

UNEMPLOYMENT INSURANCE: AUDITOR FINDS STATE FAILED TO TAKE ACTION TO COLLECT MORE THAN \$500 MILLION FOR UI PROGRAM; SUBCOMMITTEE TAKES TESTIMONY ON EMPLOYER PENALTIES TO FUND UI PROGRAM, BUT DOESN'T VOTE

The California Employment Development Department (EDD) could have received more than a half a billion dollars by allowing the IRS to intercept federal refunds for the EDD to recover unemployment insurance benefits that claimants were not eligible to receive, but failed to take action to secure this money that would have assisted California's struggling UI program, the state auditor [reported March 13](#).

The auditor reported that EDD officials "failed to act efficiently to participate in the federal Treasury Offset Program ... that would have allowed the State to collect an estimated \$516 million in unemployment benefit overpayments."

EDD decided to forego participation even though it estimated a very large return on a relatively small investment. After the state auditor began investigating the agency, EDD officials developed a plan for participating in the Offset Program by September 2014.

The period in question dates back to January 2011, when the U.S. Department of the Treasury adopted regulations implementing federal legislation that expanded the Offset Program to give states the ability to collect money owed by unemployment insurance claimants who have received overpayments by intercepting federal payments that the claimants are due to receive.

(Source: [California State Auditor Report I2012-0651](#), March 13.)

In other news relating to unemployment insurance:

Subcommittee Takes Testimony on Higher Employer Penalties to Fund UI Program, but Doesn't Vote. Assembly Budget Subcommittee No. 4 took testimony March 11 on the governor's proposal to increase penalties on employers to raise revenue for administration costs for California's unemployment insurance program, but opted not to vote on the matter. Instead, the proposed penalties were included in the list of items "held open," potentially to be discussed more and voted upon at a future hearing.

CalTax opposes the proposal, which would increase (from 10 percent to 15 percent) penalties on employers for late payment, failure to pay by electronic funds transfer when required, late filing, and failure to file. Additionally, the proposal would increase from \$10 to \$20 the demand penalty for each unreported wage item and for each wage item not filed electronically when required.

In a letter to the budget subcommittee, CalTax wrote: "CalTax is supportive of compliance tools, including penalties, to maintain the integrity of the tax system. However, imposing penalties to raise revenue is not appropriate. Penalties should encourage compliance by supporting the tax-reporting and tax-remittance standards contained in the tax law. ... The use of tax penalties to raise revenue, or to offset costs, is detrimental to tax administration and discourages voluntary compliance."