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- Past due : late and delinquent ES-



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Past Due:  
Late and Delinquent  
ES-202 Filing in Minnesota

Research and Statistics Office  
Minnesota Department of Economic Security  
1998

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1998

## Summary of Findings

- ◆ In Minnesota, an average of 6.3 percent of covered employers are late in returning their Quarterly Contribution Report in any given quarter, while 4.9 percent never return the form at all.
- ◆ Late and delinquent reporters are frequently small in size, relatively young, and located in the seven-county Twin Cities area.<sup>1</sup>
- ◆ Firms reporting late tend to be in the trade and finance, insurance, and real estate (FIRE) industries. Delinquent reporters are overrepresented in construction, transportation, communications, and public utilities (TCPU), retail trade, and service industries.
- ◆ Those firms which report late tend to do so in the same quarters every year, following a seasonal pattern. However, non-reporters are more likely to miss reports chronically (that is, in more than 50 percent of active quarters).
- ◆ Taxpaying firms said they reported late or delinquent because they thought they did not have to report or that their payroll service had submitted the forms.
- ◆ Reimbursing firms reported turning in tax forms late or delinquent because of changes in personnel, problems with a payroll service, or simply forgetting to return the form.
- ◆ On average, about 45 percent of late or delinquent firms in one quarter had none of the same employees in the next quarter, indicating they likely closed operations either with or without a successor (or they were so small that their employment fluctuations were inconsequential).
- ◆ Survey methods were more successful than Wage Detail records in identifying predecessor / successor relationships and closures though neither technique performed particularly well.

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<sup>1</sup> Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties



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## Background, Process, and Definitions

This study was undertaken to examine the nature and causes of late and delinquent reporting of employment and wages to the Reemployment Insurance (RI) Tax system, the administrative database which underlies the Covered Employment and Wages (ES-202) data series. Because ES-202 program staff estimate the missing employment information for late and delinquent reporters, problem reporting leads to inaccuracies in measuring employment. Understanding which types of firms are likely to be late or delinquent reporters and why will help the Minnesota Department of Economic Security (MDES) improve the quality of information generated from the ES-202 program for the Bureau of Labor Statistics and other employment data users.

The ES-202 data are generated from the Quarterly Contribution Reports (QCRs) employers are required to submit along with their payments to the Reemployment Insurance (RI) Trust Fund. The QCRs detail the number of workers on an employer's payroll during the pay period that includes the 12<sup>th</sup> day of each month and the total wages paid to them during the quarter. The forms are submitted to the Tax Liability Office, which enters the data on a continual basis. Not all forms are entered immediately upon their arrival, however, since some must be verified for accuracy.

The Research and Statistics Office extracts the employment data at regular intervals throughout each quarterly ES-202 processing cycle. Because the Research and Statistics Office extracts only the data entered into the Tax database rather than all forms submitted to the Department, an employer may appear to have missed a report when in fact the form has reached the Tax Liability Office but is not yet entered. Also, some employers are late or delinquent in returning the forms; obviously, their employment and wage data are not entered into the database until their report arrives. Thus, an employer may be missing from the ES-202 data set for two reasons: (1) it has submitted the form, but the information has not yet been entered into the database; or (2) it has not yet submitted its QCR. It is the second set which interests us with this study.

For the purposes of this study, a *delinquent reporter* is defined as an employer or location which appears never to have returned a QCR for a given quarter (according to ES-202, not Tax, records). In contrast, a *late reporter* is one which appears not to have returned its QCR in time to be included in initial ES-202 calculations but whose employment reports are subsequently incorporated into ES-202 processing. We use the term *problem reporters* to refer to employers who have a history as either a late or a delinquent reporter.

Using reporting flags in the ES-202 quarterly data sets, we identified 45,290 employers<sup>2</sup> who were problem reporters in any of the eight quarters in calendar years 1995 and 1996. These included both

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<sup>2</sup> Federal government and state government entities were dropped from analysis as problem reporters because neither group is a traditional reporter to MDES. For example, the ES-202 unit collects state government employment and wages data directly from the state Department of Finance rather than from individual state agencies. Because the federal

taxpaying firms (those which must pay RI taxes every quarter) and reimbursing firms (government or nonprofit employers which reimburse into the RI Trust Fund the exact dollar amount paid out to RI claimants filing against them — these include religious, charitable, educational, or other organizations described in section 501(c)(3) of the Federal Internal Revenue Code that are exempt from income tax under section 501(a) of the Code.).

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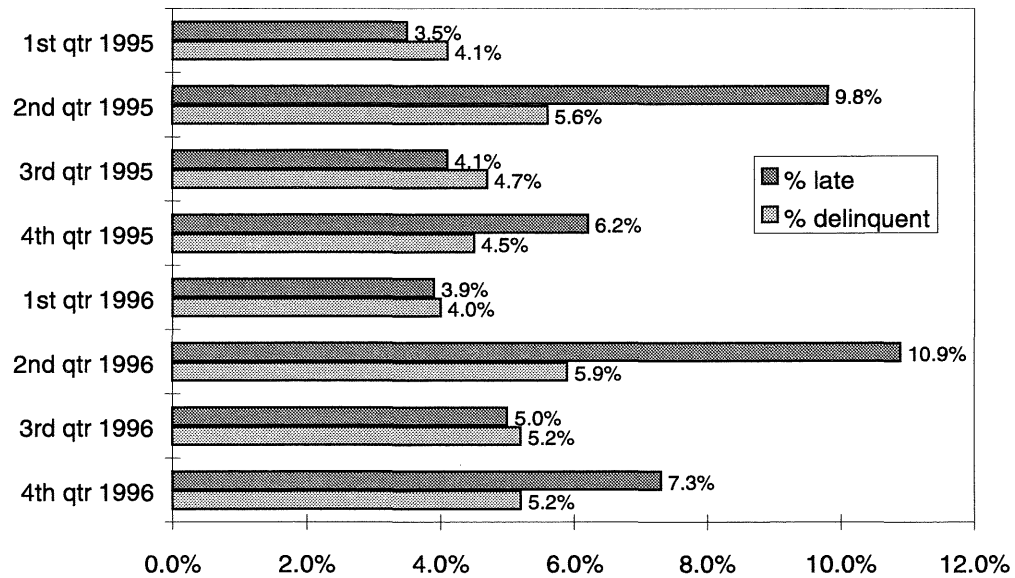
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government has its own unemployment insurance system, it is too subject to different reporting requirements and processes.

## Which Firms are Late or Delinquent?

In Minnesota, on average 6.3 percent of firms are late reporters and 4.9 percent never report in any given quarter. This percentage varies substantially by quarter, however, with firms being much more likely to be late or delinquent in the second quarter than in the other three. (See Figure 1.) The Tax Liability Office believes this phenomenon is due to employers having to file their federal income taxes at the same time as the QCR.

**Figure 1: Percent of MN firms late and delinquent, by quarter**



Classifying problem reporters by their reporting patterns helps accentuate the differences between late and delinquent reporters. To better understand problem reporting, we developed a typology of problem reporting: (See Figure 2.)

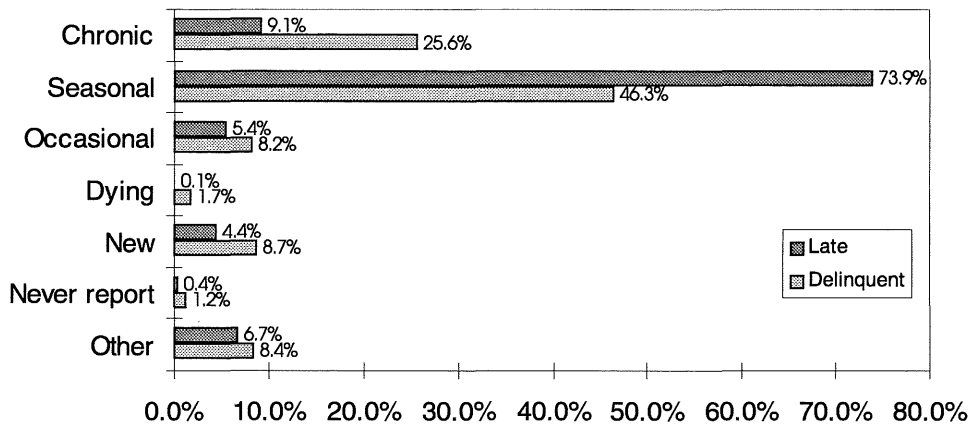
- **Chronic** problem reporters are late or delinquent in more than 50 percent of active quarters <sup>3</sup>
- **Occasional** problem reporters are late or delinquent in less than 25 percent of active quarters
- **Seasonal** problem reporters miss payments in the same quarters of both 1995 and 1996 <sup>4</sup>

<sup>3</sup> Chronic problem reporters are limited to those who were active for at least three quarters out of the eight possible quarters of 1995-1996.

<sup>4</sup> Seasonal problem reporters are limited to those who were active for all eight possible quarters of 1995-1996 and who reported properly in at least two of those quarters (i.e., the second quarter of both 1995 and 1996).

- **Dying** firms are problem reporters through all active quarters of 1995 and 1996 which also terminate during this time period
- **New** firms are problem reporters born in 1995 and 1996 which are problem reporters through all subsequent active quarters in the time period
- **Never** reporters are employers who are reported to have been born and died during 1995 and 1996 and who were either late or delinquent for all their active quarters in 1995-1996
- **Other** employers do not fit into any of the above categories

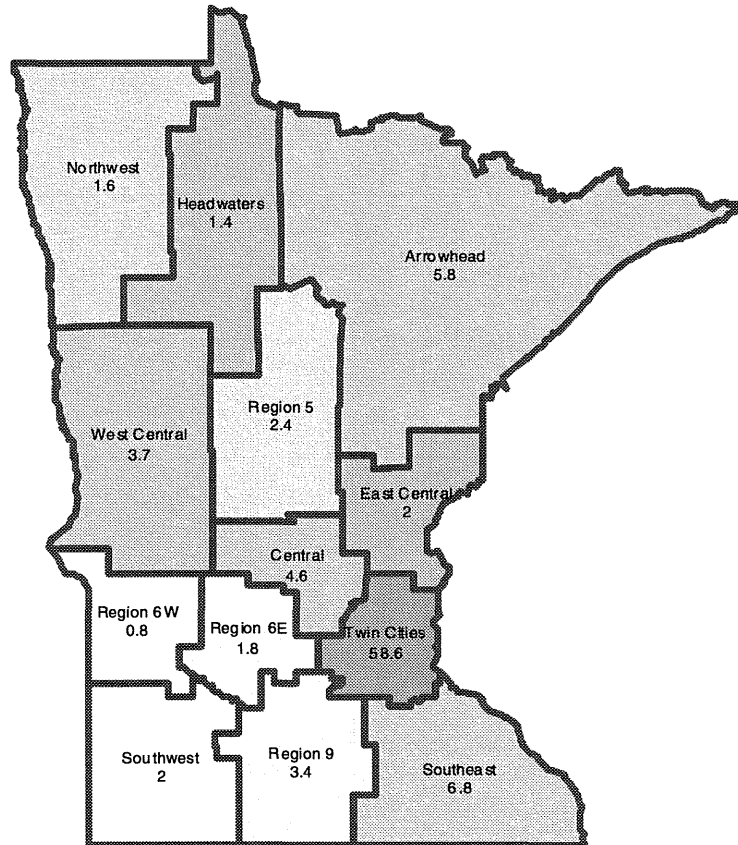
**Figure 2: Late reporting pattern by employer type**



Most late and delinquent firms miss reports either chronically or seasonally; these two categories cover over 75 percent of all problem reporters. Those firms who report late are more likely to do so seasonally; for example, construction firms may file late during the summer, their busy season. Seasonal patterns in delinquent reporting are also common, but delinquent reporters are much more likely to miss reports chronically or occasionally than are late reporters. Delinquents are overrepresented in the new and dying categories. New employers are particularly prone to be delinquent on their initial reports as they learn the procedures of reporting.

**Geographic Distribution of Problem Reporters**

Shading indicates share of problem reporters relative to share of employment



As compared to the ES-202 distribution of employment in first quarter 1996<sup>5</sup>, problem reporters were more likely to be located in the Twin Cities than in greater Minnesota. (See Table 1.)

<sup>5</sup> First quarter 1996 ES-202 data are used for comparison because first quarter 1996 data are likely to be both most representative of the distributions of employment throughout the 1995-1996 time period and least influenced by seasonal variations.

Region	ES-202 1 <sup>st</sup> quarter 1996 <sup>6</sup>	All employers either late, delinquent, or both during 1995-1996	All employers reporting late (but not delinquent) at least once during 1995-1996	All employers not reporting (delinquent, but not late) at least once during 1995-1996	All employers reporting late at least once and not reporting at least one quarter during 1995- 1996
Region 1 (Northwest)	1.8%	1.6%	1.4%	1.9%	1.7%
Region 2 (Headwaters)	1.4%	1.4%	1.3%	1.5%	1.5%
Region 3 (Arrowhead)	6.4%	5.8%	5.9%	5.7%	6.1%
Region 4 (West Central)	4.0%	3.7%	3.7%	3.6%	3.1%
Region 5	2.9%	2.4%	2.4%	2.5%	2.4%
Region 6E	2.3%	1.8%	1.8%	1.8%	1.6%
Region 6W	1.1%	0.8%	0.9%	0.7%	0.9%
Region 7E (East Central)	2.1%	2.0%	1.9%	2.0%	2.4%
Region 7W (Central)	5.2%	4.6%	4.7%	4.5%	4.5%
Region 8 (Southwest)	2.7%	2.0%	2.0%	1.9%	2.0%
Region 9	4.4%	3.4%	3.6%	3.4%	4.1%
Region 10 (Southeast)	7.9%	6.8%	7.0%	6.4%	6.9%
Region 11 (Twin Cities)	53.7%	58.6%	58.0%	29.7%	59.9%
Unallocated <sup>7</sup>	4.0%	5.1%	5.3%	4.4%	2.9%

Chi-square tests of the ES-202 distribution versus all other distributions were significant at  $p < .0001$ .

<sup>6</sup> Because the late reporters database excludes all federal and state government entities, all distributions of the ES-202 data presented for comparative purposes also exclude all federal and state government entities. Similarly, both the comparative data and the late reporters data refer to a combination of single-location employers and individual locations of multiple-unit employers.

<sup>7</sup> Unallocated refers to both statewide firms, such as wholesalers, who operate within the state with no fixed location as well as firms who have not yet received full location coding.

As compared to the ES-202 distribution of employment in first quarter 1996, problem reporters were less likely to be in manufacturing or, for late reporters, construction. Late firms were likely to be in retail; delinquent firms were overrepresented in services. (See Table 2.)

Industry <sup>8</sup>	ES-202 1 <sup>st</sup> quarter 1996 <sup>9</sup>	Share of state employment 1 <sup>st</sup> quarter 1996	All employers reporting either late, delinquent, or both during 1995-1996	All employers reporting late (but not delinquent) at least once during 1995- 1996	All employers not reporting (delinquent, but not late) at least once during 1995- 1996	All employers reporting late at least once and not reporting at least one quarter during 1995- 1996
Agriculture	2.1%	0.7%	2.0%	1.9%	2.3%	2.5%
Mining	0.1%	0.3%	0.1%	0.2%	0.1%	0.1%
Construction	9.3%	3.4%	7.8%	5.9%	11.0%	9.6%
Manufacturing	6.5%	19.1%	5.9%	6.0%	5.8%	6.1%
Transportation, Communication and Public Utilities (TCPU)	4.6%	5.3%	5.1%	4.9%	5.8%	6.8%
Wholesale Trade	10.9%	6.6%	10.6%	11.3%	8.8%	7.6%
Retail Trade	20.7%	19.6%	25.6%	27.8%	21.3%	22.0%
Finance, Insurance and Real Estate (FIRE)	9.7%	6.3%	10.0%	10.6%	9.1%	10.1%
Services	34.7%	35.6%	32.3%	30.9%	35.2%	34.5%
Public Administration	1.3%	3.1%	0.6%	0.6%	0.8%	0.7%

Chi-square tests of the ES-202 distribution versus all other distributions were significant at  $p < .0001$ .

<sup>8</sup> Standard Industrial Classification (SIC), produced and distributed by the Office of Management and Budget of the Executive Office of the President, is the statistical classification standard underlying all establishment-based federal economic statistics classified by industry. The classification covers the entire field of economic activities in accordance with the composition and structure of the economy. The last revision was in 1987.

<sup>9</sup> See footnote 6.

As compared to the ES-202 distribution of employment in first quarter 1996, problem reporters were more likely to have zero employees<sup>10</sup>, especially if they are delinquent. (See Table 3.)

Size Class	ES-202 1 <sup>st</sup> quarter 1996 <sup>11</sup>	All employers either late, delinquent, or both during 1995-1996	All employers reporting late (but not delinquent) at least once during 1995-1996	All employers not reporting (delinquent, but not late) at least once during 1995-1996	All employers reporting late at least once and not reporting at least one quarter during 1995- 1996
0 employees	13.3%	35.5%	21.1%	62.8%	53.5%
1 to 4 employees	40.8%	27.6%	31.6%	20.0%	23.0%
5 to 9 employees	16.7%	13.2%	16.5%	6.9%	9.1%
10 to 24 employees	15.1%	10.2%	13.2%	4.7%	7.1%
25 to 49 employees	6.2%	7.4%	9.6%	3.1%	3.6%
50 to 99 employees	3.9%	3.1%	4.1%	1.2%	1.7%
100 to 249 employees	2.6%	2.1%	2.7%	0.9%	1.1%
250 to 499 employees	0.8%	0.6%	0.7%	0.3%	0.5%
500 to 999 employees	0.3%	0.2%	0.3%	0.1%	0.2%
1000+ employees	0.2%	0.1%	0.1%	0.1%	0.2%

Chi-square tests of the ES-202 distribution versus all other distributions were significant at  $p < .0001$ .

<sup>10</sup> Employers with zero employees are identified according to the employment registered in the ES-202 database. This includes employers who reported late and reported zero employees as well as delinquent employers who did not report at all and for whom the ES-202 staff recorded an estimate of zero employment.

<sup>11</sup> See footnote 6.

Problem reporters tended to be younger than the full distribution of employers with roughly one-third in business for less than one year at the quarter of the first late or delinquent payment. (See Table 4.)

**Table 4: Employer Type by Age of Firm**

Age of Firm <sup>12</sup>	ES-202 1 <sup>st</sup> quarter 1996 <sup>13</sup>	All employers either late, delinquent, or both during 1995-1996	All employers reporting late (but not delinquent) at least once during 1995-1996	All employers not reporting (delinquent, but not late) at least once during 1995-1996	All employers reporting late at least once and not reporting at least one quarter during 1995-1996
Less than 1 year	10.3%	31.6%	28.6%	37.7%	37.6%
1 – 2 years	9.8%	9.7%	9.1%	10.6%	9.7%
2 – 4 years	15.8%	13.7%	13.5%	14.1%	13.8%
4 – 7 years	17.8%	15.7%	16.6%	14.0%	15.0%
7 – 10 years	11.3%	8.1%	8.6%	6.9%	6.8%
10 – 15 years	12.5%	8.6%	9.5%	7.0%	7.8%
15 – 20 years	9.6%	7.9%	8.6%	6.6%	7.2%
20+ years	12.9%	4.7%	5.5%	3.0%	2.3%

Chi-square tests of the ES-202 distribution versus all other distributions were significant at  $p < .0001$ .

Since reimbursing firms do not pay RI taxes regularly, they may exhibit different patterns of problem reporting than taxpaying firms. Results from this study show that problem reimbursing firms were:

- more likely than taxpaying firms to be seasonal or chronic problem reporters, and less likely to be occasional, dying, new, or never-reporting firms.
- more likely than the average reimbursing employer to be located in the Twin Cities and less likely to be located in greater Minnesota.

<sup>12</sup> Age of firm was calculated from the initial liability date as noted in the ES-202 database to the quarter in which the employer was first late or delinquent in reporting.

<sup>13</sup> See footnote 6.

- more likely to be small, with zero or few employees.
- over five times more likely to be in business for less than one year as compared to the average reimbursing firm.

(See Appendix Tables A1 through A5.)

## Why are Firms Late or Delinquent?

It is important to know not just *which* firms are late or delinquent reporters but *why*. If we do not know why firms report late or delinquently, we cannot work with them to improve the quality of the ES-202 data. This is especially important to the extent that, from the reasons firms give for problem reporting, we can find easy ways to encourage timely filing of their QCRs. Additionally, it is also useful to have a system for quickly identifying firms which have closed or have changed ownership in order to avoid unnecessarily estimating employment counts. For this reason, we used two approaches to assess the reasons why firms report late or delinquently: a survey of identified problem reporters and an analysis of the Wage Detail records associated with problem reporters.

### EMPLOYER SURVEY

#### Methodology

We sent the survey to a stratified random sample of 787 employers classified as either late or delinquent in at least one quarter between first quarter 1995 and fourth quarter 1996. The total number of problem reporters during this period was 45,290<sup>14</sup>, but 6,802 firms had to be deleted from the data set due to unmailable addresses. Thus, we selected 787 firms out of the remaining 38,488 with usable mailing information using the criteria listed in Table 5.

We stratified the survey sample to assure that we were sampling across major subsets within the universe of problem reporters:

- Type of problem reporting — late or delinquent: There were 2,956 firms classified as both late and delinquent (in different quarters). For purposes of facilitating the survey sampling, each of these firms was randomly assigned to be either late or delinquent rather than allowing them to be sampled in both categories.
- Employment: Employers with zero employees are identified according to the employment registered in the ES-202 database. This includes employers who reported late and reported zero employees as well as delinquent employers who did not report at all and for whom the ES-202 staff recorded an estimate of zero employment.
- Age of employer: Employers active for less than one year and more than one year are identified through the initial liability date according to the ES-202 database.
- Status: Taxpaying and reimbursing employers are identified according to the account numbers assigned them through the RI Tax system, reflected in the ES-202 database.

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<sup>14</sup> This number includes all firms coded as late or delinquent in at least one of the eight quarters in 1995 and 1996.

Type of problem reporting	Employees	Age	Status	Size of universe	Sample size selected
Late	Zero employees	Active more than one year	Taxpaying	1,644	75
			Reimbursing	13	13
		Active less than one year	Taxpaying	2,745	75
			Reimbursing	108	25
	One or more employees	Active more than one year	Taxpaying	4,720	75
			Reimbursing	118	25
		Active less than one year	Taxpaying	14,803	75
			Reimbursing	571	25
Delinquent	Zero employees	Active more than one year	Taxpaying	3,214	75
			Reimbursing	43	25
		Active less than one year	Taxpaying	5,326	75
			Reimbursing	212	25
	One or more employees	Active more than one year	Taxpaying	1,795	75
			Reimbursing	24	24
		Active less than one year	Taxpaying	3,080	75
			Reimbursing	72	25

A sample survey instrument (for taxpaying employers who were delinquent reporters) is presented in the Appendix. We used slightly different surveys for the taxpaying and reimbursing firms since the response, "We were financially unable to pay our Reemployment Insurance contribution," is not applicable to reimbursing firms.

### **Results: Why were you a late or delinquent reporter?**

We received 248 completed surveys out of the 787 sent for an overall response rate of 31.5 percent. Among taxpaying firms, we received back 180 of the 600 surveys sent (30.0 percent response rate) while among reimbursing firms, 68 of the 187 surveys were completed (36.4 percent response rate). In addition, 126 surveys were returned by the U.S. Postal Service (16.0 percent). Surveys with invalid addresses<sup>15</sup> may help to identify closed firms, so this group is also important to analyze. Just over 3.5 percent of the survey responses were from firms later identified as having closed<sup>16</sup> as compared to 6.2 percent of survey non-respondents.

<sup>15</sup> Surveys were sent to the addresses appearing on the ES-202 database as of the second quarter 1997 file.

<sup>16</sup> Locations were identified as closed using subsequent quarters of ES-202 data, updated according to information

The response rates we attained are somewhat low. However, they are high enough to allow for interpretation of the survey results with some caveats. In particular, caution should be used in attributing the survey results to problem reporters as a whole since the type of employer who would return this survey may not be representative of the group. Specifically, those who believe they filed on time may be more likely to return this survey since they would want to ensure that their payment has been received. Conversely, employers who have closed operations or who find the QCR paperwork a hassle are equally unlikely to return our survey as the QCR. Despite these limitations, it is still valuable to study the survey results while remembering the possible biases incurred from these differential response rates.

As Table 6 shows, taxpaying firms responding to our survey most commonly did not report on time because they thought they did not have to report or that their payroll service had submitted the report.

Among the substantial proportion of taxpaying survey respondents choosing the "other" category, the largest group (43.6 percent) said they had actually submitted the paperwork on time. Other than this, the most common reasons given for problem reporting given were: no employees or no salaries paid (10.9 percent); companies merging, changing names, or being sold (6.9 percent); and a recent opening of the business or branch (5.9 percent).

For reimbursing firms, changes in personnel, problems with payroll services, or simply forgetting to return the form seemed to be the major reasons for late or delinquent filing.

Of reimbursing firms, the majority of the respondents choosing the "other" category (51.1 percent) said they had actually returned the forms as required. The only other common "other" reason for missing a payment was that the employer thought their payroll service or corporate office had submitted the form (15.6 percent).

Response	Taxpaying Employers		Reimbursing Employers	
	Number of Responses	Percentage	Number of Responses	Percentage
Didn't think required to report:	43	23.9%	5	7.4%
◆ Firm or location had closed	10	23.2%*	0	0.0*
◆ Operating without employees	21	48.8%*	0	0.0*
◆ Seasonal employment	2	4.7%*	1	20.0%*
◆ Appealing liability	0	0.0%*	0	
◆ Other	13	30.2%*	5	100.0%*
Change of personnel	17	9.4%	11	16.2%
Technical problem	7	3.9%	4	5.9%
Thought payroll service submitted report	23	12.8%	7	10.3%
Financial problems	8	4.4%	N/A	
Submitted under a different account number	11	6.1%	6	8.8%
Forgot	18	10.0%	8	11.8%
Other	89	49.4%	42	61.8%
Total Responses	180		68	

\* Percent choosing this category out of those responding yes to "didn't think had to report". Respondents could check more than one choice, so percentages will not add to 100 percent.

### **Results: How can we help you report on time?**

Since we were already contacting employers about why they returned forms late or delinquently, we took advantage of the opportunity to ask how MDES might help them get their forms in on time. Table 7 details the results from this question.

Taxpaying and reimbursing firms have fairly similar preferences for how to help get QCRs in on time. For example, one idea popular with both groups was to send reminder notifications. Interestingly, however, MDES mails QCRs to employers on the final day of each quarter with QCRs due back to the department by the final day of the next month. For example, fourth quarter forms are mailed on December 31<sup>st</sup> and are due back to the department by January 31<sup>st</sup>. In other words, mailing the form itself should function as a reminder. Both also thought requiring reports less frequently would improve their ability to report in a timely manner. Taxpaying firms encouraged simplifying the form, while reimbursing firms particularly favored providing alternate ways of

reporting. However, both kinds of firms agreed that faxing and Touch-Tone Data Entry would be the easiest alternate methods of filing. Other suggestions included allowing small firms to report once per year and not requiring a report if there are no employees or tax due.

**Table 7: How can we help you return your form on time?**

Response	Taxpaying Employers		Reimbursing Employers	
	Number of responses	Percent	Number of responses	Percent
Provide training	11	6.1%	2	2.9%
Send reminders	24	13.3%	7	10.3%
Require data less frequently	17	9.4%	10	14.7%
Allow late payments	9	5.0%	0	0.0%
Simplify the form	17	9.4%	3	4.4%
Alternate ways of reporting:	10	5.6%	12	17.6%
◆ Touch-Tone Data Entry (TDE)	3	30.0%*	6	50.0%*
◆ Computer diskette	1	10.0%*	0	0.0%*
◆ Fax	5	50.0%*	7	58.3%*
◆ World Wide Web	1	10.0%*	3	25.0%*
◆ File Transfer Protocol	1	10.0%*	1	8.3%*
Other	19	10.6%	4	5.9%

\* Percent choosing this category out of those responding to "Alternate ways of reporting". Respondents could check more than one choice, so percentages will not add to 100 percent.

### **Results: Using the Employer Survey to Identify Employer Closures and Predecessor / Successor Relationships**

There are several ways in which the employer survey can help to identify possible employer closures and predecessor / successor relationships.<sup>17</sup> The easiest is simply to cross-reference the

<sup>17</sup> A predecessor / successor relationship relates two employer accounts that are substantially the same business. Because a full successor is considered substantially the same business its terminated predecessor, the successor is legally responsible for their predecessor's debts to the RI Trust Fund as well as eligible for the transfer of their predecessors' experience in determining their RI tax rate. For example, common predecessor / successor relationships are the direct sale of an employer to new ownership or a legal reorganization creating a new entity under new ownership. To be

respondent's self-reports with current departmental records. If many more employers report closures than the Department is aware of, this would provide evidence that an employer survey could be successful in finding these firms.

In this case, ten survey respondents indicated they did not return their QCRs because they had closed operations. Of these ten, only three had already been flagged as terminated in MDES records. Additionally, nineteen firms said they returned their QCR under a different account number, a possible signal of a predecessor / successor relationship. However, none of these nineteen was identified in the MDES records as having a successor. Clearly the Department is missing at least some employer closures and predecessor / successor relationships.

As noted above, an alternative way to identify closed firms would be to look at the surveys returned by the Post Office. If an employer closes, its address would likely no longer be valid, providing a possible measure of closures. However, of the 126 surveys returned by the Postal Service, only nine were from employers identified as closed by the ES-202 and Tax Offices. This result is probably due to two major factors: (1) the termination flags may be either inaccurate or slow to be updated, and (2) there may not be a high correlation between employer closures and Postal Service non-deliverability. In either case, this result indicates that using the surveys returned by the Post Office to proxy for employer closures is probably not a good approach.

### **Conclusions from the Employer Survey**

The responses to this survey point to three major results. First, a large portion of employers appearing to be problem reporters may actually have reported on time. Roughly 22 percent of survey respondents from taxpaying firms and 31 percent of those from reimbursing firms indicated they had returned the forms on time. Many of these even included copies of their reports demonstrating their compliance. As noted above, those who were not in fact late or delinquent may be more likely to return this survey. Further, there may be some recall bias involved such that people think they returned the forms even if they did not. Nonetheless, the high percentage of respondents indicating they were compliant indicates that coordination problems between Tax and ES-202 may be a major factor in who appears to be late or delinquent in the ES-202 records.

Second, very few of the problem reporters which self-report a closure or predecessor / successor relationship are identified correctly in MDES records. This implies that a periodic survey could be

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granted succession, employers must answer a series of questions intended to distinguish full succession from partial succession, including:

- Is the previous owner of the location you purchased still doing business in Minnesota?
- What percentage of your predecessor's assets was acquired, excluding real estate?
- Did you acquire 70 percent or more of the average number of employment positions utilized by your predecessor within 30 days of the last day of business prior to your acquisition?
- Is it your intent to continue the same business as was conducted by the predecessor owner?
- In general are you continuing the same types of products or services? The same suppliers? The same market areas? The same sales or service policies? The same purchasing policies? The same customers?
- What management practices / policies have you continued? What have you changed?

effective in finding these firms, particularly if targeted toward those which have missed more than one or two quarters of reporting. While it does not seem possible to use Postal Service non-deliverability as a proxy for an employer closure, responses to the survey itself may be accurate for both closures and predecessor / successor relationships.

Third, many of the barriers to timely QCR reporting can be easily removed. Firms most often reported late or delinquent because they did not think they were required to report or had some sort of mix-up (whether with staff or a payroll service) in sending in the forms. These types of problems can be solved by improving employer understanding of reporting requirements and ensuring that payroll services report on time, as will be described in the Recommendations section of this report. Improving employer knowledge of their reporting requirements could contribute to increased compliance with QCR procedures.

## WAGE DETAIL ANALYSIS

### Methodology and definitions

The next part of our analysis used quarterly Wage Detail files to estimate whether some of the businesses we thought to be late or delinquent actually had closed or changed ownership. The Wage Detail data contain information on the employer and number of weeks worked per quarter for every person employed by an employer covered by RI in the state of Minnesota. By analyzing the places of employment of a firm's employees before and after the firm reported delinquent, we can guess whether an employer may have closed or changed ownership.

If most of the employees at the firm stayed the same in both quarters, this might indicate that the firm was still solvent and had simply missed a quarter of reporting. In contrast, if most of the employees had gone on to different employers one might conclude that the firm had gone out of business. This latter group could be further divided into cases where nearly all employees went on to the *same, different* employer (i.e. a successor firm) and cases where most employees spread out to a number of different firms (in which case the original employer had likely closed).

### Results

On average roughly 45 percent of firms late or delinquent in one quarter had none of the same employees in the next quarter. About 13 percent held on to *all* of their employees, and in the remaining firms some employees stayed on and some did not.

	1995				1996		
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter
None the same <sup>18</sup>	46.2%	27.3%	41.5%	43.2%	57.3%	32.8%	51.2%
Some the same, some different <sup>19</sup>	39.0%	51.4%	44.9%	44.6%	31.0%	46.9%	37.9%
All the same <sup>20</sup>	14.8%	21.4%	13.6%	12.3%	11.7%	20.2%	10.9%

Furthermore, within the subgroup of firms reporting late or delinquent, roughly 65 percent of employees worked for the same firm in the quarter after the late or delinquent report.

We next attempted to identify possible predecessor / successor relationships and closures via changes in employment patterns. For the purpose of this analysis, a predecessor / successor relationship was identified when 70 percent<sup>21</sup> of the successor's employment in one quarter came from the same, different employer, the predecessor, in the previous quarter. For example, say Employer X had ten employees in first quarter 1995. If no one was employed by Employer X in second quarter 1995 but eight of those ten employees were employed by Employer Y, then Employer Y would be defined as a successor to Employer X, the predecessor. Firms with fewer than three employees were excluded from this analysis because it would be too difficult to determine the cause of their changes in employment.

Figure 3 shows the percentage of late and delinquent firms identified as possibly having successors using these criteria. (Interpret the percentages as, for example: "1.1 percent of firms late or delinquent in first quarter 1995 were identified as having possible successors in second quarter 1995.") ES-202 analysts estimate that on average less than one percent of Minnesota firms overall have successors in any given quarter, similar to the frequency found among late and delinquent firms. However, one would expect more predecessor / successor relationships among late and delinquent firms since the disorganization that occurs during business mergers and consolidations can be a major cause of missing reports. Thus, this method may undercount the total number of successor firms.

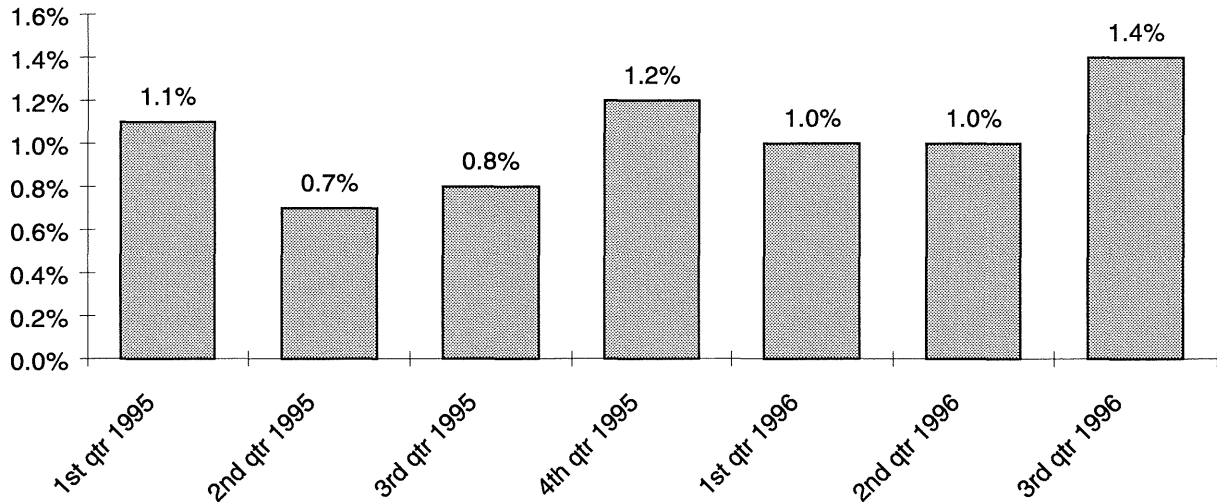
<sup>18</sup> *None the same.* These firms had none of the same employees in the quarter after they reported late or delinquently.

<sup>19</sup> *Some the same, some different.* These firms had some of the same employees and some different employees in the quarter after they reported late or delinquent.

<sup>20</sup> *All the same.* These firms had all of the same employees in the quarter after they reported late or delinquent.

<sup>21</sup> For a precise definition of the number of employees having to move together to be defined as a successor, see Appendix Table A6.

**Figure 3: Percent of late and delinquent firms with possible successors, by quarter**



Identifying possible closed firms turned out to be more problematic than identifying successors. Closed firms were defined as any firm where all of the employees went to new employers in the next quarter after the late or delinquent payment, but no more than 30 percent<sup>22</sup> went to the same new employer. Using this definition, on average 1.9 percent of firms were identified as possibly closed in any given quarter. However, this estimate is likely to be low. For employers as a whole the average closure rate is about 2.2 percent per quarter, and problem reporters should close at even higher rates than the average.

One reason the estimates of closures and predecessor / successor relationships may be low is that the employees of many of firms late and delinquent in a given quarter were missing from the Wage Detail in the next quarter. (See Appendix Table A7.) This could occur for two reasons:

1. their employer had closed and all the employees were not reemployed in the next quarter elsewhere in the state of Minnesota; or
2. their employer did not return a Wage Detail form in the following quarter.

It is not possible based on the information in the Wage Detail to determine which of the above two scenarios is true for a given employer. In the first case, while some employees could be tracked in the RI databases, only about one-third of those who lose their jobs claim RI benefits. Thus the RI data would not provide a complete census of unemployed persons in Minnesota. In the second

<sup>22</sup> For a precise definition of the maximum number of employees who could move together before the old employer would *not* be defined as closed, see Appendix Table A7.

case, there is no way to know if an employer was late or delinquent in filing the Wage Detail, as this information is not tracked systematically. Thus, using Wage Detail records as a means of identifying predecessor / successor relationships and closures does not appear to be feasible.

### **How Best to Identify Potential Predecessor / Successor Relationships and Closures**

In comparing the results of the employer survey and the Wage Detail analysis, it becomes evident that neither approach is especially successful in finding predecessor / successor relationships and closures. The Wage Detail performed poorly in both aspects. The employer survey worked somewhat better since it directly asked firms whether they had closed or been sold. However, surveys can be costly and often suffer from non-response. The latter is especially problematic for this group since employers that are already not returning forms are unlikely to return yet another survey. The lesson is that the best way to find employer closures and predecessor / successor relationships is through direct contact with employers whether through a survey or contact by field auditors.

## Conclusions and Recommendations

Although it may be difficult to analyze the reasons why employers are problem reporters, there are still a number of ways to use these study results to increase the response rate for the QCRs and, thereby, the quality of the ES-202 data.

The somewhat low response rate to the employer survey and the potential for selection bias among survey respondents implies that surveying may not be successful as a means of accurately identifying predecessor / successor relationships and employer closures for the whole group of problem reporters. This makes sense given that many of the firms we attempted to survey already do not return forms on time. Although additional effort could have been expended on garnering higher response rates, this group of employers is not likely to significantly increase its responses as a result. However, employer surveys do identify closed firms that other methods had missed.

Analytical techniques using the Wage Detail records also turned out not to be particularly successful. Employers who do not submit a QCR on time are equally unlikely to submit a Wage Detail report. Using the Wage Detail to search for predecessor / successor relationships had better outcomes than for closures.

Still, the survey results do point to a number of possible changes which could improve both the ES-202's ability to accurately identify problem reporters and the response rates to the QCR. On the ES-202 side, one change which would make a major difference in identifying truly late or delinquent reporters would be for Tax to *enter that a report has been received in the office*, even if they are still verifying its contents. This would prevent employers being contacted by both Tax and ES-202 staff and would also ensure that data would not be imputed for that employer unless absolutely necessary.

Secondly, both ES-202 and Tax staff should *keep in mind the characteristics of problem reporters* when they are attempting to track what happened to an employer. For example, we know that firms in retail and wholesale trade are more likely to be seasonally late or delinquent, while transportation, communications, and public utilities firms are more often to miss reports chronically, and employers in services tend to follow the reporting patterns of new firms. Having this information may help to avoid unnecessary imputations and to identify when attempting to contact the employer for their employment information is no longer worthwhile.

The results of this study also indicate a number of possible strategies for improving QCR response rates. For example, *education in reporting requirements* may be helpful for taxpaying and reimbursing firms alike. It should be repeatedly made clear that employers must report even if they have zero employees or have seasonal employment. This would help avoid missed payments due to misunderstandings about tax liability requirements. Additionally, new employers should be made aware that they need a RI account number as quickly as possible. This could be facilitated by establishing a partnership with the office of the Secretary of State, which handles business incorporations. That way any business filing for incorporation could be assigned an RI account number at the same time as its Federal Employer Identification Number. Another option would be

to offer this as an employer service via the Workforce Centers located throughout the state. Using either or both approaches would aid the Tax Office in collecting payments from new employers as quickly as possible and would thereby improve ES-202 employment estimates among newly established firms.

At the other end of a firm's life, *quickly identifying closed locations* would help to avoid annoying business owners with unnecessary tax liability assessments as well as to prevent employment imputations. This study has shown that sending employer surveys can be an effective and inexpensive means of identifying at least some closed firms. The Tax Liability Office could send out postcards to any firms missing more than a certain number of payments in a row. The firms would be asked to check a box indicating whether or not they were still in business and to return the card to the Tax Liability Office. While there would be some time delay in identifying the closed firms and while not all closed firms would be found, this procedure would still lead to quicker and more reliable determinations of employer closures than are currently available.

Reimbursing firms would particularly benefit from a *reminder system* since they are not as accustomed to having to submit quarterly payments. This would not be very difficult or expensive, as there are relatively few reimbursing firms. On the one hand, because the QCRs go out to employers less than one month before they are due, adding an additional printed mailing to employers would be extraneous. On the other hand, however, an *electronic mailing list* could be created so that sending the reminder would be as simple as sending one email message. Obviously this would not include any firms without email, but at least it would cheaply improve response rates among the many firms with Internet access.

Many employers seemed to have problems in reporting due to errors by a payroll service. In this situation, the employer is legally responsible for the late or delinquent report. However, *working with payroll services* to increase their compliance with reporting requirements could have benefits for both employers and the state. The first step in this direction is to identify which firms use which payroll services. (Data for this are already available.) Then the Department can work with any services which are routinely late or delinquent in submitting reports for their clients to improve their reporting procedures. Along the same lines, many employers might appreciate free *training sessions* run by the local Workforce Centers for personnel new to handling tax liability reporting. This would help to decrease the problems with reporting occurring due to employee turnover.

Some have suggested that paperwork could be reduced by *combining the Quarterly Contribution Report with the Wage Detail report* or by *decreasing reporting requirements*. The first recommendation is offered because both forms are filed quarterly to the same office and contain similar information, so it would seem relatively simple to combine the reports. However, the two use slightly different definitions of employment. The QCR measures employment during the pay period containing the 12<sup>th</sup> of each month, whereas the Wage Detail tabulates the number of workers employed by an employer for even one day during a given quarter. Additionally, the ES-202 staff use the Wage Detail data to verify the results in the QCRs, so it is important for the two data sets to be collected separately. The possibilities of confusion over which estimates to use and of increased (and spurious) collinearity between the two data sets may lead to decreased data quality in the ES-202.

In the second case of decreasing reporting requirements, some would argue that small employers or employers with no tax liability should only be required to report once per year. However, this too could cause problems with data quality. The ES-202 is intended to be a quarterly census of employment in Minnesota. Reducing reporting requirements, even for small firms, would diminish the ES-202's ability to fulfill that role since this proposal would decrease the accuracy of its data.

It is particularly problematic for the ES-202 estimates to lose quality since the employment estimates generated by other BLS programs (such as the Current Employment Statistics and the Occupational Employment Statistics) are benchmarked to the ES-202 data. Additionally, RI benefits levels are indexed in part to ES-202 employment levels. Altering the way the ES-202 employment data are collected could have serious negative implications for the ability of the Department to accurately measure Minnesota's employment. Thus, these suggestions are not viable alternatives for improving QCR response rates.

The changes suggested for both improving ES-202 identification of problem reporters and increasing QCR response rates would have significant implications for both employment data quality and tax collection. Some would even require legislative action to implement. But they may improve compliance and employer satisfaction with the Department's services — also worthwhile goals. Implementing these recommendations will ensure the ES-202 program generates the most accurate employment data possible.



## Appendix

	All problem reporters <sup>23</sup>	Taxpaying	Reimbursing
Chronic	14.1%	14.0%	16.4%
Seasonal	64.0%	63.6%	74.7%
Occasional	6.9%	7.1%	3.3%
Dying	0.7%	0.7%	0.1%
New	5.8%	5.9%	2.4%
Never	0.7%	0.7%	0.4%
All other	7.7%	7.9%	2.8%

	ES-202, 1 <sup>st</sup> quarter 1996 <sup>24</sup>		Problem reporters in 1995-1996	
	Taxpaying	Reimbursing	Taxpaying	Reimbursing
Agriculture	2.2%	0.1%	2.1%	0.0%
Mining	0.2%	0.0%	0.1%	0.0%
Construction	9.7%	1.3%	8.0%	0.7%
Manufacturing	6.8%	0.2%	6.2%	0.0%
Transportation, Communication and Public Utilities	4.7%	1.6%	5.3%	0.8%
Wholesale Trade	11.5%	0.1%	11.0%	0.1%
Retail Trade	21.7%	1.3%	26.6%	0.8%
Finance, Insurance and Real Estate	10.1%	2.0%	10.3%	2.1%
Services	33.0%	67.5%	30.6%	78.9%
Unallocated	0.0%	26.1%	0.0%	16.7%

<sup>23</sup> Totals may not sum to 100.0 percent due to error introduced by rounding.

<sup>24</sup> Because the late reporters database excludes all federal and state government entities, all distributions of the ES-202 data presented in Appendix Tables A2 through A5 also exclude all federal and state government entities. Similarly, the data refers to single-location employers and individual locations of multiple-unit employers.

<b>Appendix Table A3: Taxpaying and reimbursing by region</b>				
	ES-202, 1 <sup>st</sup> quarter 1996 <sup>25</sup>		Problem reporters in 1995-1996	
	Taxpaying	Reimbursing	Taxpaying	Reimbursing
Region 1 (Northwest)	1.7%	4.2%	1.5%	4.0%
Region 2 (Headwaters)	1.4%	2.3%	1.4%	1.4%
Region 3 (Arrowhead)	6.2%	9.7%	5.6%	9.7%
Region 4 (West Central)	3.9%	6.3%	3.7%	4.9%
Region 5	2.9%	4.6%	2.4%	3.4%
Region 6E	2.3%	2.8%	1.8%	2.3%
Region 6W	1.0%	2.1%	0.8%	1.3%
Region 7E (East Central)	2.0%	3.4%	1.9%	2.9%
Region 7W (Central)	5.2%	5.5%	4.6%	4.3%
Region 8 (Southwest)	2.6%	5.1%	1.9%	2.8%
Region 9	4.3%	6.4%	3.4%	4.5%
Region 10 (Southeast)	7.8%	8.7%	6.9%	5.2%
Region 11 (Twin Cities)	54.4%	38.5%	58.8%	52.8%
Unallocated	4.2%	0.3%	5.3%	0.5%

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<sup>25</sup> See footnote 24

<b>Appendix Table A4: Taxpaying and Reimbursing by Size Class</b>				
	ES-202, 1 <sup>st</sup> quarter 1996 <sup>26</sup>		Problem reporters	
	Taxpaying	Reimbursing	Taxpaying	Reimbursing
0 employees	15.5%	8.9%	35.5%	35.5%
1 to 4 employees	42.5%	20.3%	28.0%	14.6%
5 to 9 employees	17.8%	11.8%	13.3%	9.3%
10 to 24 employees	14.6%	17.4%	10.4%	6.8%
25 to 49 employees	5.2%	12.5%	7.3%	11.7%
50 to 99 employees	2.6%	15.0%	2.8%	12.1%
100 to 249 employees	1.5%	10.2%	1.9%	7.4%
250 to 499 employees	0.4%	2.3%	0.5%	1.6%
500 to 999 employees	0.1%	1.0%	0.2%	0.8%
1000+ employees	0.1%	0.5%	0.1%	0.2%

<b>Appendix Table A5: Taxpaying and Reimbursing by Age of Firm</b>				
	ES-202, 1 <sup>st</sup> quarter 1996 <sup>27</sup>		Problem reporters	
	Taxpaying	Reimbursing	Taxpaying	Reimbursing
Less than 1 year	11.0%	3.2%	32.3%	15.5%
1 – 2 years	10.2%	5.1%	9.8%	6.3%
2 – 4 years	16.2%	9.6%	13.8%	11.8%
4 – 7 years	17.5%	25.6%	15.4%	24.3%
7 – 10 years	11.6%	6.3%	8.3%	3.2%
10 – 15 years	12.0%	12.5%	8.2%	17.8%
15 – 20 years	9.8%	9.5%	7.7%	12.8%
20+ years	11.7%	28.2%	4.6%	8.3%

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<sup>26</sup> See footnote 24

<sup>27</sup> See footnote 24

<b>Appendix Table A6: Wage Detail Analysis</b>		
Total employment in initial quarter	Number of employees moving together in the subsequent quarter for a firm to be defined as a successor	Maximum number of employees moving together in the subsequent quarter for a firm not to be defined as closed
3 employees	2+ employees	1 employee
4 employees	2+ employees	1 employee
5 employees	4+ employees	1 employee
6 employees	4+ employees	2 employees
7 employees	5+ employees	2 employees
8 employees	6+ employees	2 employees
9 employees	7+ employees	3 employees
10 employees	7+ employees	3 employees
10+ employees	70 percent of original employees	30 percent of original employees

<b>Appendix Table A7: Percent of problem reporters without employees in the next quarter's Wage Detail file</b>	
1 <sup>st</sup> quarter 1995	42.2%
2 <sup>nd</sup> quarter 1995	24.4%
3 <sup>rd</sup> quarter 1995	37.1%
4 <sup>th</sup> quarter 1995	38.3%
1 <sup>st</sup> quarter 1996	53.3%
2 <sup>nd</sup> quarter 1996	28.9%
3 <sup>rd</sup> quarter 1996	46.1%



# Minnesota Department of Economic Security

Account #: 1234567-000

**JOE'S CORNER CAFÉ**  
123 MAIN STREET  
ANYTOWN, MN 55555

Quarters missing: 4Q96

Our records indicate that we did not receive a Quarterly Contribution Report from you in the quarter(s) listed above. Please check **UP TO TWO** of the eight following reasons that contributed **MOST** to your not returning a form in those quarters.

- We did not think we were required to report because (choose the best one):
  - the firm or location had closed.  
(On what date? \_\_\_\_\_)
  - we were operating without employees.
  - we had seasonal employment.
  - we were appealing our liability for Unemployment Insurance.
  - other (specify): \_\_\_\_\_  
\_\_\_\_\_
- We had a change in personnel handling tax reporting.
- We had computer or technical problems.
- We thought our payroll service submitted the report.
- We were financially unable to pay our Unemployment Insurance contribution.
- We sent the report under a different account number.
- We forgot to submit the required report.
- Other (specify): \_\_\_\_\_  
\_\_\_\_\_

Thank you for participating in this study! You may return this via fax to **612-282-5429** or you can use the Business Reply address on the back of the form.

The Research and Statistics Office of the Minnesota Department of Economic Security is conducting a study of businesses and organizations which have recently failed to submit the Quarterly Contribution Report. Our records indicate we did not receive a Contribution Report from you in the quarter(s) of 1995 and 1996 listed on your address label. Because this affects the validity of our employment statistics, we'd like to know why this happened and how we can help encourage timely submission.

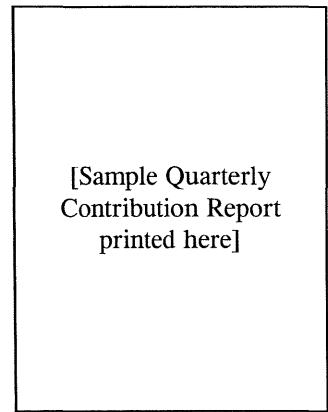
Your answers to these questions will be kept completely **CONFIDENTIAL** and will **NOT** be reported to the Unemployment Tax Office on an individual level. All results will be aggregated so that no individual firms can be identified.

Please answer the questions below. Then re-fold the survey so the Business Reply address is on the outside, seal, and send your survey back to our office, or fax it to 612-282-5429. If you have any questions or concerns, please feel free to contact Carrie Conaway, research analyst, at 612-296-5632 (metro area) or 1-888-234-1114 (Greater Minnesota).

We'd like to know how MDES can help encourage timely submission of the Quarterly Contribution Report. Please check **UP TO TWO** of the seven following ideas which would help you the **MOST** in returning your report on time. Results from this part of the survey will be provided in aggregate to the Unemployment Tax Office, which will consider them when revising reporting requirements.

- Providing training in how to complete the report.
- Sending reminder postcards.
- Requiring data to be submitted less frequently.
- Allowing businesses to send in the report on time, but send the tax payment later (plus interest).
- Simplifying the report form.
- Providing alternate ways of sending in the report.  
If yes, which method(s) would be most helpful? (Check all that apply.)
  - telephone data entry
  - diskette
  - fax
  - Internet World Wide Web site
  - Internet FTP (File Transfer Protocol)
- Other (specify): \_\_\_\_\_

As a reminder, here is an example of what the Quarterly Contribution Report looks like:



## Acknowledgements

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- Gary Lindahl, Tax Liability Office, MDES
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Carrie Conaway  
Elizabeth Starling  
Research and Statistics Office  
Minnesota Department of Economic Security  
phone: (651) 296-6545  
email: lmi@ngwmail.des.state.mn.us