

A Brief Guide to Reporting and Validating Successor Determinations

Introduction. A successor is “an employing unit which has acquired the organization, trade, or business, in whole or in part, of another employer and is declared subject as of the day on which it meets the requirements of the State unemployment compensation law for successorship.” (Handbook 401, 4/2007, page II-2-7). This guide is intended to clarify the reporting and validation of the successor status determinations a state makes when accounting for mergers and acquisitions on its records. Illustrative Population 3 records are developed for the transactions that would be generated for various successor scenarios, and for each scenario the relationship between the status determinations and the count of active employers at the end of the quarter is shown.

Why Report Successors? Successorship transactions represent the number of business transfers to new and existing employers. The Labor Department requires states to report successor transactions because successor determinations have a major impact on state contribution operations. For example, they affect the assignment of proper experience-rated tax rates, collection activities on delinquent predecessor accounts, and the successor’s computation of taxable wages based on the predecessor’s taxable wages reported in the year of transfer. Even though many successor determinations involve the establishment of a new employer account, their time lapse is measured separately from new determinations time lapse because they are more complex and thus take more time to complete. Having states report them separately from new determinations gives a more accurate measurement of how promptly states are adding new employers to their systems to begin receiving contribution and wage reports.

Basic Rules for Reporting Successor Determinations. The definitions contained in Handbook 401 and Data Validation (DV) Tax Module 3 indicate that all determinations for which an employing unit meets definition of a successor under State law are to be reported as successor determinations. These include:

- Determinations that new accounts are established through the acquisition of all or part of existing accounts;
 - These new accounts include formerly inactivated or terminated accounts that are reactivated through the acquisition of all or part of existing accounts.
- Acquisitions of all or part of existing accounts by employers who already had an existing account;
- Status determinations under appeal, even if the employer is not required to submit reports while the appeal is processed; and
- Out-of-state employers acquiring in-state businesses, unless State law defines these as newly-established employers;

The number of predecessor firms determines the number of successor determinations: for example, if one employer acquires all or part of five predecessors, the state will report five successor transactions, not one.

Relationship Between Successor Transactions and Count of Active Employers. Successor transactions can represent no change in the number of a state’s active employers, an increase, or a decrease. In general, successor transactions will:

- *Have no effect* on the number of active employers when
 - A new employer acquires all of the assets of an existing liable account, or
 - An existing liable employer acquires part of the assets of another existing liable employer; or
- *Increase* the number of employers when a new employer (new account number) meets the state’s threshold of liability by acquiring part of the assets of one (or more) existing liable account(s);
- *Decrease* the number of employers when
 - An existing employer acquires all of the assets of an existing liable account; or
 - A new employer acquires the assets of more than one existing liable employer.

Time Lapse of Successor Determinations. Time lapse of successor determinations is measured from the end of the quarter in which liability is attained to the date the determination was officially entered into the state’s system. In the case of successor determinations, the date of liability is the date the successor became liable by acquiring a predecessor (i.e., in the case of a firm that comes into existence as a successor) or the date the existing employer acquired a predecessor (i.e., when the successor is an existing employer).

Illustrative Scenarios. The following examples illustrate the reporting and construction of DV Population 3 records for successor status transactions, and indicate the effect on the number of active accounts at the end of the report quarter.

Scenario 1a: No Change in Number of Employers. The new XYZ Co. is activated on 4/1/2009 and given EAN 22222 after attaining liability on 3/1/2009 by acquiring all assets of the ABC Co. (EAN 12345). The acquisition is reported on the ETA 581 for the 200902 quarter as a successorship and as a termination of the ABC account.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2	1	4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12345			Successor
27	12345	C	T-7		4/1/2009	5/16/2005	6/30/2005	5/16/2005					4/1/2009	Termination

Effect on Active Employers at end of Quarter:

- Accounts Added: 1

- Accounts Removed: 1
- Net 0

Scenario 1b: No Change in Number of Employers. The XYZ Co., an existing employer with EAN 22222, acquires part of the assets of the ABC Co. (EAN 12345) on 4/1/2009. The acquisition is reported on the ETA 581 for the 200902 quarter as a successorship.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2		1 4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12345			Successor

Effect on Active Employers at end of Quarter:

- Accounts Added: 0
- Accounts Removed: 0
- Net 0

Scenario 2a: Increase in Number of Employers. The new XYZ Co. is activated on 4/1/2009 and given EAN 22222 after attaining liability on 3/1/2009 by acquiring part of the assets of the ABC Co. (EAN 12345). The acquisition is reported on the ETA 581 for the 200902 quarter as a successorship.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2		1 4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12345			Successor

Effect on Active Employers at end of Quarter:

- Accounts Added: 1
- Accounts Removed: 0
- Net 1

Scenario 3a: Decrease in Number of Employers. The XYZ Co., an existing employer with EAN 22222, acquires all of the assets of the ABC Co. (EAN 12345) on 4/1/2009. The acquisition is reported on the ETA 581 for the 200902 quarter as a successorship and as a termination of the ABC account.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2	1	4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12345			Successor
27	12345	C	T-7		4/1/2009	5/16/2005	6/30/2005	5/16/2005					4/1/2009	Termination

Effect on Active Employers at end of Quarter:

- Accounts Added: 0
- Accounts Removed: 1
- Net -1

Scenario 3a: Decrease in Number of Employers. The new XYZ Co. is activated on 4/1/2009 and given EAN 22222 after attaining liability on 3/1/2009 by acquiring all of the assets of the ABC Co. (EAN 12345) and the BBB Co. (EAN 12366). The acquisitions are reported on the ETA 581 for the 200902 quarter as successorship determinations and the termination of the ABC and BBB accounts as terminations.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2	1	4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12345			Successor
26	22222	C	S-2	1	4/1/2009	3/1/2009	3/31/2009	4/1/2009		4/1/2009	12366			Successor
27	12345	C	T-7		4/1/2009	5/16/2005	6/30/2005	5/16/2005					4/1/2009	Termination
28	12366	C	T-7		4/1/2009	4/12/2004	6/30/2004	4/12/2004					4/1/2009	Termination

Effect on Active Employers at end of Quarter:

- Accounts Added: 1
- Accounts Removed: 2
- Net -1

Scenario 4: Reactivation Due to Successorship. The XYZ Co. (EAN 22222) is reactivated on 7/20/2009 after attaining liability on 3/1/2009 by acquiring all of the assets of the ABC Co. (EAN 12345). The acquisition is reported on the ETA 581 for the 200903 quarter as a successorship determination and a termination.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
25	22222	C	S-2	0	7/20/2009	7/20/2009	9/30/2009	3/31/2006	7/20/2009	7/20/2009	12345	3/15/2008		Successor
27	12345	C	T-7		7/20/2009	5/16/2005	6/30/2005	5/16/2005					7/20/2009	Termination

Effect on Active Employers at end of Quarter:

- Accounts Added: 1
- Accounts Removed: 1
- Net 0

Scenario 5: Reactivation and Successorship. On 6/28/2009 the XYZ Co. (EAN 22222) informs the state that it reattained liability on 3/1/2009 and that on 3/29/2009 it acquired part of the assets of the ABC Co. (EAN 12345). On 7/1/2009 the state reactivates XYZ and issues a successor determination for the acquisition. The reactivation is reported as a new determination because the employer did not reattain liability by acquiring assets of an existing business, and the acquisition is reported separately as a successorship determination, on the ETA 581 for the 200903 quarter.

OBS	Employer Account Number	Employer Type	Status Determination Type	Time Lapse	Status Determination Date	Liability Date	End of Liable Quarter	Activation Date	Reactivation Date	Successorship Date	Predecessor Account Number	Inactivation Date	Termination Date	ETA 581 Det Type
23	22222	C	N-01	92	7/1/2009	3/1/2009	3/31/2009	3/31/2006	7/1/2009			3/15/2008		New
29	22222	C	S-2	92	7/1/2009	3/29/2009	3/31/2009	3/31/2006	7/1/2009	7/1/2009	12345	3/15/2008		Successor

Effect on Active Employers at end of Quarter:

- Accounts Added: 1
- Accounts Removed: 0
- Net 1