Labor certifies, for the purposes of normal tax credit (section 3302(a)(1) of the Internal Revenue Code of 1954), to the Secretary of the Treasury each State the law of which he has previously approved. (See also § 601.5.)

(Approved by the Office of Management and Budget under control number 1205–0222)

[15 FR 5886, Aug. 31, 1950; 23 FR 1267, Mar. 1, 1958, as amended at 49 FR 18295, Apr. 30, 1984; 50 FR 51241, Dec. 16, 1985]

§ 601.3 Findings with respect to State laws and plans of operation.

For purposes of grants, findings are made regarding the inclusion in State unemployment compensation laws, approved under section 3304(a) of the Internal Revenue Code of 1954, of provisions required by section 303(a) of the Social Security Act (see § 601.2); findings are also made whether a State has accepted the provisions of the Wagner-Peyser Act and whether its plan of operation for public employment offices complies with the provisions of said act. For purposes of additional tax credit, findings are made regarding reduced rates of contributions permitted by the State law (section 3303(a) (1) of the Internal Revenue Code of 1954).

So that the Secretary of Labor may be enabled to determine the status of State laws and plans of operation, all relevant State materials, such as statutes, executive and administrative orders, legal opinions, rules, regulations, interpretations, court decisions, etc., are required to be submitted currently.

(a) *Submission*. The States submit currently to the RAETA two copies of relevant State material, properly certified by an authorized State official to be true and complete.

(b) *Review*. The RAETA reviews the State material and forwards one copy to the central office with his comments. The central office reviews the material from the standpoint of its conformity with section 303(a) of the Social Security Act, section 3303(a) of the Internal Revenue Code of 1954, or the Wagner-Peyser Act, as the case may be.

(c) *Findings*. The Secretary makes findings as provided in the cited sections of the Federal law. In the event that the Secretary is unable to make the findings required for certification for payment or for certification of the law for purposes of additional tax credit, further discussions with State officials are undertaken.

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[15 FR 5886, Aug. 31, 1950; 23 FR 1267, Mar. 1, 1958, as amended at 49 FR 18295, Apr. 30, 1984; 50 FR 51241, Dec. 16, 1985]

§ 601.4 Certification for tax credit.

(a) Within 30 days after submittal of a State unemployment compensation law for such purpose, the Secretary certifies to the State agency, in accordance with the provisions of section 3303(b)(3) of the Internal Revenue Code of 1954, his findings regarding reduced rates of contributions allowable under such law. On December 31 of each taxable year the Secretary certifies to the Secretary of the Treasury the law of each State, certified with respect to such year under section 3304 of the Internal Revenue Code of 1954 (see § 601.2), which he finds allows reduced rates with respect to such taxable year only in accordance with the provisions of section 3303(a) of the Internal Revenue Code of 1954.

(b) With regard to certification for payment, see § 601.6.

§ 601.5 Withholding payments and certifications.

(a) *When withheld*. Payment of funds to States or yearend certification of State laws, or both, are withheld when the Secretary finds, after reasonable notice and opportunity for hearing:

(1) That any provision required by section 303(a) of the Social Security Act is no longer included in the State unemployment compensation law; or

(2) That the State unemployment compensation law has been so changed as no longer to meet the conditions required by section 3303(a) of the Internal Revenue Code of 1954 (section 3303(b)(3) of the Internal Revenue Code); or

(3) That the State unemployment compensation law has been so amended as no longer to contain the provisions specified in section 3304(a) or has failed to comply substantially with any such provision and such finding has become effective (section 3304(c) of the Internal Revenue Code of 1954); or

(4) That in the administration of the State unemployment compensation law there has been a failure to comply substantially with required provisions of such law (section 303(b)(2) of the Social Security Act and section 3303(b)(3) of the Internal Revenue Code of 1954); or

(5) That in the administration of the State unemployment compensation law there has been a denial, in a substantial number of cases, of benefits due under such law, except that there may be no such finding until the question of entitlement has been decided by the highest judicial authority given jurisdiction under such State law (section 303(b)(1) of the Social Security Act); or

(6) That a State fails to make its unemployment compensation records available to the Railroad Retirement Board or fails to cooperate with Federal agencies charged with the administration of unemployment compensation laws (section 303(c) of the Social Security Act); or

(7) That a State no longer has a plan of operation for public employment offices complying with the provisions of the Wagner-Peyser Act; or

(8) That a State agency has not properly expended, in accordance with an approved plan of operation, the Federal monies paid it for administration of its public employment service.

(b) *Informal discussion*. Such hearings are generally not called, however, until after every reasonable effort has been made by regional and central office representatives to resolve the question involved by conference and discussion with State officials. Formal notification of the date and place of a hearing does not foreclose further negotiations with State officials.

(c) *Notice of noncertification*. If, at any time during the taxable year, the Secretary of Labor has reason to believe that a State whose unemployment compensation law he has previously approved may not be certified, he promptly notifies the Governor of the State to that effect (section 3304(d) of the Internal Revenue Code of 1954).

(d) *Notice of hearing*. Notice of hearing is sent by the Secretary of Labor to the State employment security agency. The notice sets forth the purpose of the hearing, the time, date, and place at which the hearing will be held, and the rules of procedure which will be followed. At a hearing the State is given an opportunity to present arguments and all relevant evidence, written or oral. The Secretary makes the necessary determination or findings, on the basis of the record of such hearings. A notice of the Secretary's determination or finding is sent to the State employment security agency.

(e) *Civil Rights Act issues*. To the extent that any proposed withholding of funds involves circumstances within the scope of title VI of the Civil Rights Act of 1964 and the regulations promulgated thereunder, the procedure set forth in 29 CFR part 31 shall be applicable.

(f) *Tax credit reductions*. (1) Section 3302(c)(2) of the Internal Revenue Code of 1954 prescribes the conditions under which the total credits otherwise allowable under section 3302 for a taxable year in the case of a taxpayer subject to the unemployment compensation law of a State shall be reduced on account of an outstanding balance of advances made to the State pursuant to title XII of the Social Security Act. As amended by section 110(a) of the Emergency Compensation and Special Unemployment Assistance Extension Act of 1975 (Pub. L. 94–45, approved June 30, 1975; 89 Stat. 236, 239), and as further amended by title II of the Emergency Unemployment Compensation Extension Act of 1977 (Pub. L. 95–19, approved April 12, 1977; 91 Stat. 39, 43), the incremental reductions in total credits will not apply to a State with respect to the taxable years beginning on January 1, 1975, January 1, 1976, January 1, 1977, January 1, 1978, and January 1, 1979, if the Secretary of Labor finds as to each such year that the State has studied and taken appropriate action with respect to the financing of its unemployment compensation program so as substantially to accomplish the purpose of restoring the fiscal soundness of the State's unemployment account in the Unemployment Trust Fund and permitting the repayment within a reasonable time of any advances made to the State's account pursuant to title XII of the Social Security Act.

(2) The Secretary of Labor's finding with respect to a State as to any of the taxable years 1975, 1976, 1977, 1978, and 1979 will be based on his determination as to whether the State has taken appropriate action resulting in:

(i) Amendment of its unemployment compensation law, effective in or prior to the taxable year with respect to which the finding is made, or effective at the beginning of the succeeding taxable year, increasing the State's unemployment tax rate, increasing the State's unemployment tax base, or changing the State's experience rating formula, or a combination of such changes, so as to be estimated by the Secretary to achieve for the taxable year with respect to which the finding is made or for the period following the effective date of the amendment:

(A) An average employer tax rate, computed as a percentage of the total wages in employment covered by the State's unemployment compensation law, which exceeds the State's average annual benefit cost rate, computed as a percentage of the total wages in employment covered by the State's unemployment compensation law, for the ten calendar years immediately preceding the year with respect to which the finding is made; and

(B) An effective minimum employer tax rate which is not less than 1.0 percent of the wages of any employer which are subject to tax under the Federal Unemployment Tax Act for the same year; and

(C) An effective maximum employer tax rate which exceeds 2.7 percent of the wages of any employer which are subject to tax under the Federal Unemployment Tax Act for the same year, or provision for no reduced rate of contributions for any employer subject to the State unemployment compensation law; or

(ii)(A) Amendment of its unemployment compensation law increasing the State's unemployment tax rate, increasing the State's unemployment tax base, or changing the State's experience rating formula, or a combination of such changes, so as to be estimated by the Secretary of Labor to result in increasing contributions to the State's unemployment fund, for the taxable year with respect to which the finding is made, and the allocation from such increased contributions of a sum sufficient to make the repayment in the amount and within the time limit prescribed in paragraph (f)(2)(ii)(B) of this section; and

(B) Repayment to the Treasury of the United States, for credit to the Federal unemployment account in the Unemployment Trust Fund, prior to November 10 of the taxable year with respect to which the finding is made, of an amount equal to the amount of the additional tax which would be payable by all taxpayers subject to the unemployment compensation law of the State for that taxable year if (*1*) for any year prior to 1978, the reduction in total credits prescribed by section 3302(c)(2)(A) of the Internal Revenue Code of 1954 for that taxable year was applied without regard to the amendment added by section 110(a) of the Emergency Compensation and Special Unemployment Assistance Extension Act of 1975, and (*2*) for any year after 1977, the reduction in total credits prescribed by the applicable provisions of section 3302(c)(2) of the Internal Revenue Code of 1954 for that taxable year was applied without regard to the amendment added by section 110(a) of the Emergency Compensation and Special Unemployment Assistance Extension Act of 1975; and

(C) Determination by the Secretary that unemployment reserves and income from contributions in the State unemployment fund will be adequate to meet benefit payment obligations without title XII advances during the 6–month period beginning November 1 of the year in which such determination is made.

(3)(i) An application for deferral under this paragraph (f) must be requested and filed with the Secretary of Labor by the Governor of a State no later than July 1 of the taxable year for which such deferral is requested. Such application shall be in such form, and shall be accompanied by such documentation, as the Secretary of Labor shall prescribe.

(ii) A finding by the Secretary of Labor with respect to a State shall be made as of November 10 of the taxable year with respect to which the finding

is made, and such finding shall be published in the FEDERAL REGISTER together with the reasons for the finding.

[30 FR 6942, May 22, 1965, as amended at 43 FR 13828, Mar. 31, 1978]

Subpart B—Grants, Advances and Audits

§ 601.6 Grants for administration of unemployment insurance and employment service.

Grants of funds for administration of State unemployment insurance and public employment service programs are made to States under section 302(a) of the Social Security Act, the Wagner-Peyser Act, and the Appropriation Acts.

(a) *Requests for funds.* The forms and instructions used by State agencies in requesting funds are available upon request from the Employment and Training Administration, Department of Labor, Washington, DC 20210, and at the regional offices. The forms and instructions call for detailed information for each budgetary period concerning the specific amounts requested for personal services and other current expenses of State agencies, supported by workload and unit-cost estimates. Supplementary budget requests are processed in the same manner as regular requests. The Administration's representatives in the regional offices furnish assistance to the State agencies in preparing requests for funds.

(b) *Processing of requests.* State agencies send their requests for funds to the RAETA who reviews the requests and forwards them to the ETA National Office with his recommendation as to the amounts necessary for proper and efficient administration of the State unemployment compensation law and employment service program.

The ETA National Office appraises the requests and the recommendations of the regional representatives from a nationwide point of view, examining each State's request in the light of the experience of other States to insure equitable treatment among the States in the allocation of funds made available by Congress for the administration of State unemployment compensation laws and public employment service programs.

(c) *Action by ETA National Office.* If the ETA National Office approves the State's budget request, the State agency is notified; and, provided the conditions precedent to grants continue during the budgetary period, certifications for payment, under the approved budget, stating the amounts, are made by the ETA National Office to the Secretary of the Treasury quarterly. Upon denial of a request, in whole or in part, the State agency is notified and the RAETA is instructed to negotiate with the State with a view to removing the basis for denial.

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[15 FR 5886, Aug. 31, 1950, as amended at 42 FR 4724, Jan. 25, 1977; 49 FR 18295, Apr. 30, 1984]

§ 601.7 [Reserved]

§ 601.8 Agreement with Postmaster General.

The Secretary of Labor and the Postmaster General have been directed by the Congress (title II of the Labor-Federal Security Agency Appropriation Act, 1950) to prescribe a mutually satisfactory procedure whereby official State employment security postal matter will be handled without the prepayment of postage. In lieu of such prepayments, the Secretary periodically certifies to the Secretary of the Treasury for payment to the U.S. Postal Service the amount necessary to cover the cost of State agency mailings. The amount of payment is based on a formula agreed upon by the Secretary of Labor and the U.S. Postal Service.

[15 FR 5886, Aug. 31, 1950, as amended at 42 FR 4724, Jan. 25, 1977]

§ 601.9 Audits.

The Department of Labor's audit regulations at 41 CFR 29–70.207–2(h) and (i), 41 CFR 29–70.207–3, and 41 CFR 29–70.207–4 shall apply with respect to employment service and unemployment insurance programs.

[46 FR 7766, Jan. 23, 1981]