

UIPL 01-82 Attachment III

Text of Provisions on Limitations on Tax Credit Reductions (Date of enactment was August 13, 1981)

ADJUSTMENT TO PROVISIONS WHICH INCREASE FEDERAL UNEMPLOYMENT TAX IN STATES WITH OUTSTANDING LOANS

Section 2406(a) Limitations on Credit Reduction in Certain Cases. -- Section 3302 of the Internal Revenue Code of 1954

(relating to credits against unemployment tax) is amended by adding at the end thereof the following new subsection:

"(f) Limitation on Credit Reduction. -

"(1) Limitation. -- In the case of any State which meets the requirements of paragraph (2) with respect to any taxable year beginning before January 1, 1988, the reduction under subsection (c)(2) in credits otherwise applicable to taxpayers subject to the unemployment compensation law of such State shall not exceed the greater of -- .

"(A) the reduction which was in effect with respect to such State under subsection (c)(2) for the preceding taxable year, or

"(B) 0.6 percent of the wages paid by the taxpayer during such taxable year which are attributable to such State.

"(2) Requirements -- The requirements of this paragraph are met by any State with respect to any taxable year if the Secretary of Labor determines (on or before November 10 of such taxable year) that --

"(A) no State action was taken during the 12 month period ending on September 30 of such taxable year (excluding any action required under State law as in effect prior to the date of the enactment of this subsection) which has resulted or will result in a reduction in such State's unemployment tax effort (as defined by the Secretary of Labor in regulations),

"(B) no State action was taken during the 12 month period ending on September 30 of such taxable year (excluding any action required under State law as in effect prior to the date of the enactment of this subsection) which has resulted or will result in a net decrease in the solvency of the State unemployment compensation system (as defined by the Secretary of Labor in regulations),

"(C) the State unemployment tax rate for the taxable year equals or exceeds the average benefit cost ratio for calendar years in the 5-calendar year period ending with the last calendar year before the taxable year, and

"(D) the outstanding balance for such State of advances under Title XII of the Social Security Act on September 30 of such taxable year was not greater than the outstanding balance for such State of such advances on September 30 of the third preceding taxable year (or, for purposes of applying this subparagraph to taxable year 1983, September 30, 1981)."

"The requirements of subparagraphs (C) and (D) shall not apply to taxable years 1981 and 1982.

"(3) Credit reductions for subsequent years - If the credit reduction under subsection (c)(2) is limited by reason of paragraph (1) of this subsection for any taxable year, for purposes of applying subsection (c)(2) to subsequent taxable years (including years after 1987), the taxable year for which the credit reduction was so limited (and January 1 thereof) shall not be taken into account.

"(4) State unemployment tax rate - For purposes of this subsection -

"(A) In general -- The State unemployment tax rate for any taxable year is the percentage obtained by dividing --

"(i) the total amount of contributions paid into the State unemployment fund with respect to such taxable year, by

"(ii) the total amount of the remuneration subject to contributions under the State unemployment compensation law with respect to such taxable year (determined without regard to any limitation on the amount of wage subject to contribution under the State law).

"(B) Treatment of additional tax under this chapter -

"(i) Taxable year, 1983 -- In the case of taxable year 1983, any additional tax imposed under this chapter with respect to any State by reason of subsection (c)(2) shall be treated as contributions paid into the State unemployment fund with respect to such taxable year.

"(ii) Taxable year 1984.-- In the case of taxable year 1984, any additional tax imposed under this chapter with respect to any State by reason of subsection (c)(2) shall (to the extent such additional tax is attributable to a credit reduction in excess of 0.6 of wages attributable to such State) be treated as contributions paid into the State unemployment fund with respect to such taxable year.

"(5) Benefit cost ratio.- For purposes of this subsection -

"(A) In general -- The benefit cost ratio for any calendar year is the percent determined by dividing--

"(i) the sum of the total of the compensation paid under the State unemployment compensation law during such calendar year and any interest paid during such calendar year on

advances made to the State under Title XII of the Social Security Act, by "(ii) the total amount of the remuneration subject to contributions under the State unemployment compensation law with respect to such calendar year (determined without regard to any limitation on the amount of remuneration subject to contribution under the State law).

"(B) Reimbursable benefits not taken into account--

For purposes of subparagraph (A), compensation shall not be taken into account to the extent--

"(i) the State is entitled to reimbursement for such compensation under the provisions of any Federal law,

or

"(ii) such compensation is attributable to services performed for a reimbursing employer.

"(C) Reimbursing Employer -- The term "reimbursing employer" means any governmental entity or other, organization (or group of governmental entities or any other organizations) which makes reimbursement in lieu of Contributions to the State unemployment fund.

"(D) Special rules for years before 1985--

"(i) Taxable Year 1983-- For purposes of determining whether a State meets the requirements of paragraph (2)(C) for taxable year 1983, only regular compensation (as defined in section 205 of the Federal-State Extended Unemployment Compensation Act of 1970) shall be taken into account for purposes of determining the benefit ratio for any preceding calendar year before 1982.

"(ii) Taxable year 1984-- For purposes of determining whether a State meets the requirements of paragraph (2)(C) for taxable year 1984, only regular compensation (as so defined) shall be taken into account for purposes of determining the benefit ratio for any preceding calendar year before 1981.

"(E) Rounding-- If any percentage determined under subparagraph (A) is not a multiple of .1 percent, such percentage shall be reduced to the nearest multiple of .1 percent.

"(8) Reports-- The Secretary of Labor may, by regulations, require a State to furnish such information at such time and in such manner as may be necessary for purposes of this subsection.

"(9) Definitions and special rules-- The definitions and special rules set forth in subsection (d) shall apply to this subsection in the same manner as they apply to subsection (c)."

"(b) Effective Date-- The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1980"

Text of Amended Section 1202 of the Social Security Act
(Date of enactment was August 13, 1981)

INTEREST ON LOANS MADE TO STATE UNEMPLOYMENT FUNDS

Section 2407(a) General Rule - Section 1202 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"(b)(1) Except as otherwise provided in this subsection, each State shall pay interest on any advance made to such State under Section 1201. Interest so payable with respect to periods during any calendar year shall be at the rate determined under paragraph (4) for such calendar year.

"(2) No interest shall be required to be paid under paragraph (1) with respect to any advance made during any calendar year if --

"(A) such advance is repaid in full before the close of September 30 of the calendar year in which the advance was made, and

"(B) no other advance was made to such State under section 1201 during such calendar year and after the date on which the repayment of the advance was completed.

"(3)(A) Interest payable under paragraph (1) which was attributable to periods during any fiscal year shall be paid by the State to the Secretary of the Treasury not later than the first day of the following fiscal year. If interest is payable under paragraph (1) on any advance (hereinafter in this subparagraph referred to as the "first advance") by reason of another advance made to such State after September 30 of the calendar year in which the first advance was made, interest on such first advance attributable to periods before such September 30 shall be paid not later than the day after the date on which the other advance was made.

"(B) Notwithstanding subparagraph (A), in the case of any advance made during the last 5 months of any fiscal year, interest on such advance attributable to periods during such fiscal year should not be required to be paid before the last day of the succeeding taxable year. Any interest the time for payment for which is deferred by the preceding sentence shall bear interest in the same manner as if it were an advance made on the day on which it would have been required to be paid but for this subparagraph.

"(4) The interest rate determined under this paragraph with respect to any calendar year is a percentage (but not in excess of 10 percent) determined by dividing -

"(A) the aggregate amount credited under Section 904(e) to State accounts on the last day of the last calendar quarter of the immediately preceding calendar year, by

"(B) the aggregate of the average daily balances of the State accounts for such quarter as determined under Section 904(e).

"(5) Interest required to be paid under paragraph (1) shall not be paid (directly or indirectly) by a State from amounts in its unemployment fund. If the Secretary of Labor determines that any State action results in the paying of such interest directly or indirectly (by an equivalent reduction in State unemployment taxes or otherwise) from such unemployment fund, the Secretary of Labor shall not certify such State's unemployment compensation law under Section 3304 of the Internal Revenue Code of 1954. Such noncertification shall be made in accordance with Section 3304(c) of such Code.

"(6)(A) For purposes of paragraph (2), any voluntary repayment shall be applied against advances made under Section 1201 on the last made first repaid basis. Any other repayment of such an advance shall be applied against advances on a first made first repaid basis.

"(B) For purposes of this paragraph, the term "voluntary repayment" means any repayment made under subsection (a).

"(7) This subsection shall only apply to advances made on or after April 1, 1982, and before January 1, 1988."

(b) Technical Amendments -

(1) Paragraph (1) of Section 1201 of the Social Security Act is amended by striking out "without interest" and inserting in lieu thereof "with interest to the extent provided in Section 1202(b)".

(2) Section 1202 of such Act is amended by striking out "Section 1202." and inserting in lieu thereof "Section 1202.(a)".