

FACT SHEET #114 March 2019

SUTA Dumping

What is SUTA Dumping?

SUTA (State Unemployment Tax Act) Dumping is a tax evasion practice involving the manipulation of an employer's unemployment insurance (UI) tax rate to achieve a lower rate, and thereby pay less UI taxes. Typically, SUTA Dumping occurs when a business transfers payroll out of an existing company or organization to a new or different organization solely or primarily to reduce UI taxes.

How can the UI tax rate be manipulated?

There are three common ways, along with many variations, that are most often used to manipulate the tax rate. They are:

- **Vertical method** – Create a “new” employer that is assigned a “new” employer tax rate of 2.7%, and then transfer payroll to the new employer.
- **Horizontal method** – Transfer payroll to a subsidiary with a lower UI tax rate.
- **Acquired rate method** – Find another employer with a low UI tax rate and arrange to transfer payroll to that employer.

What is the harm in SUTA Dumping?

There are several ways in which SUTA Dumping harms employers and the state's UI trust fund.

- Under the experience rated system, the UI tax rate is based on an employer's history of benefit charges. With SUTA Dumping, an employer with a high UI tax rate attempts to hide behind a different company with a lower tax rate and unfairly shift their UI costs to other employers.
- SUTA Dumping creates a competitive cost advantage for employers practicing UI tax evasion.
- SUTA Dumping reduces money in Michigan's UI trust fund, causing an increase in unemployment tax rates for all employers.
- SUTA Dumping reduces funds available to pay unemployment benefits to unemployed workers.
- SUTA Dumping puts those employers at a disadvantage who try to manage their work and maintain steady employment for their employees as SUTA Dumping allows charges that are never paid for by the business.
- SUTA Dumping rewards employers for dumping their UI responsibility for past benefit charges on the rest of employers.

Although only a small percentage of employers are involved in SUTA Dumping, all employers are impacted because the “escaped responsibility for benefits paid” ends up with the rest of Michigan's employers.

What is the penalty for engaging in SUTA Dumping?

If you participate in a SUTA Dumping practice and are discovered, you run the risk of paying a penalty that would amount to **four times any savings** you would have received by manipulating your tax rate, if found to be intentional. Your UI tax rate would also be increased to the maximum tax rate (but not less than a 2% increase), for the year in which we determined that you engaged in intentional SUTA Dumping, and for the next three years. Furthermore, a civil penalty of up to \$5,000 will apply if a person simply advises another business to participate in SUTA Dumping and is not an employer.

What should you do if you believe you may be SUTA Dumping?

If you have or think you have received tax advice that may raise a SUTA concern, or if you would like Unemployment Insurance (UI) to review your account, please call the agency's Office of Employer Ombudsman (OEO) at **1-855-484-2636**. If you *voluntarily* request an audit determination, any penalties you may be assessed for SUTA Dumping could be substantially reduced.

Many businesses become involved with SUTA Dumping because of a suggestion or recommendation from a consultant or accountant. Such tax advice is usually disguised with terms like "tax management" or "tax avoidance."

For more information about SUTA Dumping

To learn more about SUTA Dumping, or if you suspect another employer is engaging in SUTA Dumping, visit UIA's website at www.michigan.gov/uia, or call our Office of Employer Ombudsman (OEO) Unit at 1-855-484-2636.