

Employment and Training Administration Advisory System U.S. Department of Labor Washington, D.C. 20210	CLASSIFICATION UI
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ADVISORY : FIELD MEMORANDUM NO. 11-05

TO : REGIONAL ADMINISTRATORS

/s/

FROM : JACK H. RAPPORT  
Administrator  
Office of Field Operations

SUBJECT : Funding for Implementation of a SUTA Dumping Detection System

1. Purpose. For Regional Offices to inform state workforce agencies that funds are available to implement an unemployment insurance (UI) SUTA Dumping Detection System (SDDS) developed by the U.S. Department of Labor and to provide information about how to apply for these funds.
2. References. Public Law (P.L.) No. 108-295, the "SUTA Dumping Prevention Act of 2004"; the Social Security Act (SSA); the Internal Revenue Code (IRC), including the Federal Unemployment Tax Act (FUTA); Unemployment Insurance Program Letters (UIPLs) No. 34-02, No. 30-04, and No. 30-04, Change 1.
3. Background. SUTA Dumping refers to tax rate manipulation, as practiced by some employers and recommended by some financial advisors, in order to pay lower state UI taxes than their unemployment experience would otherwise allow. ("SUTA" refers to state unemployment tax act.)

The SUTA Dumping Prevention Act of 2004 (the Act) amended the SSA to add Section 303(k), establishing a nationwide minimum standard for detecting and preventing SUTA Dumping. States are required to amend their UI laws to conform to this new requirement.

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4. SDDS Developed by the DOL. To assist states to detect SUTA Dumping activities, DOL entered into a cooperative agreement with the North Carolina Employment Security Commission (NCESC) to develop a SDDS that can be installed and implemented by all states at minimal cost. The resulting DOL SDDS is a server-based system with a browser interface that compares extract data from states' mainframe tax systems to a variety of criteria that may indicate tax rate manipulation (SUTA Dumping) activity.

Seven states (North Carolina, Nebraska, Rhode Island, Texas, Utah, Virginia, and Washington) tested the SDDS application in February 2005; it is ready for distribution once a licensing agreement is signed by each interested state. As soon as licensing agreements are obtained from interested states, the software and users' manual will be distributed to those states at no cost.

States choosing to use the DOL SDDS system will also be offered technical assistance and support for the implementation and operation of the system through the UI Information Technology Support Center (ITSC) and the NCESC. Technical assistance will be provided for procurement of necessary hardware, installation and configuration, programming of related extract files, and enhancements made to the DOL SDDS application through Fiscal Year (FY) 2007.

5. Funding and Specifications. FY 2005 supplemental funding is available for SDDS implementation, including technical support and training related to SUTA Dumping activities. States choosing to use the DOL SDDS will be provided funding to procure the necessary hardware and software and for installation of the application as well as technical support. Funding will also be provided to states for training related to the SDDS as well as enforcement of the new legal provisions related to SUTA Dumping.

A state that decides to purchase or develop its own SUTA Dumping detection system may request funds for the necessary related hardware/software, technical support, and training. However, the requested funds cannot be an amount greater than that which the state would be entitled to receive for the DOL SDDS. States may request funding as follows:

- Up to \$13,000 to develop the necessary programs to generate the nine (9) extract files used by the DOL SDDS application. Technical specifications for the extract files are detailed in Attachment No. 1. States opting to develop their own SUTA Dumping detection system may request this portion of funding for equivalent work, if appropriate.
- Up to \$14,000 (small state), up to \$22,000 (mid-size state), and up to \$40,000 (large state) to purchase the appropriate hardware configuration specified in Attachment No. 2, General Specifications for the SUTA Dumping Detection System (SDDS) Hardware and Software Configurations. The funding level is determined by the configuration size of the state as indicated in Attachment No. 3, List of State Size Configuration Classifications. Because of the amount of data that a state's system must be capable of processing, states must agree to procure a system consistent with the specifications identified for their

size state. It is strongly recommended that states not deviate from the specified configurations as it may adversely impact the supportability of the DOL SDDS software. States opting to develop their own SUTA Dumping detection system may request this portion of funding up to the funding level indicated above based on state size.

- Up to \$9,000 for Information Technology (IT) costs for implementation and configuration of the hardware and software needed to run the DOL SDDS application. States opting to develop their own SUTA Dumping detection system may request this portion of funding for equivalent work, if appropriate.
- Up to \$25,000 for staff training regarding the implementation and/or enforcement of new state SUTA Dumping law provisions. This training may include costs for staff to participate in the SUTA Dumping training and workshops offered in connection with the National UI Tax Conference in August 2005.
- In addition to the extract file development, implementation, and hardware and software costs, each state requesting the DOL SDDS software will be provided funding through FY 2007 for on-going maintenance and technical support costs for the DOL SDDS software. A technical support and maintenance program is available through the ITSC in partnership with the NCESC. Funding levels are yet to be determined and will be announced at a later date. However, the funding will cover the full cost of the ITSC/NCESC support program through FY 2007, and states are encouraged to accept this offer of support. States opting not to accept the offer of ITSC/NCESC maintenance and support may request equivalent funding for their own or other maintenance and support.

6. Supplemental Budget Request (SBR) Application. States are encouraged to submit the SBR application for this funding by completing Attachment No. 4, the SBR application. Advance funding provided to the DOL SDDS pilot states must be deducted from their SBR request(s).

When completing the SBR application, states should:

- Indicate the state's name and date of the request.
- Determine the state's classification (small, medium, or large) from Attachment No. 3, the List of State Size Configuration Classifications, for the maximum SDDS start-up costs allowed the state.
- Provide the state's estimate, based on state size, of start-up costs in each category (not to exceed a total of \$62,000).
- Indicate the method of funding desired for technical support and maintenance.

- Indicate the amount of funding requested for SUTA Dumping training and indicate the amount requested up to the maximum allowed. This should include funds requested for participation in training/workshops at the 2005 National UI Tax Conference. Individuals may register for the conference by accessing the following Internet link:  
[http://cl.idaho.gov/portal/ICL/alias\\_uitax/tabID\\_0/DesktopDefault.aspx?init](http://cl.idaho.gov/portal/ICL/alias_uitax/tabID_0/DesktopDefault.aspx?init)

7. Action. Regional Administrators should provide this information to appropriate state staff and encourage states to take advantage of this funding opportunity. Completed SBR applications should be sent to the Office of Workforce Security, Attention: Rett Hensley, by June 3, 2005.
8. Inquiries. Inquiries should be directed to Rett Hensley at (202) 693-3203.
9. Attachments.

Attachment No. 1 – General Specifications for the SUTA Dumping Detection System (SDDS) Extract File Layout

Attachment No. 2 – General Specifications for the SUTA Dumping Detection System (SDDS) Hardware and Software Configurations

Attachment No. 3 – List of State Size Configuration Classifications

Attachment No. 4 – Supplemental Budget Request Application