROUPS AND SITE VISITS

3.1 Focus Groups and Site Interviews

We used focus groups of small businesses owners, payroll preparation personnel, CPAs and other payroll practitioners and site interviews of SESA administrators[11] as a method to obtain qualitative input on tax and wage reporting in general, as well as to gauge the impact of the proposed THWC on small businesses. The objective was to elicit opinions on what they perceive to be burdensome in the existing process; suggestions for simplification; advantages and disadvantages of adopting the proposed THWC; and additional components to be considered for inclusion. In focus groups, people can discuss existing concepts, be introduced to changes to existing concepts or proposed new concepts, and given an opportunity to express how they feel and what they think in a normal, conversational setting.

We specified the number and types of participants we needed and the focus group coordinators identified the appropriate set of potential participants and took care of the logistics. A participant's suitability for the study was determined by using a screening questionnaire. We obtained a good cross-section of study participants - predominantly small business owners in restaurant and retail services, building maintenance engineers and apartment managers, proprietors mostly in service industries who do their own payroll and reporting, CPAs and payroll preparation staff. Each session had 10 to 12 participants. The majority were owners or managers of small businesses. One of our team members was present at each session to provide information on an as needed basis on specific tax-related issues. The sessions were guided by an outside moderator, and usually lasted about two hours. For sake of consistency, the same protocol was followed in all sessions. Between August 2000 and March 2001, the focus groups were conducted in Los Angeles, California; Atlanta, Georgia; Baltimore, Maryland; Minneapolis, Minnesota; and Austin, Texas on payroll reporting in general and about the THWC specifically.

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[11] We conducted site interviews in California, Georgia, Iowa, Minnesota, Mississippi, Montana, Pennsylvania, Texas and New Jersey.

3.2 Focus Group Findings

1. **Most small employers conduct business in only one state and the variance among federal and SUI laws is of no concern to them. They are concerned with the complexity and confusion of the current wage and tax reporting system.**

The process of reporting tax and wages is tedious and complicated to most small employers. Numerous and complicated forms, reporting to multiple entities, and different reporting periods create an intimidating process for all but the most seasoned small business employer. One participant says "*burden* is the first word that comes to my mind when I think of the reporting process. It's something that can be learnable by someone like me…[but] I don't want to take time to learn how to do all this other stuff…it can be somewhat intimidating toward growing the business because the more entities you have to deal with…the more time you're going to have to spend doing all of that…and you have to pay someone… to come out to do it…then to top that off, you have to keep up with all the different laws and all the other crap they put out…so [it's a] big time burden."

Many report that the level of complexity and detail is too much. One participant adds, "I think after you have done it for many years, it's like, you know what you're doing. You get in there and you do it. But if you are just starting out, it's a definite headache." Another echoed her concern saying, "to me it's complicated." When asked what is complicated, a number of them say that overall the process is daunting.

Small business owners find themselves spending time away from their business in order to report their taxes and wages correctly. There are too many laws to keep up with, many of which change frequently and there is the need to remember to report on time. One participant describes what works for him saying, "I have to put [and] keep reminders in my computer to pop up every month or every quarter because I have some things- my sales tax is due semi-annually, I pay my payroll taxes monthly, my federal income tax is quarterly, state unemployment is quarterly, and of course at the end of the year, it is really ugly. Because then you've got the W-2's and the W-3's to put in addition to the quarterly things that are due at the end, or the year end in January." Another employer from Austin agrees, saying "it's time consuming, it doesn't make money for your company. It doesn't reward your employees. It doesn't show profit. It's just time consuming paperwork."

Some participants are concerned with making mistakes when filing their tax and wage reports. One participant from Austin says, "if you do make a mistake it's the dam'dist thing to try and fix with the government… You can't talk to anybody to ever get an answer because you called the IRS line to try to get help and you get a recording and the recording takes you to Never-never Land unless you're willing to wait for a couple of hours…and then they won't do anything until you make some new paperwork and send it to them on the day they would like it." Another participant from Atlanta says, "my fear would be that, say I've made an error in calculating something, like Unemployment tax rate or something that is Department of Labor…will I now all of a sudden be under such penalties, under such scrutiny from so many various agencies."

2. **Many small business employers do not understand the current tax and wage laws and use an accountant or payroll service company.**

Reporting forms and accompanying instructions are intimidating to the point that employers engage accountants and payroll preparation services. Approximately one third of the focus group participants used payroll services. The other two thirds prepare their own payrolls and reports that it takes them about 5 to ten hours per month to report tax and wage information. They state that the current system is acceptable once you take time to become familiar with it. Most of those who do their own reporting use a small business accounting software package. They don't use an outside service because of the cost of using a payroll service, or it is not necessary due to the small size of their business.

A significant number of employers report a high level of dissatisfaction with payroll companies, such as multiple errors in processing payrolls, problems in solving the errors and expense incurred. One participant from Los Angeles reflected, "one of my employees this week got paid twice…he opened up his paycheck and it was double." Another said, "they were messing up my taxes and I was getting letters from the IRS. My concern with them was, if I wanted it messed up, I could do that myself and not pay [them]."

However, for those who use outside services, the simplicity of the payroll service is still attractive. As an employer in Austin states, "[payroll] is easy for us, like I said, we just punch the number in and Federal Express brings the checks the next morning." A participant from Los Angeles said, "[payroll services] took some of my load off…it was a lot easier [than] doing everything by the seat of my pants." Another participant who now uses an accountant agrees saying, "it [payroll services] took a load off for a very short time that we used it, but we got...an accountant to deal with it from there." The majority of employers, whether they do their payroll reporting or rely on a payroll company or an accountant, agree that the current reporting process needs an immediate and thorough update.

3. There is an overall feeling that many aspects of the current system need to be changed. Many feel that a simplified system of reporting is needed.

Suggestions include a reduction of repetitive forms, fewer reporting periods, integrating the forms into one schedule, and a user-friendly streamlined reporting procedure. Others wish for a simple flat tax that would take some mystery out of wage and tax reporting.

There is a call to establish a central reporting agency. One participant from Los Angeles says, "the fact that I have to send four different agencies every quarter is a real pain in the neck…I'd like to go to one place…[or] if I could do it electronically and just get it to all four agencies at the snap of a button…" One employer wishes for the following scenario: "I think it should all be put into one pot and let everybody collect their own." Another participant from Austin asks, "let's say I sent my taxes, $1,000 to one agency…can't [they] put a percentage on what each agency get[s] and just dispense the money?' This theme is common throughout. The small business owners are looking for a reasonable path to follow in reporting their employees' wages and taxes to government. "I can't see why that's too complicated" one business owner complained.

4. **Few employers or payroll preparation staff appear to be aware of the various components of the gross wage or of the differing tax treatments between the federal employment tax laws and state unemployment insurance laws.**

Participants were aware of vacation and sick pay, tips, business expense reimbursement, cafeteria plans, and health and group life insurance but unaware of the differing tax treatments and reporting requirements. Most were unaware of the remaining components of the THWC. Some question what items are included in the definition of income and what are not. According to the owner of a small restaurant, "We keep track of what our people eat but I don't think we ever figure on any kind of monetary value for that necessarily." A participant from Austin says, "the way it is down there, there's real high turnover. So if you have three cooks didn't show and one cook is there we allow him to eat whatever the hell he wants just to keep him there."

When the differential tax treatment for lodging was discussed, one participant from Los Angeles says, "you know as far as the reporting of the free apartment is concerned…I never knew it was a big deal." Another adds, "I've worked 50-70 properties in my lifetime, never has this been an issue…not one person has ever gotten different wages on Social Security wages and …wages based for state unemployment…this is a total non-issue. If you want to make it the same, go right ahead, but I'm telling you it's not going to make a lick of difference to me as an employer." Employers are probably not reporting when they should be, however, they were also not unduly concerned with the *burden* of tracking the different components of wages for federal and state requirements.

5. **The majority of employers stated that any simplification proposal that results in the reduction of UI benefits to unemployed workers should not be undertaken without an accompanying proposal to restore such benefit reductions.**

The majority feels that any method proposed to simplify the reporting process for employers should not have negative effects on their workers. A participant from Los Angeles says, "If it weren't for the side issue of the unemployment benefits I don't think anybody would have an argument with this." The reduction or loss of unemployment insurance benefits for low-wage workers was a major concern to the majority. An employer from Atlanta feels very strongly about this stating, "I have a major problem with that. [It] seems like they are the ones who need the help the most and they are the ones out trying and they may be penalized."

Although the reporting process is burdensome, and harmonizing some of the wage components would presumably save employers reporting time, most would rather have this remain as it is than have workers suffer. They do not want employees to be adversely affected by reduced or no unemployment benefits for which they would otherwise qualify. One employer from Atlanta says, "when you start thinking about meals and lodging and people doing without or the benefit being cut, when you have someone that's going from a grand a week and you go get Unemployment and it maxed out at $274, you going to drop lower than that? How are people going to survive?"

Some were of the opinion that there should be a better standard to calculate benefits if the federal and state definitions of wage components are harmonized. A participant from Austin states, "I think if you pay into something, you should get something back, it shouldn't be to a point where there is [a] minimum that you pay in and you don't get the check for some reason...I don't agree with that." For those who fall below the minimum requirement, participants suggested a minimum level of benefits regardless of the time worked or salary earned. One employer from Baltimore said, "There should be a minimum amount of money that every person will get. The majority if they are unemployed and you can't go below that. That's apples. What we are talking about here is reporting, and that's oranges."

6. A significant number of employers were suspicious and cynical of any efforts taken by governmental organizations to simplify the system they created.

Participants believe that the concept of the THWC is a good step towards simplification and it is welcomed by most. Many believe that the government cannot simplify the current system, and any government involvement makes the process more complicated and more bureaucratic. One participant from Austin says, "anytime they simplify they made it more complicated." Another asks, "Why do we want to do this? It can't possibly be to make our lives easier…seriously there's got to be another underlying reason."

Some employers feel skeptical on how effective these efforts will be. An employer from Atlanta says, "I'm a little skeptical of it just from whenever I hear tax simplification…it doesn't seem to get much simpler." Another agrees saying, "you can wish all you want, but it's not going to be any simpler, it's only going to become more complicated." An employer from Los Angeles is convinced that the government is not here to help small business, but rather they have other intentions.

7. Most participants want the THWC to be implemented. No one had suggestions on additional items to be included in the proposed wage code.

A smaller group of employers believed that the benefits of harmonization might outweigh the potential reduction in benefits to unemployment insurance claimants. An employer from Baltimore says, "If it saves us time, it saves us money." An employer from Austin says, "here you're saying that there is a potential drawback…there's also a bunch of places where there is potential improvements on the system because of this." An employer from Austin sums it up stating, "anything you do is going to have a plus and a minus…it's just physics right? Typically someone has to pay the price."

Everyone is in favor of reporting simplification, but look upon the harmonization of wage definitions as being of little value in reducing the employer reporting burden when compared to other wage and tax issues such as variances in sales tax reporting requirements, complications in tip reporting rules, severity of penalties for late payment of taxes, difficulty in communicating with the government offices, and distinguishing between employees and independent contractors.

Employer suggestions for improvement

Following are suggestions that emerged from the focus groups for simplification and improving the current reporting system:

- The government should do a better job of notifying employers of tax law proposals so that their input could be incorporated. They want more dialogue from the private and public sector on how to solve this problem.
- Launch a media campaign to promote simplification efforts – although they had not heard of the STAWRS project before, they wanted more information, and were eager to provide input to simplifying the reporting process. They were happy that the private sector was involved with STAWRS, and this helps ward off suspicions of increased government bureaucracy. Some felt the word *harmonize* is confusing and believe *uniform* is a better word to describe the concept of standardized definitions and components.
- Market this to small business; keeping in mind that they have limited amounts of time to assimilate promotional information. All promotional material must be concise, digestible, user-friendly, and transferable to fellow colleagues. If it is written in the format of *a typical IRS document* it will be intimidating and difficult to read and most likely to be filed away. They want information written *in plain English*. Ideally, a pamphlet should describe 1) who is sponsoring the initiative; 2) the goals of the institution; and 3) how this will help small businesses.

- Make the goals of the STAWRS and the THWC projects clear – participants welcome the efforts of the proposed initiative once they understand them. It is important to stress that this is a coalition of public agencies, private corporations, and businesses working together to find solutions to a burdensome process of wage and tax reporting.
- Make sure that the system is simple for employers but not at the expense of employees-simply stated, create a system that eases the tax and wage reporting system without adversely affecting businesses or their employees.
- Explore central agency reporting and a reduction of repetitive forms – Most of the participants want to report their taxes and wages once, to a central authority. Many complain of different agencies wanting the same information or subsets or copies of the same documents, and taxation based on varying percentages. This has perpetuated the level of frustration for most small businesses that do not outsource the service.
- Harmonize the payment and filing requirements for wage and tax reporting – A common complaint across groups is the burden of having to file different information at different times. The added burden of remembering (or forgetting) which date for which tax to report can be as costly as it is frustrating for employers.
- Electronic filing – As long as privacy can be protected and the systems are secure.

3.3 Site Visit Findings

1. Any harmonization proposal that results in the lowering of benefits, or excluding claimants eligible under current rules, is a difficult "sell" to the states' legislators.

Legislative staff in the nine State Workforce Agencies we visited were unanimous in the opinion that if a state is asked to change the way a component is currently reported for UI tax purposes, if the removal or inclusion of the wage component results in any significant reduction in benefits for individuals by income class and/or occupational category, it is extremely unlikely that state legislatures would adopt the THWC. Achieving and maintaining harmonization may not be easy. Because of political considerations;

jurisdictions may have different views about some of the components and not legislate conformity to them, and SESA departmental and legislative environments may vary over time.

2. The issue of variance between state and federal employment tax provisions is one that, in recent memory, has not been raised by employer advisory groups at the local level (although it has been raised at the federal level).

State agency personnel do not regard the harmonization of tax and wage related definitions to be an issue; almost universally, they do not recall these differing definitions to be an agenda item for small business constituencies seeking system improvements. Small employers probably ignore or are ignorant of the differing tax treatments between federal employment tax laws and State Unemployment Insurance laws and probably lump wages together without really distinguishing between them.

3. The information contained in the HWC database is relevant and adequate to the implementation of the TWHC in the states selected for study.

The HWC database shows for each state, the number of proposed THWC items where gross wages reported for UI purposes are different from those reported for FUTA and FICA. The data are current and accurate.

4. The THWC would not help to reduce the burden of small businesses.

State personnel agreed with the primary goal of the HWC Project to reduce employer burden and promote government efficiency. However, these recommendations appear to be addressed to large multi-state employers and accounting and payroll providers, and do not support the majority of small employers' filing and payment needs. Most small employers conduct business only in one state.

5. **State agencies are pursuing initiatives to improve the tax and wage reporting process with and without STAWRS involvement.**

   Harmonization with the THWC was apparently not one of their priorities and no one offered suggestions on additional components to the THWC. Burden reduction was being achieved by simplifying and consolidating wage reporting forms, joint registration, common ID numbers, and providing employers alternative reporting mediums to file wage information (diskettes, greater use of the Internet for filing required reports).

CHAPTER 4 Impact of THWC on UI Revenue and Benefits

4.1 Data Used for Calculations

The data for this study was gathered from two sources: payroll data was provided by a payroll processor and state-specific employer wage record information and UI claimant data were provided by state UI agencies.

The sample payroll data file from the payroll company contained:

- The gross wage before deductions for each employee for each pay period during one calendar quarter.
- The amount reported for each item under consideration for each employee for each pay period during one quarter.
- The gross wages reported for UI tax purposes for each employee for each pay period during one quarter.

The sample wage file contained wage records for the second quarter of 1999 (April-June) organized by SUI Employer ID, employee Social Security Number, dollar value of THWC components and gross wages. Each record represented payments made by an employer to an employee in that quarter. The list of employer SUI identifiers was sent to each state participating in the study to match against their universe. Some of the data elements in the sample file were verified, modified, and/or approximated with the help of UI tax personnel. The size of the employer and the Standard Industrial Classification Codes (SIC) were added to the payroll data file and the data for each state was sorted by 4 digit SIC code and by size[12] of employer. From that point on, all specific identification was removed.

The data files from each participating state contained:

- The wage file of the universe for 1999 arrayed so that employer size and industry, and worker wage levels could be readily identified.
- The claimant file of the universe arrayed by employer size, industry, Weekly Benefit Amount (WBA), maximum benefit amount, duration, and the number of claimants at each WBA.

4.1.1 Data Limitations and Assumptions

The data files were extremely large and presented some difficulty in assembly. In the interest of avoiding any expansion of the file, with attendant burdens on the cooperating states, several broad assumptions were made to expedite these analyses with the expectation that the assumptions would not materially affect the ultimate outcomes.

The first assumption related to the assignment of a worker to a specific employer. Knowing that a worker could have more than one employer in the course of a year and that these multiple employers could be in different industries, an assumption was made to identify or assign the worker to his or her last employer in the year. Thus any reduction in UI taxes was assigned to the last employer where in reality some of the reduction might be assignable to a prior employer.

Another assumption related to workers' annual earnings and the resultant WBA. In most cases, one of the components of the WBA calculations is worker earnings in the high earnings quarter of the year. To ask that the states' wage file be detailed by quarter would have quadrupled the database, if it were obtainable at all. Instead, high quarter earnings were assumed to be one-quarter of annual earnings. It should be recognized that this was a conservative approach to the issue inasmuch as the use of understated high quarter earnings would tend to understate a WBA.

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[12] Employers with less than 20 employees were defined as small employers and those with 20 or more employees were considered large employers.

4.2 Overview of Calculations

The method of developing the model for predicting the impact of the THWC on UI benefits and on UI tax revenues is explained below.

The impact of the THWC on revenues would be the difference between UI taxes collected under the current law and the taxes collected if the items under consideration were excluded[13]. The amount of UI taxes currently collected is known. The amount of UI taxes to be collected under the THWC scenario was estimated as follows:

- Sample payroll data were stratified by SIC Code, wage level and employer size.
- For each stratum, the average amount per employee reported for the items under consideration was estimated from the payroll data.
- For each stratum, the estimated amount was subtracted from the average net wages in the stratum reported for UI tax purposes to determine the amount reported under the THWC scenario.
- For each stratum, the average UI taxes per employee were calculated based on the adjusted average wages.
- For each stratum, the amount of the tax was multiplied by the number of employees in the stratum.
- The taxes over all strata were summed to produce the impact on SUI revenues.

The application of the ratios of the components of the sample payroll data to the wage file for the universe was tailored to the state being studied. This was necessary to reflect the annual taxable wage base limit involved. Specifically, if the value of the occurrence were applied to a worker whose wage scale was within the annual taxable wage base, then the result would affect the

[13] Or added, in the case of vacation pay, jury pay, and first six months of sick pay.

employer's UI tax liability. Conversely, if such value exceeded the annual taxable wage base, it would have no effect on the employer's UI tax liability.

The impact of the THWC on benefits involved a similar set of calculations. The payroll data were again used to estimate parameters that describe the expected impact of each item on wages. The annual value of each THWC component derived from the payroll sample was converted to a WBA in keeping with the state's principal method of computation. As the wage components represent reductions in gross wages, the conversion represented a potential reduction in an individual's WBA. For each individual in the UI claimant file, an adjustment to the WBA was made based on the estimated parameters determined by the payroll sampling. The total estimated benefits paid are the sum of all of the adjusted WBAs in the UI claimant file. The total estimated benefits paid were compared to the actual benefits paid for the time period covered by the data to determine the expected impact of the THWC on claimants. A more detailed description of the estimation process is in appendix 3.

4.3 Results of Estimations

4.3.1 California

The California SUI statute does not include the meals and lodging exclusion provision and considers all meals and lodging as wages subject to the SUI tax and includible in the calculation of UI benefits. The THWC recommendation is to adopt the provision to exclude from wages meals and lodging that it is reasonable to believe are excludable from Section 119 of the Internal Revenue Code.

Impact on SUI Revenue

The SUI definition of taxable wages is also used in the state's Disability Insurance Program. Thus, a decrease in revenue would occur in that program as well, although no attempt has been made to quantify any such impact.

As shown in Table 4.1 Revenue Loss by Industry, the total UI revenue collected in 1999 was $2.7 billion. The estimated revenue loss due to the THWC would be $5.1 million, or 0.2% of the $2.7 billion collected. It should be noted here that the SUI system is used to assess and collect the state's Employment and Training Tax. The annual loss of revenue associated with this tax is estimated to be $65,000. Additionally, it should also be noted that with the state's taxable wage base set at $7,000, fully 60% of the reduction in taxable wages associated with the exclusion of this wage component is above this base and would have no impact on revenue.

TABLE 4.1 Revenue Loss by Industry - California

Industry Groups	***Revenue Loss***	
Construction	$	363,428
Manufacturing	$	76,361
Transportation	$	6,607
Wholesale	$	3,929
Retail	$	127,882
Finance	$	4,210,795
Services	$	343,511
Total Revenue Loss	$	5,132,513
Total Revenue Collected	$	2,728,141,316
Percentage Reduction		0.2%

Table 4.1A Impact of TWHC Component by Sector, shown below, shows the impact of the exclusion of the meals and lodging component by sector and by salary level.

TABLE 4.1A Impact of THWC Component by Sector

Construction

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	1,396,565	80,775	415,640
No. of Wage Records in Sample	1,668	423	22,932
Percent of Sample to Universe	0.1%	0.5%	5.5%
No. of Wage Records with Component	25	3	32
Percent of Affected Wage Records in Sample	1.5%	0.7%	0.1%
Average value of each occurrence in Sample	$ 445	$ 1,486	$ 5,142
No. of Wage Records Affected in Universe	20,932	573	580
Reduction in taxable wages	$ 9,314,620	$ 851,288	$ 2,982,342
Average tax rate	3.59%	3.59%	-
Average tax rate x Reduction	$ 334,395	$ 30,561	-
Revenue loss	$ 334,395	$ 29,033*	
Industry Total Loss	$ 363,428		

*Partial loss from Wages falling under the Taxable Wage Base

Manufacturing

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	778,223	115,454	1,933,227
No. of Wage Records in Sample	1,857	563	22,932
Percent of Sample to Universe	0.2%	0.5%	1.2%
No. of Wage Records with Component	36	2	32
Percent of Affected Wage Records in Sample	1.9%	0.4%	0.1%
Average value of each occurrence in Sample	$ 171	$ 194	$ 597
No. of Wage Records Affected in Universe	15,087	410	2,698
Reduction in taxable wages	$ 2,579,828	$ 79,567	$ 1,610,517
Average tax rate	2.88%	2.88%	-
Average tax rate x Reduction	$ 74,299	$ 2,292	-
Revenue loss	$ 74,299	$ 2,062*	
Industry Total Loss	$ 76,361		

*Partial loss from Wages falling under the Taxable Wage Base

Transportation

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	362,647	44,929	676,054
No. of Wage Records in Sample	1,269	295	5,107
Percent of Sample to Universe	0.3%	0.7%	0.8%
No. of Wage Records with Component	1	0	21
Percent of Affected Wage Records in Sample	0.1%	0.0%	0.4%
Average value of each occurrence in Sample	$ 800	$ -	$ 4,967
No. of Wage Records Affected in Universe	286	0	2,780
Reduction in taxable wages	$ 228,619	$ -	$ 13,807,943
Average tax rate	2.89%	2.89%	-
Average tax rate x Reduction	$ 6,607	$ -	-
Revenue loss	$ 6,607	$ -	
Industry Total Loss	$ 6,607		

Wholesale

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	379,953	53,159	775,902
No. of Wage Records in Sample	0	393	18,733
Percent of Sample to Universe	0.0%	0.7%	2.4%
No. of Wage Records with Component	0	3	30
Percent of Affected Wage Records in Sample	-	0.8%	0.2%
Average value of each occurrence in Sample	-	$ 380	$ 1,672
No. of Wage Records Affected in Universe	-	406	1,243
Reduction in taxable wages	-	$ 154,202	$ 2,077,577
Average tax rate	2.66%	2.66%	-
Average tax rate x Reduction	-	$ 4,102	-
Revenue loss	-	$ 3,929*	
Industry Total Loss	$ 3,929		

*Partial loss from Wages falling under the Taxable Wage Base

Retail

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	2,923,233	247,923	1,468,446
No. of Wage Records in Sample	0	2,342	22,055
Percent of Sample to Universe	0.0%	0.9%	1.5%
No. of Wage Records with Component	0	271	2,220
Percent of Affected Wage Records in Sample	-	11.6%	10.1%
Average value of each occurrence in Sample	-	$ 351	$ 618
No. of Wage Records Affected in Universe	-	28,688	147,810
Reduction in taxable wages	-	$ 10,069,464	$ 91,346,596
Average tax rate	2.54%	2.54%	-
Average tax rate x Reduction	-	$ 255,764	-
Revenue loss	-	$ 127,882*	
Industry Total Loss	$ 127,882		

*Partial loss from Wages falling under the Taxable Wage Base

Finance

	Worker Salary Levels		
	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	379,447	54,413	798,229
No. of Wage Records in Sample	0	149	893
Percent of Sample to Universe	0.0%	0.8%	1.7%
No. of Wage Records with Component	0	149	893
Percent of Affected Wage Records in Sample	-	32.9%	6.6%
Average value of each occurrence in Sample	-	$ 4,402	$ 5,010
No. of Wage Records Affected in Universe	-	17,897	52,599
Reduction in taxable wages	-	$ 78,782,594	$ 263,519,825
Average tax rate	5,51%	5,51%	-
Average tax rate x Reduction	-	$ 4,341,026	-
Revenue loss	-	$ 4,210,795*	
Industry Total Loss	$ 4,210,795		

*Partial loss from Wages falling under the Taxable Wage Base

Services

		Worker Salary Levels	
MEALS AND LODGING SERVICES	$1 to $7,000	$7,000 to $9,000	over $9,000
No. of Wage Records in Universe	4,850,944	398,294	3,522,720
No. of Wage Records in Sample	0	2,452	75,130
Percent of Sample to Universe	0.0%	0.6%	2.1%
No. of Wage Records with Component	0	80	783
Percent of Affected Wage Records in Sample	-	3.3%	1.0%
Average value of each occurrence in Sample	-	$ 1,674	$ 4,024
No. of Wage Records Affected in Universe	-	12,995	36,714
Reduction in taxable wages	-	$ 21,753,480	$147,735,365
Average tax rate	2.79%	2.79%	-
Average tax rate x Reduction	-	$ 606,922	-
Revenue loss	-	$ 343,511*	
Industry Total Loss	$ 343,511		

*Partial loss from Wages falling under the Taxable Wage Base

Impact on SUI Benefits

As indicated in table 4.2A Total Benefit Reduction, the exclusion of meals and lodging from the calculation of claimants' benefits reduces annual benefit outlays by an estimated $3.7 million, or 0.2% of the total annual outlay of $2.0 billion.

About 7600 claimants, or 1% of the claimant population, would experience WBA reductions averaging $23 per week, or $487 over the 21-week average duration of the claims. While this reduction is about 0.2% of the total benefit outlay, it represents almost a 20% reduction for the 7600 affected claimants. Additionally, 660 claimants, or 0.1% of the claimant population would lose their eligibility entirely.

TABLE 4.2A Total Benefit Reduction

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Paid	Total Benefit Reduction	Benefit Reduction to Total Benefit Paid
Agriculture	156,864	0	0%	$0	18	$364,509,391	$0	0%
Mining	2,010	0	0%	$0	21	$5,684,345	$0	0%
Construction	85,992	225	0.3%	$19	20	$206,657,744	$85,820	0.04%
Manufacturing	146,248	189	0.1%	$22	21	$402,663,591	$86,163	0.02%
Transportation	36,376	531	1%	$18	21	$93,057,837	$199,647	0.21%
Wholesale	41,535	346	1%	$23	21	$109,862,217	$169,239	0.15%
Retail	90,370	4,188	5%	$16	20	$175,725,135	$1,364,080	0.78%
Finance	38,355	565	1%	$95	22	$113,564,175	$1,182,676	1.04%
Services	239,189	1,579	1%	$18	20	$565,142,019	$574,260	0.10%
Total	836,939	7,623	1%	$23	21	$2,036,866,454	$3,709,335	0.18%
Lost all Benefits		660	0.1%					

TABLE 4.2B Benefit Reduction for Large Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	131,220	0	0%	$0	18	$0
Mining	1,582	0	0%	$0	21	$0
Construction	59,313	146	0%	$19	20	$55,860
Manufacturing	128,007	189	0%	$22	21	$86,163
Transportation	29,436	451	2%	$18	21	$173,460
Wholesale	29,728	332	1%	$24	21	$165,963
Retail	69,928	3,391	5%	$16	20	$1,117,960
Finance	30,608	424	1%	$99	22	$924,132
Services	189,134	1,288	1%	$17	20	$448,440
Total	668,956	6,221	1%	$23	21	$3,011,085
Lost all Benefits		529	0.1%			

TABLE 4.2C Benefit Reduction for Small Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	25,644	0	0%	$0	18	$0
Mining	428	0	0%	$0	21	$0
Construction	26,679	79	0%	$19	20	$29,960
Manufacturing	18,241	0	0%	$0	21	$0
Transportation	6,940	80	1%	$16	21	$26,187
Wholesale	11,807	14	0%	$11	21	$3,276
Retail	20,442	797	4%	$15	20	$246,120
Finance	7,747	141	2%	$83	22	$258,544
Services	50,055	291	1%	$22	20	$125,820
Total	167,983	1,402	1%	$24	21	$698,250
Lost all Benefits		131	0.08%			

The distribution of the claimant population between large and small employers is 80% and 20%, respectively. This is substantially the same distribution as the overall reduction in benefits. The distribution of the reduction in benefits is greatest in retail and finance sectors. While these two industries account for 15% of the total benefits paid, their share of the benefit reductions would be in excess of 72%. These variations are attributable to the hospitality and restaurant industries, which generally provide meals to their employees, and the real estate industry, which provides apartment rentals to building superintendents at reduced or no cost.

No attempt was made to adjust these findings for the value of any meals or lodgings that might not meet the "convenience of the employer" requirement. Although no data are currently available for these components, based on interviews with UI administrators, it is believed that they would be relatively infrequent and would not significantly alter the results stated above.

4.3.2 Georgia

The recommendations of the THWC are to adopt provisions that meals and lodging and dependent care assistance program payments be excluded from wages. Each of these components is treated as wages under Georgia's UI statute, i.e., there is no exclusion.

Impact on SUI Revenues

The following tables display the impact of the THWC recommendations on annual SUI revenues, using calendar year 1999 data. As shown in Table 4.3 Revenue Loss by Industry, the total revenue collected in 1999 was $122.8 million. The estimated loss of revenue due to the THWC is insignificant ($1,787).

TABLE 4.3. Revenue Loss by Industry - Georgia

Industry Groups	***Revenue Loss***	
Retail	$	1,787
Total Revenue Loss	$	1,787
Total Revenue Collected	$	122,841,254
Percentage Reduction		0.001%

Table 4.3A Impact of TWHC Component by Sector shows the impact on of the exclusion of the meals and lodging component in the retail sector by salary level. The major portion of the impact of meals and lodging component, over 90% of the total reduction in taxable wages, occurs among workers earning over $8,500 thus having no impact on revenues. The remaining reduction occurring among workers earning $8,500 per year or less produces an annual reduction in revenues of $1,787 or 0.001% of the annual revenue of $122.8 million. The state of Georgia levies an Administrative Assessment in conjunction with the SUI tax. However, the rate is such that its application to the resultant reduction in taxable wages would be negligible.

TABLE 4.3A Impact of THWC Component by Sector

Retail (Meals &Lodging)

	Worker Salary Levels		
	$1 to $8,500	$8,500 to $10,500	over $10,500
No. of Wage Records in Universe	1,198,206	55,779	312,574
No. of Wage Records in Sample	21,936	571	9,902
Percent of Sample to Universe	1.8%	1.0%	3.2%
No of Wage Records with Component	11	0	0
Percent of Affected Wage Records in Sample	0.05%	0.00%	0.00%
Average value of each occurrence in Sample	$ 313	$ -	$ 2,488
No. of Wage Records Affected in Universe	601	0	0
Reduction in taxable wages	$ 188,066	$ -	$ -
Average tax rate	0.95%	0.95%	-
Average tax rate x Reduction	$ 1,787	$ -	$ -
Revenue loss	$ 1,787	$ -	
Industry Total Loss	$ 1,787		

The available data suggests that the exclusion of dependent care payment occurs principally among workers earning over $10,500 per year. As the state's taxable wage base is $8,500 per year, these occurrences have no impact on annual revenues. More than 25,000 wage records for workers earning $8,500 or less per year were examined and none were identified as having participation in the dependent care program. No single reason for this has been identified except that it is likely that this benefit may generally be included in regular cafeteria plan arrangements or is too costly for workers at this wage level.

Impact on SUI Benefits

As indicated in Table 4.4A, the adoption of the THWC recommendations reduces claimant benefits by $425,000 or 0.15% of the total annual benefit outlay of $290 million. Additionally, the THWC proposal to exclude meals and lodging and dependent care from taxable wages would result in 39 claimants losing their eligibility, as their earnings would decline below the minimum required to be eligible for benefits.

TABLE 4.4.A Total Benefit Reduction

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Paid	Total Benefit Reduction	Benefit Reduction to Total Benefit Paid
Agriculture	718	0	0%	$0	18	$2,441,184	$0	0%
Mining	1,263	0	0%	$0	21	$381,851	$0	0%
Construction	9,910	0	0%	$0	20	$30,036,493	$0	0%
Manufacturing	58,055	0	0%	$0	21	$94,266,912	$0	0%
Transportation	4,086	0	0%	$0	21	$13,227,461	$0	0%
Wholesale	5,845	169	3%	$14	21	$19,224,276	$49,980	0.26%
Retail	12,174	120	1%	$13	20	$23,829,911	$30,140	0.13%
Finance	3,217	21	1%	$42	22	$13,178,408	$19,426	0.15%
Services	26,429	1,184	4%	$13	20	$72,850,951	$309,460	0.42%
Public A.	1,389	0	0%	$0	20	$3,856,008	$0	0%
Non Classifiable	4,276	0	0%	$0	21	$16,897,392	$0	0%
Total	127,362	1,494	1%	$14	21	$290,190,847	$425,103	0.15%
Lost all Benefits		39	0.03%					

The distribution of the claimant population between large and small employers is 87% and 13%, respectively. The distribution of the reduction in benefits by sector between large and small employers and industries is shown in Tables 4.4B and C. The distribution of the total benefit reduction is 91% and 9% respectively. The reduction in benefits is greatest in the services industry. While 24% of all benefits were paid to workers in this industry, they account for 72% of the benefit reductions.

TABLE 4.4.B Benefit Reduction for Large Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	170	0	0%	$0	18	$0
Mining	904	0	0%	$0	21	$0
Construction	7,790	0	0%	$0	20	$0
Manufacturing	55,148	0	0%	$0	21	$0
Transportation	3,275	0	0%	$0	21	$0
Wholesale	4,271	130	3%	$15	21	$41,223
Retail	9,414	90	1%	$14	20	$25,800
Finance	2,290	14	1%	$46	22	$14,146
Services	21,448	1,002	5%	$13	20	$256,320
Public A.	1,358	0	0%	$0	20	$0
Non Classifiable	4,079	0	0%	$0	21	$0
Total	110,147	1,236	1%	$14	21	$350,952
Lost all Benefits		36	0.03%			

TABLE 4.4.C. Benefit Reduction for Small Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	548	0	0%	$0	18	$0
Mining	359	0	0%	$0	21	$0
Construction	2,120	0	0%	$0	20	$0
Manufacturing	2,907	0	0%	$0	21	$0
Transportation	811	0	0%	$0	21	$0
Wholesale	1,574	39	2%	$11	21	$8,757
Retail	2,760	30	1%	$7	20	$4,340
Finance	927	7	1%	$34	22	$5,280
Services	4,981	182	4%	$15	20	$53,140
Public A.	31	0	0%	$0	20	$0
Non Classifiable	197	0	0%	$0	21	$0
Total	17,215	258	1%	$14	21	$74,151
Lost all Benefits		3	0.02%			

4.3.3 Minnesota

The THWC recommendations are to adopt the following provisions in the determination of taxable wages:

- Change law to recognize a valid cafeteria plan as a bar to the constructive receipt of wages if the item chosen would not otherwise be wages.
- Adopt provision to exclude from wages dependent care assistance program payments.
- Exclude meals and lodging that are provided for the convenience of the employer.
- Adopt the federal accountable plan standards to determine the taxability of employee travel and business expenses.

These four components currently are wholly or partially treated as wages under the Minnesota SUI law.

Impact on SUI Revenues

Table 4.5 Revenue Loss by Industry displays the impacts of the four components on annual SUI revenues on retail, finance, services and construction industries using calendar year 1999 data. The total revenue collected in 1999 was $367 million. The overall annual revenue loss due to the THWC is estimated to be $191,000, or 0.05% of the $367 million collected. The major portion of the meals and lodging exclusion falls on the finance industry. This is attributable in large measure to the value of free or reduced housing provided to apartment building superintendents. Also, because the taxable wage base is $18,100, well over half of the calculated exclusion results in lost revenue, in this case $191,000 or about 0.05% of annual revenues. The remaining industries do not show any significant reductions in revenue.

TABLE 4. 5 Revenue Loss by Industry - Minnesota

Industry Groups		***Revenue Loss***
Construction	$	7,101
Retail	$	692
Finance	$	180,834
Services	$	2,638
Total Revenue Loss	$	191,265
Total Revenue Collected	$	367,000,000
Percentage Reduction		0.1%

Table 4.5A shows the impact of the exclusion of the THWC components by sector by salary level.

TABLE 4. 5A Impact of THWC Components by Sector

Retail (Meals &Lodging)

	Worker Salary Levels		
	$1 to $18,100	$18,100 to $20,100	over $20,1000
No. of Wage Records in Universe	401,641	15,820	124,785
No. of Wage Records in Sample	5,212	260	2,309
Percent of Sample to Universe	1.3%	1.6%	1.9%
No. of Wage Records with Component	8	0	0
Percent of Affected Wage Records in Sample	0.2%	0.0%	0.0%
Average value of each occurrence in Sample	$ 187	$ 1,486	$ 5,142
No. of Wage Records Affected in Universe	616	0	0
Reduction in taxable wages	$ 115,283	$ -	$ -
Average tax rate	0.60%	0.60%	-
Average tax rate x Reduction	$ 692	$ -	$ -
Revenue loss	$ 692	$ -	
Industry Total Loss	$ 692		

Finance (Meals &Lodging)

	Worker Salary Levels		
	$1 to $18,100	$18,100 to $20,100	over $20,1000
No. of Wage Records in Universe	47,639	6,050	115,391
No. of Wage Records in Sample	797	107	1,992
Percent of Sample to Universe	1.7%	1.8%	1.7%
No. of Wage Records with Component	83	5	39
Percent of Affected Wage Records in Sample	10.4%	4.7%	2.0%
Average value of each occurrence in Sample	$ 4,894	$ 5,785	$ 7,301
No. of Wage Records Affected in Universe	4,961	283	2,259
Reduction in taxable wages	$24,279,871	$ 1,635,479	$ 16,494,136
Average tax rate	0.70%	0.70%	-
Average tax rate x Reduction	$ 169,959	$ 11,448	-
Revenue loss	$ 169,959	$ 10,895*	
Industry Total Loss	$ 180,834		

*Partial loss from Wages falling under the Taxable Wage Base

Services (Dependent Care)

	Worker Salary Levels		
	$1 to $18,100	$18,100 to $20,100	over $20,1000
No. of Wage Records in Universe	538,745	36,548	454,437
No. of Wage Records in Sample	3,048	357	10,084
Percent of Sample to Universe	0.6%	1.0%	2.2%
No. of Wage Records with Component	2	0	1
Percent of Affected Wage Records in Sample	0.1%	0.0%	0.0%
Average value of each occurrence in Sample	$ 533	$ -	$ 1,458
No. of Wage Records Affected in Universe	354	0	45
Reduction in taxable wages	$ 188,419	$ -	-
Average tax rate	0.80%	0.80%	-
Average tax rate x Reduction	$ 1,507	$ -	-
Revenue loss	$ 1,507	$ -	
Industry Total Loss	$ 1,507		

Construction (Cafeteria Plan)

	Worker Salary Levels		
	$1 to $18,100	$18,100 to $20,100	over $20,1000
No. of Wage Records in Universe	64,335	5,051	93,788
No. of Wage Records in Sample	668	68	1,475
Percent of Sample to Universe	1.0%	1.3%	1.6%
No. of Wage Records with Component	1	0	1,799
Percent of Affected Wage Records in Sample	0.1%	0.0%	122.0%
Average value of each occurrence in Sample	$ 1,536	$ -	$ 618
No. of Wage Records Affected in Universe	96	0	114,390
Reduction in taxable wages	$ 147,932	$ -	$ 70,692,753
Average tax rate	4.80%	4.80%	-
Average tax rate x Reduction	$ 7,101	$ -	-
Revenue loss	$ 7,101	$ -	
Industry Total Loss	$ 7,101		

Services (Cafeteria Plan)

	Worker Salary Levels		
	$1 to $18,100	$18,100 to $20,100	over $20,1000
No. of Wage Records in Universe	538,745	36,548	454,437
No. of Wage Records in Sample	3,048	357	10,084
Percent of Sample to Universe	0.6%	1.0%	2.2%
No. of Wage Records with Component	1	0	11
Percent of Affected Wage Records in Sample	0.01%	0.0%	0.1%
Average value of each occurrence in Sample	$ 800	$ -	$ 964
No. of Wage Records Affected in Universe	177	0	496
Reduction in taxable wages	$ 141,403	$ -	$ 477,871
Average tax rate	0.80%	0.80%	0.80%
Average tax rate x Reduction	$ 1,131	$ -	$ 3,823
Revenue loss	$ 1,131	$ -	
Industry Total Loss	$ 1,131		

Over 150,000 payroll records were examined. The incidence of worker participation for those earning $20,100 or less in the dependent care assistance program was negligible. The reason for this may be that these kinds of payments may be included in regular cafeteria plan arrangements or may be too costly for workers at these wage levels. The majority of the occurrences were in the construction industry and other industries had only limited participation.

Cafeteria plan participation was high for workers earning more than $20,100 per year in the construction and service industries. Because this salary level was beyond the state’s taxable wage base of $18,100, the impact on total revenues was only about $8,000 per year.

The incidence of reporting of taxable employee travel and business expenses for all industries was almost negligible, resulting in a potential revenue loss of about $1,000 per year.

Impact on SUI benefits

The following tables 4.6A, B and C describe the impact of the recommendations on annual SUI benefits using 1999 calendar year data. As shown in Table 4.6A, the overall reduction in benefits resulting from these recommendations is estimated to be $153, 000, or 0.04% of the annual benefits paid. About $100,000 of this reduction affected employers with 20 or more employees, principally in the construction industry. The remaining reduction of about $53,000 fell on smaller employers, also in the construction industry. Overall, the percentage reduction for large and small employers is about equal. Forty-eight workers lost eligibility for benefits because their earnings dropped below the minimum earnings requirements. Although 30% of the benefits were paid to workers in the construction industry, about one half of the benefit reduction was assignable to them.

TABLE 4.6.A Total Benefit Reduction

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Paid	Total Benefit Reduction	Benefit Reduction to Total Benefit Paid
Agriculture	3,607	0	0%	$0	16.09	$8,625,431	$0	0%
Mining	2,099	0	0%	$0	11.87	$6,626,275	$0	0%
Construction	34,390	314	1%	$16	15.01	$103,643,126	$76,056	0.07%
Manufacturing	30,616	0	0%	$0	13.91	$76,045,863	$0	0%
Transportation	5,731	0	0%	$0	15.74	$16,858,519	$0	0%
Wholesale	7,560	0	0%	$0	14.93	$20,500,951	$0	0%
Retail	10,788	38	0%	$16	15.77	$21,948,809	$9,494	0.04%
Finance	3,872	13	0%	$144	16.23	$12,026,410	$30,431	0.25%
Services	27,180	199	1%	$13	15.4	$66,053,838	$40,995	0.06%
Public A.	2,215	0	0%	$0	18.31	$6,482,506	$0	0%
Non Classifiable	2,309	0	0%	$0	15.4	$4,647,334	$0	0%
Total	130,367	564	0%	$18	15.01	$343,459,063	$153,192	0.04%
Lost all Benefits		48	0.04%					

TABLE 4.6.B Benefit Reduction for Large Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	2,164	0	0%	$0	16.09	$0
Mining	1,259	0	0%	$0	11.87	$0
Construction	20,634	198	1%	$17	15.01	$49,436
Manufacturing	18,370	0	0%	$0	13.91	$0
Transportation	3,439	0	0%	$0	15.74	$0
Wholesale	4,536	0	0%	$0	14.93	$0
Retail	6,473	24	0%	$16	15.77	$6,171
Finance	2,323	8	0%	$149	16.23	$19,780
Services	16,308	125	1%	$14	15.4	$26,647
Public A.	1,329	0	0%	$0	18.31	$0
Non Classifiable	1,385	0	0%	$0	15.4	$0
Total	78,220	355	0%	$19	15.01	$99,575
Lost all Benefits		30	0.04%			

TABLE 4.6.C.Benefit Reduction for Small Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	1,443	0	0%	$0	16.09	$0
Mining	840	0	0%	$0	11.87	$0
Construction	13,756	116	1%	$15	15.01	$26,619
Manufacturing	12,246	0	0%	$0	13.91	$0
Transportation	2,292	0	0%	$0	15.74	$0
Wholesale	3,024	0	0%	$0	14.93	$0
Retail	4,315	14	0%	$15	15.77	$3,323
Finance	1,549	5	0%	$136	16.23	$10,651
Services	10,872	74	1%	$13	15.4	$14,348
Public A.	886	0	0%	$0	18.31	$0
Non Classifiable	924	0	0%	$0	15.4	$0
Total	52,147	209	0%	$17	15.01	$53,617
Lost all Benefits		18	0.03%			

4.3.4 Montana

The THWC recommendations are to:

- Change the administrative position to recognize a valid cafeteria plan as a bar to the constructive receipt of wages if the item chosen would not otherwise be wages.
- Amend rules to exclude from wages dependent care assistance program payments.
- Exclude meals and lodging that are provided for the convenience of the employer.

These components are treated as wages under the Montana SUI law. The size of the sample obtained from payroll records was much too small to produce meaningful results. Because of this, the results obtained from the Minnesota sample were used as statistical proxies in the revenue analyses.

Impact on SUI revenues

Table 4.7 Revenue Loss by Industry shows the impact of the recommendations on annual SUI revenues using 1999 calendar year data. The overall revenue loss is estimated to be $56,000 or .01% of annual UI revenues of $61.5 million. The major portion of this loss, $48,000, is associated with the proposed meals and lodging exclusion and occurs in the finance industry. This is attributable to the value of free or reduced housing provided to apartment building superintendents. The revenue loss attributable to the dependent care payment and cafeteria plan recommendations account for the remaining $8,000 of the estimated annual revenue loss.

TABLE 4.7 Revenue Loss by Industry - Montana

Industry Groups	***Revenue Loss***	
Construction	$	988
Retail	$	731
Finance	$	50,574
Services	$	3,009
Total Revenue Loss	$	55,302
Total Revenue Collected	$	61,500,000
Percentage Reduction		0.1%

Table 4.7A shows the impact of the exclusion of components by sector and by salary level

TABLE 4.7A Impact of THWC Components by Sector

Retail (Meals &Lodging)

	Worker Salary Levels		
	$1 to $17,100	$17,100 to $19,100	over $19,1000
No. of Wage Records in Universe	87,237	3,095	15,617
No. of Wage Records in Sample	1,134	50	297
Percent of Sample to Universe	1.3%	1.6%	1.9%
No. of Wage Records with Component	4	0	0
Percent of Affected Wage Records in Sample	0.4%	0.0%	0.0%
Average value of each occurrence in Sample	$ 198	$ 1,530	$ 4,832
No. of Wage Records Affected in Universe	308	0	0
Reduction in taxable wages	$ 60,923	$ -	$ -
Average tax rate	1.20%	1.20%	-
Average tax rate x Reduction	$ 731	$ -	$ -
Revenue loss	$ 731	$ -	
Industry Total Loss	$ 731		

Finance (Meals &Lodging)

	Worker Salary Levels		
	$1 to $17,100	$17,100 to $19,100	over $19,1000
No. of Wage Records in Universe	9,886	1,238	9,058
No. of Wage Records in Sample	168	107	1,992
Percent of Sample to Universe	1.7%	1.8%	1.7%
No. of Wage Records with Component	17	5	40
Percent of Affected Wage Records in Sample	10.2%	4.7%	2.0%
Average value of each occurrence in Sample	$ 4,797	$ 4,300	$ 5,636
No. of Wage Records Affected in Universe	1,008	58	181
Reduction in taxable wages	$ 4,837,160	$ 250,200	$ 1,021,018
Average tax rate	1.00%	1.00%	1.00%
Average tax rate x Reduction	$ 48,372	$ 2,502	$ 10,210
Revenue loss	$ 48,372	$ 2,300*	
Industry Total Loss	$ 50,574		

*Partial loss from Wages falling under the Taxable Wage Base

Services (Dependent Care)

	Worker Salary Levels		
	$1 to $17,100	$17,100 to $19,100	over $19,1000
No. of Wage Records in Universe	119,223	7,100	56,224
No. of Wage Records in Sample	715	71	1,237
Percent of Sample to Universe	0.6%	1.0%	2.2%
No. of Wage Records with Component	1	0	0
Percent of Affected Wage Records in Sample	0.1%	0.0%	0.0%
Average value of each occurrence in Sample	$ 486	$ -	$ 1,394
No. of Wage Records Affected in Universe	119	0	0
Reduction in taxable wages	$ 57,942	$ -	$ -
Average tax rate	1.50%	1.50%	1.50%
Average tax rate x Reduction	$ 869	$ -	$ -
Revenue loss	$ 869	$ -	
Industry Total Loss	$ 869		

Construction (Cafeteria Plan)

	Worker Salary Levels		
	$1 to $17,100	$17,100 to $19,100	over $19,1000
No. of Wage Records in Universe	18,901	1,365	12,338
No. of Wage Records in Sample	567	18	370
Percent of Sample to Universe	3.0%	1.3%	3.0%
No. of Wage Records with Component	1	0	1
Percent of Affected Wage Records in Sample	0.1%	0.0%	0.4%
Average value of each occurrence in Sample	$ 1,493	$ -	$ 789
No. of Wage Records Affected in Universe	19	0	49
Reduction in taxable wages	$ 28,219	$ -	$ 38,939
Average tax rate	3.50%	3.50%	3.50%
Average tax rate x Reduction	$ 988	$ -	$ 1,363
Revenue loss	$ 988	$ -	
Industry Total Loss	$ 988		

Services (Cafeteria Plan)

	Worker Salary Levels		
	$1 to $17,100	$17,100 to $19,100	over $19,1000
No. of Wage Records in Universe	119,223	7,100	56,224
No. of Wage Records in Sample	715	71	1,237
Percent of Sample to Universe	0.6%	1.0%	2.2%
No. of Wage Records with Component	1	0	11
Percent of Affected Wage Records in Sample	0.1%	0.0%	0.1%
Average value of each occurrence in Sample	$ 856	$ -	$ 965
No. of Wage Records Affected in Universe	167	0	56
Reduction in taxable wages	$ 142,667	$ -	$ 54,256
Average tax rate	1.50%	1.50%	-
Average tax rate x Reduction	$ 2,140	$ -	-
Revenue loss	$ 2,140	$ -	
Industry Total Loss	$ 2,140		

Impact on SUI benefits

The following tables 4.8A, B and C describe the impact of the recommendations on annual SUI benefits using 1999 calendar year data. As shown in Table 4.8A, the overall reduction in benefits resulting from these recommendations is estimated to be $27,000, or 0.15% of the annual benefits paid. The distribution of this reduction between large and small employers is 54% and 46% respectively and is about equally distributed among the construction, finance and services industries. The distribution of claimants affected by these reductions is about equal among large and small employers with the greatest share falling to claimants in the construction industry. Approximately 0.4% of claimants lose eligibility for UI. These components are treated as wages under the Montana SUI law.

TABLE 4.8 A. Total Benefit Reduction

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Paid	Total Benefit Reduction	Benefit Reduction to Total Benefit Paid
Agriculture	495	0	0%	$0	13.69	$1,015,544	$0	0%
Mining	559	0	0%	$0	12.45	$15,478,032	$0	0%
Construction	6,405	45	1%	$16	15.99	$943,344	$11,161	1.18%
Manufacturing	3,276	0	0%	$0	14.51	$1,266,853	$0	0%
Transportation	1,031	0	0%	$0	9.76	$5,600,162	$0	0%
Wholesale	759	0	0%	$0	13.03	$1,551,553	$0	0%
Retail	3,250	6	0%	$15	14.23	$323,217	$1,252	0.39%
Finance	383	8	2%	$86	14.29	$5,585,795	$9,860	0.18%
Services	5,707	48	1%	$11	14.38	$11,658,670	$7,851	0.07%
Public A.	558	0	0%	$0	12.45	$1,848,642	$0	0.0%
Total	22,423	107	0%	$19	13.4	$45,271,812	$27,095	0.15%
Lost all Benefits		8	0.04%					

TABLE 4.8 B. Benefit Reduction for Large Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	173	0	0%	$0	13.69	$0
Mining	339	0	0%	$0	12.45	$0
Construction	3,293	24	1%	$17	15.99	$6,364
Manufacturing	2,133	0	0%	$0	14.51	$0
Transportation	611	0	0%	$0	9.76	$0
Wholesale	428	0	0%	$0	13.03	$0
Retail	1,749	3	0%	$17	14.23	$726
Finance	181	6	3%	$90	14.29	$7,674
Services	3,957	25	1%	$4	14.38	$1,553
Public A.	538	0	0%	$0	12.45	$0
Total	13,402	58	0%	$19	13.4	$14,660
Lost all Benefits		6	0.04%			

TABLE 4.8 C. Benefit Reduction for Small Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	322	0	0%	$0	13.69	$0
Mining	220	0	0%	$0	12.45	$0
Construction	3,112	21	1%	$14	15.99	$4,797
Manufacturing	1,143	0	0%	$0	14.51	$0
Transportation	420	0	0%	$0	9.76	$0
Wholesale	331	0	0%	$0	13.03	$0
Retail	1,501	3	0.2%	$12	14.23	$527
Finance	202	2	1%	$77	14.29	$2,186
Services	1,750	23	1%	$19	14.38	$6,298
Public A.	20	0	0%	$0	12.45	$0
Total	9,021	49	0%	$19	13.4	$12,435
Lost all Benefits		2	0.02%			

4.3.5 Pennsylvania

The THWC recommendations are to exclude the following from the definition of wages:

- Meals and lodging that are provided for the convenience of the employer.
- Dependent care assistance program payment described in IRC 129.

Each of these components is treated as wages under the Pennsylvania SUI law.

Impact on SUI revenues

As shown in Table 4.9 Revenue Loss by Industry, the total revenue collected from contributory employers in 1999 was $1.4 billion. The estimated loss of revenue due to the THWC is

$423,000 or 0.03% of the amount collected. The following tables display the impact of these recommendations on annual SUI revenues using calendar year 1999 data.

TABLE 4.9 Revenue Loss by Industry - Pennsylvania

Industry Groups	***Revenue Loss***	
Retail	$	420,573
Services	$	2,153
Total Revenue Loss	$	422,576
Total Revenue Collected	$	1,469,796,883
Percentage Reduction		0.03%

The data suggests that dependent care program participation occurs principally among workers earning over $10,000 per year and the THWC has no impact. As the state's taxable wage base is $8,000, these occurrences have no impact on annual revenues.

Conversely, the major portion of the meals and lodging component occurs among workers earning $8,000 or less per year. Services performed in the retail industry account for almost the entire revenue loss of more than $421,000, or less than 0.1% of the annual revenue collected. The remaining industries do not show any measurable reductions in revenues.

Table 4.9A shows the impact of the exclusion of THWC components by sector by salary level.

TABLE 4.9A Impact of THWC Components by Sector

Services (Dependent Care)

	Worker Salary Levels		
	$1 to $8,000	$8,000 to $10,000	over $10,000
No. of Wage Records in Universe	1,761,962	168,600	1,349,360
No. of Wage Records in Sample	4,104	953	31,831
Percent of Sample to Universe	0.2%	0.6%	2.4%
No. of Wage Records with Component	0	1	7
Percent of Affected Wage Records in Sample	0.0%	0.1%	0.02%
Average value of each occurrence in Sample	$ -	$ 716	$ 1,876
No. of Wage Records Affected in Universe	0	177	297
Reduction in taxable wages	$ -	$ 126,671	$ 556,684
Average tax rate	3.40%	3.40%	-
Average tax rate x Reduction	$ -	$ 4,307	-
Revenue loss	$ -	$ 2,153*	
Industry Total Loss	$ 2,153		

*Partial loss from Wages falling under the Taxable Wage Base

Retail (Meals &Lodging)

	Worker Salary Levels		
	$1 to $8,000	$8,000 to $10,000	over $10,000
No. of Wage Records in Universe	1,275,918	81,576	285,372
No. of Wage Records in Sample	6,936	1,238	8,614
Percent of Sample to Universe	0.5%	1.5%	3.0%
No. of Wage Records with Component	547	92	351
Percent of Affected Wage Records in Sample	7.89%	7.43%	4.07%
Average value of each occurrence in Sample	$ 139	$ 314	$ 430
No. of Wage Records Affected in Universe	100,624	6,062	11,628
Reduction in taxable wages	$13,986,718	$ 1,903,528	$ 5,000,139
Average tax rate	3%	3%	-
Average tax rate x Reduction	$ 419,601	$ 57,105	-
Revenue loss	$ 419,601	$ 971*	
Industry Total Loss	$ 420,573		

*Partial loss from Wages falling under the Taxable Wage Base

Impact on SUI Benefit

The impact of the recommendations on SUI benefits is shown in Table 4.10A. The overall reduction is estimated to be $1.1 million, or 0.08% of the annual benefit outlay for the year. Its distribution between large and small employers and industries is shown in Tables 4.10B and C. About 90% of the reduction is among claimants in the finance industry. This is attributed to the value of free or reduced housing provided to apartment building superintendents. Although the finance industry accounted for only 5% of total benefits paid, it accounts for 81% of the benefit reduction. Approximately 1% of claimants from small employers would lose eligibility for UI.

TABLE 4.10.A Total Benefit Reduction

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Paid	Total Benefit Reduction	Benefit Reduction to Total Benefit Paid
Agriculture	11,665	0	0%	$0	9.3	$23,245,392	$0	0.00%
Mining	5,978	0	0%	$0	8.9	$16,703,532	$0	0.00%
Construction	94,909	0	0%	$0	8.7	$255,284,823	$0	0.00%
Manufacturing	162,104	0	0%	$0	8.7	$383,393,602	$0	0.00%
Transportation	36,931	0	0%	$0	9.2	$83,054,200	$0	0.00%
Wholesale	22,975	0	0%	$0	11.7	$142,124,492	$0	0.00%
Retail	71,009	2,635	4%	$6	10.8	$142,124,492	$161,914	0.11%
Finance	20,721	2,850	14%	$25	13.3	$77,502,627	$948,170	1.22%
Services	109,464	281	0%	$7	11	$275,640,504	$22,517	0.01%
Public A.	0	0	0%	$0	0	$0	$0	0.00%
Total	535,756	5,766	1%	$15	13.4	$1,399,073,664	$1,132,601	0.08%
Lost all Benefits		19	0.004%					

TABLE 4.10.B Benefit Reduction for Large Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	699	0	0%	$0	9.3	$0
Mining	1,010	0	0%	$0	8.9	$0
Construction	5,615	0	0%	$0	8.7	$0
Manufacturing	38,926	0	0%	$0	8.7	$0
Transportation	9,942	0	0%	$0	9.2	$0
Wholesale	2,551	0	0%	$0	11.7	$0
Retail	21,237	1,953	4%	$6	10.8	$122,310
Finance	8,369	2,160	17%	$26	13.3	$738,243
Services	7,357	178	0%	$7	11	$14,080
Public A.	0	0	0%	$0	0	$0
Total	95,706	4,291	1%	$16	13.4	$874,633
Lost all Benefits		4	0.001%			

TABLE 4.10.C. Benefit Reduction for Small Employers

Industry Group	Claims	Affected Claims	Claims Affected %	WBA Reduction	Average Duration	Total Benefit Reduction
Agriculture	10,966	0	0%	$0	9.3	$0
Mining	4,968	0	0%	$0	8.9	$0
Construction	89,294	0	0%	$0	8.7	$0
Manufacturing	123,178	0	0%	$0	8.7	$0
Transportation	26,989	0	0%	$0	9.2	$0
Wholesale	20,424	0	0%	$0	11.7	$0
Retail	49,772	682	1%	$5	10.8	$39,604
Finance	12,352	690	6%	$23	13.3	$209,927
Services	102,107	103	0%	$7	11	$8,437
Public A.	0	0	0%	$0	0	$0
Total	440,050	1,475	0%	$14	13.4	$257,968
Lost all Benefits		15	1.02%			

4.4 Conclusions

One of the selection criteria used by the STAWRS Group in advancing the THWC initiative was that the wage components for harmonization have minimal economic impact. "Given the relative lower wage bases most states impose on employers and the fact that most jurisdictions will only have to make few modifications, the economic impact on state revenues should be minimal. There should also be minimal impact on potential benefits accruing to workers."[14]

[14] STAWRS – The Targeted Harmonized Wage Code, August 2000, p2-2

Our computations show (Table 4.11) that in the above five states, the relevant THWC components have met this criterion, when assessing the impact on state unemployment insurance revenues. The criterion was also met in terms of the number of claimants impacted, about 1% of the entire claimant population. However, in terms of this 1% of the claimants, their benefits would sustain reductions ranging from 8% to 20%.

TABLE 4.11 Summary of Revenue and Benefit Reductions

		Estimated Reductions by State				
Revenue Loss	Total Revenue	California	Georgia	Minnesota	Montana	Pennsylvania
Meals And Lodging	$5,787,714	$5,132,513	$1,787	$181,526	$51,315	$420,573
Dependent Care	$4,529			$1,507	$869	$2,153
Cafeteria Plans	$10,229			$7,101	$3,128	
Total	$5,802,472	$5,132,513	$1,787	$190,134	$55,312	$422,726

Benefit Reduction	Total Claims	Benefit Paid	Average Per Claim	Affected Claims	Benefit Reduction	Average Per claim	Percentage of Reduction on claim	# of ineligible claimants
California	836,939	$2,036,866	$2,434	7,623	$3,709,335	$487	20%	660
Georgia	127,362	$290,190	$2,278	1,494	$425,103	$285	12%	39
Minnesota	130,367	$343,459	$2,635	564	$153,192	$272	10%	48
Montana	22,423	$45,271	$2,019	107	$27,095	$253	13%	8
Pennsylvania	535,756	$1,399,073	$2,611	5,766	$1,132,601	$196	8%	19
Totals	1,652,847	$4,114,861	$2,395	15,554	$5,447,326	$298	12%	774

CHAPTER 5   CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

- The relative impact on revenues increase as the taxable wage base increases because a greater portion of the wage components affected fall within the greater taxable wage base.

- Unlike revenues the impact on claimant benefits are not directly linked to the taxable wage base. Rather, they are more closely related to workers' occupations, industries in which they are employed, and their level of earnings. The number of claimants as a percentage of the entire claimant population was quite small, less than 1% in the sample states. The impact on claimants affected, however is more substantial. The reductions in their weekly benefit rate ranges on average from 7% to 30%.

- It is important to remember that the impacts on benefits were measured at a time when benefit outlays were near, or at, a 10-year long low. Should there be an increase in unemployment rates, the impacts would increase as well. During periods of economic recession, an increase in the unemployment rate does not apply equally among all industries or categories of workers. In past recessions, those industries associated with hospitality services – hotels, restaurants, resort areas – generally sustained an earlier, greater and more prolonged impact than other industries. Since the meals and lodging component exists in hospitality services to a far greater degree than in other industries, the THWC's impact on the percentage of affected claimants, benefit duration and weekly benefit reductions would be considerably greater.

- Employers who participated in the focus group meetings made the following observations:
  - They spent an estimated 5 to 10 hours per month on payroll activities and do not consider it an unduly burdensome activity.

- Despite a variety of printed instructions, most were unaware that meals were generally reportable to the state UI agencies.
- They are generally distrustful of any claim that the government is planning to make their reporting simpler.
- They would be willing to pay some additional taxes if the process could be made less complex.
- They viewed simplification as a worthwhile goal, but considered harmonization of substantially lesser importance than such issues as differing reporting and payment dates, clarification in the criteria for designating employee or independent contractor status, filing of all data on a single form and submitting it to a single entity, and late filing and/or underpayment penalties considered unduly harsh.

- State personnel and small employers agreed with the primary goal of the HWC to reduce the employer burden and promote government efficiency. However, both groups believed that the THWC recommendations appear to be addressed to benefit large multi-state employers and accounting and payroll providers and would have little or no value to the filing and payment needs of the majority of small employers who conduct business in only one state.

- The majority of small employers stated that any plan for simplification, even though it would benefit them positively, should not have any negative impact on their workers, especially in reducing worker benefits when unemployed.

- They questioned the stated lessening of burden to them when in fact the laws and requirements of income and corporate taxes would continue to contain differing treatments of similar components.

- State UI administrators stated that any harmonization related proposal that would result in the lowering of UI benefits, or excluding claimants eligible under current rules would be a difficult “sell” to their states’ legislators.

5.2 Recommendations

On the basis of the results of this study, we make the following recommendations.

1. The draft model state legislation that incorporates the THWC proposals should be advanced by the STAWRS Group to the individual states for their consideration. In addition to its stated purpose, it could serve as a point of departure for broader discussion on the entire issue of tax reporting and the need for simplification and greater utility of available electronic technologies.

   One of the criteria used by the STAWRS Group in advancing the THWC initiative was to select several wage components for harmonization that were most common to small employers. “Given the relative lower wage bases most states impose on employers and the fact that most jurisdictions will only have to make few modifications, the economic impact on state revenues should be minimal. There should also be minimal impact on potential benefits accruing to workers.”[15] This study has shown that the components selected have met this criterion, particularly when assessing the impact on state unemployment insurance revenues. When assessing the impact on benefit outlays and numbers of claimants affected, again the impact was minimal, less than 1% of the annual benefits paid. The impacts on those claimants whose benefits are affected, however is more substantial. These reductions in WBAs range on average from 7% to 30%.

[15] STAWRS – The Targeted Harmonized Wage Code, August 2000, p2-2

2. In our discussions with employer groups, they seemed generally unaware of many of the current differences in the reporting of some of the wage components and of the burden of tracking the different components of wages for federal and state ITW, FICA, FUTA and SUI. We recommend that greater educational efforts be undertaken which focus on proper reporting. Making these instructions clear and concise should overcome the complaint that governmental instructions often lend themselves to more than one interpretation and assume a greater understanding of the subject matter than the reader possesses.

3. Employers expressed dissatisfaction with the differences in reporting times and payment schedules. They would like to see greater uniformity, including some consolidation of the periodic payment processes. We recommend that efforts be undertaken to streamline these processes.

4. Employers also expressed dissatisfaction with the need to file separate quarterly payroll reports and payments and questioned why a single report would not be adequate; particularly since the base data of the reports is similar. We recommend that greater experimentation be undertaken to promote consolidating not only multiple state reports, but state and federal reports as well, as has been undertaken in the State of Montana.

5. Employers were appreciative of the efforts to make greater use of electronic data transmission in the payroll reporting process. Many, however, were either unaware of some of these services or felt that they were too intimidating to use. One suggestion expressed most often was the possibility of filing required reports via the Internet. We recommend that these efforts continue and be expanded.

APPENDIX A

PAYROLL SAMPLE

Table 1: Size of Payroll Sample - Employees

State	Employees in Sample	Employees in State	% of Employees captured by sample
Minnesota	41,000	2,600,000	1.5%
Montana	500	460,000	0.1%
Georgia	34,000	4,000,000	0.8%
California	230,000	16,000,000	1.4%
Pennsylvania	104,000	5,700,000	1.8%

Table 2: Size of Payroll Sample - Employers

State	Employers in Sample	Employers in State	% of Employers captured by sample
Minnesota	3,400	161,000	2.1%
Montana	70	40,000	0.1%
Georgia	3,500	223,000	1.6%
California	18,500	725,000	2.6%
Pennsylvania	8,500	282,000	3.1%

Table 3: State Conformance to the 14 THWC Components

State	Components															Changes req. to conform to THWC
	1	2	3	4	5	6	7	8	9	10	11	12	13	13a	14	
FU																
FI					P											
AL	C	P	P										C			2
AK		P	C	P				C					C			3
AZ																
AR		P						C					C	C		3
CA								C								1
CO																
CT	C	P	C	P				C					C	C		5
DE		P	C	P					P	P		P	C	C		3
DC	C	P	C					C		P			C	C		5
FL		P	C													1
GA			C					C								2
HI	P	P	C					C					C			3
ID		P	C	P												1
IL		P	C					P								1
IN		P														
IA	P	P	C	C									C			3
KS																
KY	C	P	C													2
LA		P	C										C	C		3
MD				P												
ME		P														
MA		P						C				P				1
MI	C							C					C			3
MN	C	P	C	P				C			P					3
MS		P	C	P				C					C	C		4
MO		P	C	P				P	P		P					1
MT	C	P	C	P				C	P					C		4
NE	P	P	C	P				C	P		P					2
NV	C	P	C					C	P		P		C			4
NH	C	P	C					C	C				C	C		6
NJ	C	P	C	P				C	P				P	C		4
NM		P		P					P		P			C		1
NY	C	P	C	C				C		P						4
NC			C											C		2
ND	C	P	C							P						2
OH																
OK		P											C	C		2
OR		P	C	C				C								3
PA		P	C	P				C								2
RI		P	C					C					C			3
SC			C						P	P			C	C		3
SD	P	P	C											C		2
TN	C	P	C	P												2
TX	C	P	C	C				C					C			5
UT		P	C													1
VT	C	P	C	C				C	C	P						5

Table 3: State Conformance to the 14 THWC Components

State	Components															Changes req. to conform to THWC
	1	2	3	4	5	6	7	8	9	10	11	12	13	13a	14	
FU																
FI					P											
VA		P	C													1
WA		P	C					P					C			2
WV		P	C					C				P				2
WI																
WY				C							P					1

C Change in Component   P Partial Change in Component   No Change in Component

Key to Components Numbering in Table 2 above:

1 Cafeteria Plans

2 Death Benefits

3 Dependent Care

4 Fringe Benefits

5 Group Term Life Insurance

6 Health Insurance

7 Jury Duty Payments

8 Meals and Lodging

9 Moving Expenses

10 Tips

11 Employee Business Expense Reimbursement

12 Vacation

13 Sick Pay

13a Sick Pay after 6 months

14 Pension Plans

Source: HWC database

APPENDIX B

INFORMATION REQUESTED FROM STATES

Table 1 - Employers by Size and Major Industry Group

Number of Employers in each Major Group:	Number of Employees by SIC Major Group		
	Small Employer	Large Employer	Total Employers
Agriculture, Forestry and Fishing (SIC 1-9)			
Mining (SIC 10-14)			
Construction (SIC 15-17)			
Manufacturing (SIC 20-39)			
Transport, Communications, Electric, Gas and Sanitary Services (SIC 40-49)			
Wholesale Trade (50-51)			
Retail Trade (52-59)			
Finance, Insurance and Real Estate (SIC 60-67)			
Services (SIC 70-89)			
Public Administration (SIC 91-97)			
Non-Classifiable Establishments (SIC 99)			
Total Sum of Employers			

Table 2 - Employees by Wage Level, Major Group and Size of Employer

Major Group: Agriculture, Forestry and Fishing (SIC 1-9)	**Size of Employer by Number of Employees**		
	Large Employer	Small Employer	Total Employers
Number of Employees by wage level:			
$1 to $8,000			
8,001 - $10,001			
over $10,001			
Major Group: Mining (SIC 10-14)	**Size of Employer by Number of Employees**		
	Large Employer	Small Employer	Total Employers
Number of Employees by wage level:			
$1 to $8,000			
8,001 - $10,001			
Over $10,001			
Major Group: Construction (SIC 15-17)	**Size of Employer by Number of Employees**		
	Large Employer	Small Employer	Total Employers
Number of Employees by wage level:			
$1 to $8,000			
8,001 - $10,001			
Over $10,001			
Major Group: Manufacturing (SIC 20-39)	**Size of Employer by Number of Employees**		
	Large Employer	Small Employer	Total Employers
Number of Employees by wage level:			
$1 to $8,000			
8,001 - $10,001			
over $10,001			

This information was requested for all SIC groups

APPENDIX C

FOCUS GROUP QUESTIONNAIRE & HANDOUTS

DISCUSSION GUIDE

INTRODUCTION (10 Minutes)

1. Guidelines and Instructions
2. Purpose of group

   Get your opinions about some efforts to reduce employer and government burden by simplifying employment tax requirements
3. Introductions

   Name

   Business (type, size)

   Your role (title and responsibilities)

CONTEXT: TAX AND WAGE REPORTING (25 Minutes)

READ: First, I'd like to talk a little bit about your experience with tax and wage reporting in general . . .

1. How involved are you in tax and wage reporting?

   You, personally, do all the reporting

   You do the reporting with help from others in your office

   You do the reporting with help from an accountant
2. Does anyone here use a payroll service (like ADP or PrimePay)?

   Would you prefer to use a payroll service?

   Why/Why Not?
3. About how many hours a month do you spend on tax and wage reporting?
4. How many employees do you report for?
5. How many agencies do you report to?

   Which agencies are they?
6. Do you do your reporting on paper or on diskette?
7. In general, how do you feel about the current wage and tax system?

Simple or complicated? How so?

Fairly easy or burdensome? How so?

8. Do you think the system is in need of simplification?
9. **9.** Are there any specific simplifications you'd like to see?

PROBE FOR SPECIFICS.

IF NOT MENTIONED ASK ABOUT:

Simpler forms

Fewer Forms

Only reporting to one agency

Uniform definitions

Others

INTRODUCTION TO THWC (35 Minutes)

READ: As I mentioned at the beginning, this group is about some efforts to reduce employer and government burden by simplifying employment tax requirements. I want to share some of the specifics with you and get your reaction.

1. Has anyone here ever heard of the "Simplified Tax and Wage Reporting System Group" also called STAWRS?

   IF YES: What have you heard about this? Where?

2. How about proposed "Targeted Harmonized Wage Code" also called THWC?

   IF YES: What have you heard about this? Where?

HANDOUT ONE

READ: I'd like to pass this around and read through it together. This is some background about the STAWRS and the THWC. Take a minute to read it through, then let's read it through together, and then let's talk about it . . .

1. I want to get into the details in a minute but first, what's your overall reaction to this? Does it sound like a good idea?
   Potential advantages?

Potential problems?

2. Any questions about what this would involve? Concerns?

SPECIFICS ON THWC (40 Minutes)

HANDOUT TWO

READ: Now some specifics about the 14 components . . . I'd like you to pass this around and read through it together.

1. Any questions about that definition?
2. Based on the information from this handout and handout one, does the THWC sound like a good idea?
3. Do you think the THWC would make your business' wage and tax reporting easier? Harder?
   - Potential advantages?
   - Potential problems?
4. To get an idea of how this might effect your reporting, let's talk about the component the state of (California, Georgia, Maryland or Texas) specifically deals with (relevant component).
5. Do you report meals and lodging as part of your employee's wages?
6. Are they reported or computed differently – on different forms or for the different agencies you report to?
7. Are there any of the other 13 components you'd like to see adopted by the state of (California, Georgia, Maryland or Texas)? Any components you'd like to see added to the list of 14 components?

HANDOUT THREE

READ: Now there are some potential downsides. Let's review one of them . . .

1. Adoption of the THWC could have the effect of eliminating the eligibility of some low-wage earnings from unemployment benefits and reducing the benefits of some others?

   What do you think of that?

2. Questions about what that means or how it would work (see examples)?
3. If indeed unemployment benefits were reduced . . .

   Should the reduction be remedied? Or isn't that necessary?

4. If they should be remedied, how do you think this should be done?

   Increased benefit rates to compensate?

   A change in the way benefits are calculated?

   A reduction in the amount of earnings necessary to qualify for benefits?

   Other suggestions?

5. Given what we reviewed so far, what do you think of the THWC?
6. Does it sound like something that would be good for your business?

ADDITIONAL IDEAS FOR REDUCING REPORTING BURDEN (10 MINUTES)

1. Any other ideas for reducing tax and wage reporting?
2. What about the idea of filing electronically on the Internet?

   Potential advantages?

   Potential problems?

   Do you foresee privacy issues with e filing?

CONCLUSION (5 MINUTES)

Any additional comments or questions.

HANDOUT ONE:

BACKGROUND AND DEFINITIONS

STAWRS

The "**Simplified Tax and Wage Reporting System Group" or "STAWRS"** is a program of government agencies including the Labor Department and the IRS, and various private organizations and business. The goal of STAWRS is to bring together government agencies and employers to simplify the employment tax and wage reporting process.

HWC

The "**Harmonized Wage Code Project" or "HWC"** is one of several STAWRS initiatives. The HWC Project is an effort to reduce employer and government burden by developing simplified employment tax requirements to replace the multitude of complex laws employers face today. The HWC Project aims to reduce employment tax burdens by harmonizing federal and state employment tax laws.

THWC

The initial recommendation of the HWC is the **"Targeted Harmonized Wage Code" or "THWC",** which is directed at small employers. 85% of all the employers in the US employ 20 or fewer workers. These smaller employers generally deal with just a subset of the hundreds of components contained in employment tax laws. The TWHC would provide uniform definitions of 14 specific components. These uniform definitions could be used in reporting by employers who deal only with these components. Such employers would have the advantage of simpler and fewer forms, less complicated laws and regulations, and simpler procedures.

HANDOUT TWO:

THE 14 COMPONENTS

The TWHC would provide uniform definitions of 14 components. These 14 were chosen because they are the ones which most small employers use. They are:

1. Vacation Pay
2. Payments for Jury Duty
3. Meals and Lodging
4. Group Term Life Insurance
5. Dependent Care
6. Tips
7. Employee Business Expense Reimbursement
8. Health Insurance
9. Cafeteria Plans
10. Moving Expenses
11. Death Benefits
12. Sick Pay
13. Fringe Benefits
14. Qualified Pension Plans

If the THWC is enacted, all these components would be given uniformed definitions – that is, the definitions would no longer differ by agency or level of government (i.e., state vs. federal). Also, these components would be reported on simplified forms.

HANDOUT THREE:

POTENTIAL DRAWBACK

Adoption of the THWC could have the effect of <u>eliminating</u> the eligibility of some low-wage earners from unemployment benefits and <u>reducing</u> the benefits of some others.

EXAMPLE 1: MEALS

Waiters and waitresses generally get paid very low wages. Many get meals from their employers as part of their compensation. If these meals are not included in computing compensation to determine unemployment insurance benefits, waiters and waitresses who become unemployed may get lower unemployment benefits. Some may not get unemployment benefits at all if this form of compensation is disallowed and their overall compensation then drops below the minimum requirement.

EXAMPLE 2: LODGING

Some building superintendents get paid low wages but get a place to live from their employers as part of their compensation. If this lodging compensation is not included in computing compensation for unemployment insurance benefits, such superintendents, if they become unemployed, would get lower unemployment benefits. Some may not get unemployment benefits at all if this form of compensation is disallowed and their overall compensation then drops below the minimum requirement.

APPENDIX D

METHOD OF ESTIMATION OF IMPACT ON WBA

Method of Estimation of the Impact on Weekly Benefit Amounts

Estimating the impact on WBA consisted of a three-step process. The process was applied to each individual in the UI claimant file for each component under consideration. The steps are listed below, and then described.

Step 1: Determine whether the component was present in the wage for the individual.

Step 2: If the component was present, determine the percent of the individual's wage made up of the component.

Step 3: If the component was present, calculate the reduced WBA based on the adjusted wage.

Since it was not possible to collect data on the make up of the wages of every individual in the UI claimant files, probabilities and statistical distributions were used. This involved deriving three parameters from the payroll data.

The three parameters were:

1. **The probability a business offers the component**
   This parameter was calculated only for components for which businesses may choose to offer the component as a benefit to employees. This was the case for cafeteria plans and dependent care, for example. For each component for which the parameter was applicable,

the parameter was determined by dividing the total number of businesses represented in the data into the number of businesses having any employees with non-zero entries for the component.

From the payroll data, it was determined that large businesses (those with twenty employees or more) were statistically more likely than small businesses to offer cafeteria plans and dependent care. To account for this difference, the data was stratified by large and small businesses.

The data were tested to determine the significance of the differences among the SIC codes. The test showed no statistically significant difference from one SIC code to another in the likelihood of offering the benefits.

The parameters for large and small businesses were calculated by:
(Number of businesses with any employees having made payments for the component)/(Total number of businesses in the payroll data)

2. The probability that a portion of an individual's wage is made up of a component

The second parameter was calculated for all components. It was calculated by dividing the number of individuals with non-zero amounts for the component by the total number of individuals in the database.

The parameter was calculated differently for cafeteria plans and dependent care. For these, only individuals employed by businesses offering the benefit were considered.

3. **The distribution of the percent of wages made up by the component**

Investigation of the payroll data revealed a generally low correlation between an individual's wage and the amount for a component. There was also a consistently low correlation between wage and percent of wage for the component. This indicated a random process would be necessary to represent the selection of percent of wages to be assigned to a component.

A table of frequencies was developed. The table gave a percentage bands (e.g. 0% - 2%, 2% - 4%, etc.). Associated with each band was the number of times that band occurred in the data. The following table is an example of the distributions that were developed.

CAFETERIA PLAN COST TO EMPLOYEES AS A PERCENT OF GROSS WAGES			
From	To	Frequency	Cumulative Frequency as a Percent
0%	2%	3964	25.8%
2%	4%	4389	54.3%
4%	6%	2572	71.0%
6%	8%	1536	81.0%
8%	10%	933	87.0%
10%	12%	621	91.1%
12%	14%	450	94.0%
14%	16%	265	95.7%
16%	18%	181	96.9%
18%	20%	131	97.7%
20%	100%	348	100.0%

The following describes the use of the three parameters in the three-step process.

Step 1: Determine whether the component was present in the wage for the individual.
A random number was computer generated and compared to the probability the component was present. If the random number was greater than the probability, the component was not present for that individual and no impact was calculated. If the random number was less than the probability, the component was considered to be present and step 2 was performed.

For the cafeteria plan and dependent care components, there were two parts to step 1. First, the size of the business associated with the individual in the database was retrieved. A random number was then generated. If the individual was employed by a small business, the random number was compared to the probability that a small business offered the component. Otherwise, the random number was compared to the probability that a large business offered the component. If the random number was greater than the probability, the component was not present for that individual and no impact was calculated. If the random number was less than the probability, the component was considered to be present and the second comparison was performed.

The second comparison was performed by generating another random number and comparing it to the probability that an individual in a business offering a plan was enrolled in the plan. Again, greater meant no impact; less meant that step 2 was performed.

It was suggested that a business offering a cafeteria plan might also offer dependent care. Using the payroll data, it was demonstrated statistically that businesses offering cafeteria plans were more likely to offer dependent care than businesses not having cafeteria plans. Using the probability approach, this interaction was modeled.

Step 2: If the component was present, determine the percent of the individual's wage made up of the component.

If the component was present, the frequency table for the component was retrieved. A random number was generated and its position in the relative frequency distribution was determined. For example, using the frequency table given above, a random number 0.315 would be in the 2% to 4% row (0.315 is greater than 0.258 and less than 0.543). To determine the percent to be used in calculating the amount of the impact on wage, the exact position of 0.315 in the range of 0.258 to 0.543 was calculated and applied to the range of 2% to 4%. 0.315 is exactly 1/5th of the way from 0.258 to 0.543, therefore the percent selected to use in calculating the impact would be 1/5th the way from 2% to 4% or 2.4%.

Step 3: If the component was present, calculate the reduced WBA based on the adjusted wage.

If the component was present, there were three cases to consider: the individual receiving the minimum WBA, the individual receiving the maximum WBA, and the individual receiving a WBA between the minimum and maximum.

If the individual were receiving the minimum WBA, any reduction in wages would result in loss of benefits. In this case the WBA was reduced to $0.

An individual receiving the maximum WBA was assumed to be unaffected by the presence of the components. Since the exact wage resulting in maximum benefits could not be determined, the assumption was made that even in the low likelihood event that these components reduced the wages of one quarter, there would be a second quarter that would qualify the individual for maximum benefits.

For individuals with WBAs between the minimum and maximum, each percent reduction in wages would be mirrored by a percent reduction in WBA. Therefore the WBA was reduced by the percent determined in step 3 above.