

Bill gives states control of funds

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The prize is billions of dollars in unemployment taxes.

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WASHINGTON -- A proposal allowing Ohio and other states to wrest from federal control billions of dollars in unemployment taxes is gaining momentum in the House.

Ohio officials say the federal government is shortchanging efforts to aid unemployed workers at a stiff price to workers and businesses.

Now, a key Republican lawmaker wants to change the system.

Legislation introduced by Rep. E. Clay Shaw Jr., R-Fla., backed by a coalition of states and employers, would let states collect all unemployment taxes and decide how to divvy up the money.

It also would repeal in 2004 a \$1.5 billion unemployment tax surcharge imposed "temporarily" in the 1970s but never rescinded. Eliminating the surcharge would lower the maximum tax \$14 per employee, but would allow states rather than the Internal Revenue Service to collect and administer the tax. That would save \$100 million annually, proponents say.

Shaw, chairman of the House Ways and Means human resources subcommittee, may attach the measure to a GOP tax-cut bill the full committee will push this year, an aide said.

Shaw said the current system inflates the budget surplus more than it helps unemployed workers. In 1996, the most recent year for which figures are available, employers paid \$5.9 billion into the system nationwide, but the federal government sent only \$3.2 billion to states.

In Ohio, employers paid \$259 million in unemployment taxes but the state received only \$102 million.

The Department of Labor has amassed an \$18 billion unemployment-tax "trust fund," one that Shaw calls "fake" because the money remains part of the federal general-revenue budget and might not be available to states even if they run short of unemployment benefits.

Employers currently pay two unemployment taxes.

One, a maximum of \$56 per year per employee including the surcharge, is imposed by the federal government to pay for state unemployment agencies. It is collected by the IRS, placed in the U.S. Treasury and administered by the Department of Labor. This is the tax addressed by the bill.

The other tax paid by employers, a maximum of \$58.50 per year per employee, is for the state to pay unemployment benefits. It is collected by the state, transferred to the federal treasury and returned as needed. The state has a \$2.1 billion pot of this tax in reserve.

But the administrative tax shortfall has crippled Ohio's network of local employment-services offices, which has shrunk from 120 offices to 57, said state Sen. Robert R. Cupp, R-Lima, who testified at a recent hearing on the bill.

It has cost state taxpayers \$50 million over the past four years to pay for the administrative services the federal unemployment taxes should be supporting, Cupp said.

The Clinton administration agrees the system should be changed, but it backs a different measure retaining federal control.

That bill, sponsored by Reps. Sander Levin, D-Mich., and Philip English, R-Penn., is only a "down payment" toward more comprehensive reform, said Grace A. Kilbane, director of the Department of Labor's Unemployment Insurance Service.

Kilbane said shifting the program to state control "undermines" the concept of a national unemployment-insurance program where "funds are to be pooled a unified account and distributed based on workload -- not on taxes paid."

The administration-backed bill would provide \$20 million a year nationally for the next three years to states that improve employment services for low-wage workers. It also proposes a temporary fix for the state administrative costs shortfall "through a special distribution," Kilbane said, without giving specifics.