

Update: June 2011

Tax Intelligence

2012 Unemployment Insurance (UI) Tax Rate Uncertainty

Situation

The recession has created an environment of uncertainty for many employers concerning how federal (FUTA) and state (SUI) unemployment tax rates will be impacted in the years to come. According to the U.S. Department of Labor, 2010 average SUI tax rates were 2.82%, with three states subject to FUTA credit reductions. For 2011, TALX is projecting an average SUI rate of **3.47%**, *an increase of 23%*, with significant increases in the number of states with FUTA credit reductions. For 2012, *we would expect the average rate to rise as states move to more aggressive rate tables and benefit/reserve ratio calculations, and continue to react legislatively.*

Solution

To reduce uncertainty surrounding 2012 unemployment tax rates, employers must understand the factors involved at the individual employer, state, and federal level. Being aware of these factors and how they can affect UI tax rates will allow employers to better forecast potential unemployment tax liabilities.

Individual Employer Factors

A significant portion of an employer's state unemployment tax rate includes components based on the employer's own experience. Factors include the employer's taxable payroll, benefit charges, and contributions paid.

- Historical taxable payroll trends and *expected* taxable payroll in coming years
- Historical benefit charge activity, recent reductions in workforce and *expected* unemployment claims activity
- State unemployment tax contributions and the impact on the tax rate computation

State Factors

In addition to an individual employer's own experience, rates are also impacted by overall changes in state calculations. Examples include attainment of certain thresholds requiring changes in calculations, changes in rate tables or wage bases, and the impact of socialized costs applicable to all employers within a state.

- **State unemployment trust fund solvency** – Impact of state legislation to raise trust fund balances.
 - Indiana increased the wage base from \$7,000 to \$9,500 for 2011, *an effective tax rate increase of 36%*.
 - South Carolina in 2011 began assigning rates based on a benefit ratio instead of a reserve ratio to tie tax rates more closely to benefit charges, and this could lead to significant changes in rates.
- **State Total Unemployment Rate (TUR)** – Impact of socialized benefit charges on employer accounts.
 - Title XII assessments to repay principal and interest due

Federal Factors

- **FUTA credit reductions** – FUTA credit reductions due to unpaid Title XII loans are likely to be in place for several years to come. Currently for 2011, we expect 23 states to be subject to FUTA credit reductions. However, it is possible these reductions may be suspended for 2011 and 2012, offering employers some relief.
- **Title XII interest assessments** – Although there is currently a proposal to suspend Title XII interest for 2011 and 2012, states have begun to put in place methods to finance these costs in case that proposal does not pass.
 - Arizona HB 2619 enacted a special assessment on taxable wages for 2011 to pay interest on Title XII loans. Although it has yet to be set, it will not exceed 0.4%.
 - South Carolina added an interest surcharge to employer's rates that varies from 0.043% to 0.549%.
 - If Title XII interest is suspended, states must decide how the funds set aside for these costs will be used.

Value

High unemployment and insolvent state UI trust funds will have a long term impact and many *employers will likely continue to see increases in federal and state unemployment tax liabilities for the next five to eight years.* TALX can assist employers with budgeting for the anticipated increases in 2012 unemployment tax costs. Our experience and expertise allow TALX to partner with employers to plan for the financial impacts of rising rates and proactively manage unemployment tax liability. For more information, please contact Pete Krieshok at (314) 214-7325 or pkrieshok@talx.com, or visit our corporate blog at <http://blog.talx.com>.