



## MEMBER ALERT

In early June, AFA received notice from the Alabama Department of Labor (DOL) that one of our employees had filed for unemployment compensation benefits. We quickly determined that this was a case of stolen identity and responded appropriately to the DOL informing them that this was a fraudulent claim. Since our employee has never received any correspondence from DOL, it is evident that fraudulent contact information was used.

In addition, we recently received a call from a member company who indicated that at least 12 fraudulent claims were filed for his employees. Based on conversations with other associations, it appears that this is a widespread problem.

These fraudulent claims represent theft and should concern all taxpayers. The immediate concern, however, is the impact these fraudulent claims will have on businesses and the employees who are victims of this identify theft.

Businesses who have fraudulent claims filed against them will see their employer tax rates rise. This will happen at a time when many businesses continue to struggle in the aftermath of the COVID-19 pandemic.

For employees who have had their identity stolen, it is equally problematic. At the end of the year, the DOL will report unemployment compensation paid on form 1099-G. Although unemployment benefits are exempt from state income tax, IRS treats benefits as ordinary income and federal taxes are due. Since those benefits are associated with the employee's social security number, the IRS will look to the employee for payment of the taxes.

We are currently communicating with the appropriate state officials to determine what is being done to address this issue. In the meantime, there are things that you can do if your company or you personally are a victim of fraud.

### Employers

1. If you receive a notice that you or any of your employees who do not qualify have filed for unemployment compensation benefits, **IMMEDIATELY** notify DOL that this is a fraudulent claim. DOL's website (<https://labor.alabama.gov/isec/fraudprog.aspx>) provides instructions on how to report fraudulent claims. Whatever method you use, keep copies / screenshots/ etc. to document your report.



2. **DOCUMENT EVERYTHING** you do...correspondence, emails and phone calls to ensure you have a record.
3. Notify the employees who are listed on the notice and **STRONGLY** encourage them to file a police report **IMMEDIATELY**. Inform them that they will receive a 1099-G from DOL at the end of the year indicating they received the benefits and they need documentation in order to dispute this with IRS.
4. Please notify AFA ([info@alaforestry.org](mailto:info@alaforestry.org)) how many fraudulent claims have been filed using your employees' identity. While we do not need details, it will be very helpful for us to know how widespread this problem is as we communicate with state officials. Also, please include your contact information so we can provide it to the appropriate officials to resolve these fraudulent claims.

### **Employees**

1. If you receive any notice from DOL that your identity has been used to file for unemployment benefits, **IMMEDIATELY** notify your employer.
2. **IMMEDIATELY** file a report with your local law enforcement authority that your identity has been stolen and explain the circumstances. You will need this report to verify you did not receive any benefits.
3. Monitor your credit reports to ensure that your identity is not being used for other fraudulent activity.

One final note. In early March, the Unemployment Trust Fund balance was \$700+ million. By July, the fund balance had dropped to less than \$300 million. If the fund balance drops to zero, DOL may be forced to borrow money from the federal government to continue providing unemployment benefits. The question is where the money will come from to repay that federal loan.

To answer that, we can look back to the unemployment compensation claims that resulted from the 2007-2009 recession when a similar situation occurred. In that case, DOL imposed a one-time assessment on employers based on their payroll and the state repaid the \$283 million federal loan in 2010. Unemployment compensation fraud further drains the Trust Fund and Alabama's employers will foot the bill.