

Update: July, 2009

## Unemployment Tax Alert



# South Dakota Anticipates Implementation of 1.5% Surcharge

## Situation

As a result of provision SDCL 61-5-23 in the South Dakota law, a surcharge is assessed to employers when the State Unemployment Insurance Trust Fund falls below a certain level. The trigger point for this law is set at \$11 million. The surcharge rate depends on the actual Trust Fund balance at the end of any quarter.

## What Employers Need to Know

At this time the projected Trust Fund balance on September 30, 2009 is expected to be \$2 million. That balance would trigger a surcharge in the amount of 1.5% on all taxable wages paid October 1 through December 30, 2009. This 1.5% is in addition to the regular unemployment contribution owed by the employer. The surcharge payment is deposited in the State Trust Fund, but is not credited to the employer's unemployment account balance.

The surcharge is further projected to remain in effect through June 30, 2010 because the Trust Fund will have a negative balance on December 31, 2009 and on March 31, 2010. The wage base is currently set at \$10,000 for 2010 and the surcharge will apply to wages paid up to that amount.

This information is based on projections as of June 22, 2009. Employers will receive specific information from the Department of Labor as soon as the exact surcharge rates and time periods are known. We will continue to monitor the situation and advise accordingly.

## What You Can Expect

Based on the national unemployment tax rate, employers should continue to monitor individual state legislative activity. Due to the current strain on unemployment trust fund balances, the state agencies will continue to review all options to increase tax revenues. Potential options may include changes in unemployment wage bases, increases in tax tables and additional surcharges.

Through analysis and understanding of state unemployment tax changes, employers can properly budget unemployment taxes and project costs in the upcoming years. A proactive approach will allow employers to **avoid unanticipated tax increases**.

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