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Tax Intelligence

Voluntary Contributions – Reduce State Unemployment Tax Liability

Situation

Due to the unprecedented burden placed on the unemployment system, states have depleted unemployment trust funds and as of August 12, 2010, thirty-two (32) states (including the Virgin Islands) are currently taking Title XII loans from the federal government to pay unemployment benefits. As a result, states are looking to increase tax revenues through legislative actions, mandatory increases already built into tax statutes and aggressive collections efforts.

However, there are certain unemployment tax planning strategies that can be utilized which may have a substantial impact on unemployment tax rate reductions. A voluntary contribution is a tax technique that should be reviewed annually for tax savings opportunity. Voluntary contributions are currently allowed in *twenty-six (26) states*.

Solution

A *voluntary contribution* is a special payment which, if made during a specified period, may reduce an employer's unemployment tax rate for the following tax year. The additional *voluntary* unemployment tax contribution increases an employer's reserve balance in reserve-ratio states or decreases benefits charged in benefit-ratio states. Once a state processes the additional tax payment, the employer's unemployment tax rate is revised downward. Voluntary contributions are time sensitive and payments must be calculated and submitted to the state within specified deadlines.

When an employer is considering the *profitability* of the voluntary contribution, several factors should be analyzed with respect to each tax account being reviewed. The following should be considered when analyzing the financial impact of a voluntary contribution:

- Does the employer anticipate new locations or increased employee headcount?
- Does the employer anticipate downsizing or a reduction in the employee headcount?
- Did the employer analyze all possible tax rate reductions (based on an increased voluntary contribution) to reduce the unemployment tax rate multiple brackets?
- Does the employer anticipate any *mergers, acquisitions, reorganizations or divestitures* that will impact employee headcount?

Value

As an existing TALX unemployment client, voluntary contributions will be reviewed in the upcoming 2011 unemployment tax rate season. For new clients, TALX can offer a similar analysis of how a voluntary contribution could reduce your 2011 unemployment tax liability.

To ensure this option is properly reviewed or if you are planning a merger, acquisition, reorganization or divestiture, please contact Pete Krieshok at 314-214-7325 or via email at pkrieshok@talx.com. For more information, you can also visit our corporate blog at <http://blog.talx.com>.