

**871—23.32(96) Mandatory and prohibited successorships.**

**23.32(1)** This rule applies to the mandatory successorship in Iowa Code section 96.7(2) “b”(2) and the prohibited successorship in Iowa Code section 96.7(2) “b”(3). If one employing unit receives the organization, trade or business, or a portion thereof of an employing unit and there is substantially common ownership, management or control of the two, the attributable unemployment experience will be transferred. This section of the law does not require a transfer of substantially all of the assets nor does it require the transferred portion to be segregable or identifiable. The acquiring employer must continue to operate the organization, trade or business or must transfer operation to an entity with substantially common ownership, management or control with the acquiring entity. Mandatory successorship also applies when the acquirer was not an employing unit prior to the transfer.

*a.* A transfer of staff and the business activity of that staff to an acquiring employer unit which continues to operate the portion of the business will establish mandatory successor liability.

*b.* The mandatory and prohibited successorships contained in Iowa Code sections 96.7(2) “b”(2) and (3) apply to corporations, limited liability companies, government or governmental subdivisions or agencies, business trusts, estates, trusts, partnerships, sole proprietorships or associations, or any other legal entity as defined in Iowa Code chapter 96.

*c.* “Substantially common ownership, management or control” is determined from the facts of a particular case. Among the factors to be considered are:

- (1) The authority to make policy decisions.
- (2) The authority to perform personnel actions.
- (3) Direction and control of the day-to-day operations.
- (4) Financial investment.
- (5) Substantial or complete ownership by the same legal entity or entities.
- (6) Ability to conduct or liability for financial transactions on behalf of the business.
- (7) Authority to commit the business assets.
- (8) Common management which may include direction or overall supervision by an individual or group of individuals.

*d.* For a mandatory full successorship the tax rate shall be established as provided in subrule 23.29(2), and for a mandatory partial successorship the tax rate shall be established as provided in subrule 23.32(4).

**23.32(2)** In determining whether or not an acquiring entity continues to operate an organization, trade or business as used in Iowa Code section 96.7(2) “b”(2), the following rules apply.

*a.* The acquiring entity continues the ongoing business operation (taking into account any seasonal or prior operational pattern), and continues the same business activity as the prior employer. A temporary cessation of the business activity by the acquiring entity will not constitute a discontinuance of the business.

*b.* The acquiring entity, not having operated the business, reassigns or otherwise transfers the operation of the business to a third-party entity that has substantially common ownership, management or control with the acquiring entity. The third party is considered to be continuing the operation of the original entity.

**23.32(3)** Prohibited successor liability. Successor liability is prohibited when the department finds that a legal entity that is not subject to Iowa Code chapter 96 at the time of acquisition (regardless of whether or not common ownership, management or control exists) acquires an organization, trade or business solely or primarily for the purpose of obtaining a lower rate of contribution. Factors to be considered include:

- a.* The existing employer account has a tax rate less than would be assigned to a new employer,
- b.* The cost of acquiring the organization, trade or business as compared with any potential savings in contributions costs,
- c.* The acquiring entity substantially changed the organization, trade or business after a short period of time, and
- d.* A substantial number of new employees were hired to perform duties unrelated to the organization, trade or business operated prior to the acquisition.

**23.32(4)** When a mandatory transfer of a portion of a business occurs, the successor's experience and contribution rate will be determined as follows:

*a.* The experience transferred to the acquiring employing unit will be based on the percentage of employees moving from the predecessor to that unit.

(1) The percentage will be computed by comparing the number of employees on the successor's first quarterly report covering a complete calendar quarter to the average number of employees on the four complete quarterly reports filed by the predecessor immediately preceding the transfer. The average number of employees will be computed using only the predecessor's reports that have wages paid during those four quarters.

(2) Using this percentage, taxable wages and benefit charges, commencing with the beginning date of the predecessor's account, will be transferred from the predecessor's account to the successor's account.

*b.* If the successor had no account prior to the transfer, the rate assigned will be the rate of the predecessor for the remainder of the calendar year beginning with the date of acquisition.

*c.* If the successor already had an account prior to the transfer, the rate for the balance of the year in which the transfer took place will be recomputed by combining the transferred experience with the employer's own experience as of the last computation date.

*d.* For the years following the year of acquisition, the rates will be computed using the experience of the employer combined with the transferred experience.

*e.* Future benefit(s) will be charged to the base period employer who reported the base period wages.

*f.* The department will issue a notification when the partial transfer has been completed. The determination will include notice to both parties as to their contribution rate for the current year.

*g.* Any rate determination resulting from a partial transfer will become final unless one or both of the parties files an appeal. For the specific procedure and requirements for perfecting an employer liability determination appeal, see rule 871—23.52(96).

*h.* In the case of governmental transfers in addition to the items listed above, contributions and interest earned must be transferred for all years.

**23.32(5)** Penalty contribution rate. The department may assess a penalty contribution rate of 2 percent for the current year and two subsequent years for an employer that the department finds has attempted to manipulate and circumvent the proper unemployment tax rate as provided in Iowa Code sections 96.7(2) "b"(2) and (3) by deliberate nondisclosure of a material fact.

*a.* The employer will be notified of the penalty contribution rate.

*b.* If, after a liability determination has been issued, the department discovers, based upon new facts not available to the department at the time the determination was made, that a previously nonliable entity acquired a business solely or primarily to obtain a lower tax rate, the department will amend the original determination and assign a new employer rate and may provide a penalty contribution rate.

*c.* Interest will accrue on unpaid penalty contributions in the same manner as on regular contributions.

This rule is intended to implement Iowa Code sections 96.7(2) "b" and 96.16(5).

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