SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 523 (as reported with amendments)
Sponsor: Senator Harmon Cropsey
Committee: Human Resources and Senior Citizens

Date Completed: 12-3-87

RATIONALE

Under the Michigan Employment Security Act, an employer, or an employing unit, is required to pay "contributions" to cover payments made to unemployment claimants. If an employing unit's contribution for any period subsequently is determined to have been deficient, the employer is required to make up the difference. If payment is not made within 30 days, the Michigan Employment Security Commission (MESC) begins charging interest at a rate of 1% per month. If an employer overpays its required contribution, however, the MESC does not pay interest on its refund. In such a case, an employer is entitled to an adjustment of future contribution payments. If the adjustment cannot be made within the next three months, the MESC is required to refund the amount without interest. Some people feel that the terms of reimbursement for overpayment should be the same as those for correcting underpayments.

CONTENT

Senate Bill 523 would amend the Michigan Employment Security Act to require the payment of interest on refunds that are made when the MESC erroneously has collected contributions or interest from an employing unit and an adjustment cannot be made within the ensuing three months. (Current law specifies that the refunds are to be made without interest.) Under the bill, the interest would have to be paid at the same rate, computed in the same manner, and subject to the same requirements as provided in the Act for delinquent employer contributions (i.e., 1% interest per month), and it would be paid from the penalty and interest account within the contingent fund.

MCL 421.16

FISCAL IMPACT

The bill would increase costs for the Michigan Employment Security Commission (MESC) by an indeterminate amount. The amount of the cost increase would depend on the number of employers qualifying for refunds and the amount of interest payable on those refunds by the MESC.

The bill does specify the source of funding for the interest payments as the MESC's Contingent Fund (penalty and interest fund) which is restricted. The penalty and interest account had revenues of $5.7 million in FY 1986-87 and an outstanding balance of $10.7 million at the end of FY 1986-87.

The bill could lower costs for local governments by providing for interest payments on refunds they receive from the MESC.

ARGUMENTS

Supporting Argument

The current system of correcting overpayments of employer contributions to the MESC is unfair to employing units, since interest can be charged of them if they underpay but cannot be charged by them if they overpay. Reportedly, there have been instances in which employers have not received the overpayment refunds due them until several months after notice of overpayment had been issued. If an underpaying employing unit had waited that long to correct the payment shortage, it would have been assessed a 1% interest charge beginning on the 31st day after notice had been made. Overpaying employers should be entitled to the same recourse. The bill would correct this inequity in the law.

Opposing Argument

Except under extraordinary circumstances, governmental entities that impose taxes generally are not required to pay interest to taxpayers on taxes erroneously collected. Unemployment taxes should not be treated differently.

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