

Update: November 2010

Tax Intelligence

Unemployment Insurance Outlook – Federal and State Measures

Situation

The unemployment insurance (UI) system has grown insolvent during the Great Recession. In order to restore the system to solvency, UI taxes will have to be increased. In FY 2009, unemployment taxes were \$38 billion. However, the Congressional Budget Office (CBO) has predicted this will increase to \$75 billion by FY 2013 and remain in the range of \$78 to \$84 billion through 2020. We expect several federal and/or state changes over the next two years. Understanding these potential measures to restore solvency will assist employers in managing unemployment tax cost increases.

State Action

Current Laws: Current unemployment law in several states includes provisions to modify tax rates, increase wage bases or require other adjustments when state trust funds fall below certain statutory trigger points. A number of states have already experienced increases due to such provisions and others will occur during 2011 and 2012.

Future State Action: States are under increasing pressure to increase state unemployment taxes to repay federal Title XII loans and to restore solvency to state UI trust funds. Several states have held off introducing state legislation anticipating legislative action at the federal level. However, the legislative landscape in Congress may delay proposals for action until later in the 2011 session and many states may feel compelled to move ahead now. Earlier this year, Indiana appeared poised to delay a significant tax increase through 2012. Now, after the mid-term elections, Governor Mitch Daniels will move to implement the delayed tax increase and push additional legislative proposals.

Federal Action

Federal Interest Costs: Currently, 32 state unemployment trust funds are insolvent and have borrowed over \$40 billion. The USDOL estimates the list of states to grow to 40 with borrowing rising to \$65 billion. Federal law requires the payment of interest on Title XII loans from sources other than transfers from state trust funds. These interest costs were waived by the ARRA through the end of 2010. Interest on current and future federal loans will begin accruing effective January 1, 2011 unless the interest waiver provision of the ARRA is extended. Title XII interest costs are estimated to total \$1.4 billion in 2011. Several organizations are lobbying for an extension of the waiver provisions for an additional two years. These include the National Association of State Workforce Agencies (NASWA), the UWC which represents several federal and state employer organizations, the National Employment Law Project (NELP) and the National Governor's Association.

FUTA Credit Reductions: When Title XII loans have been outstanding for two consecutive years, employers in the affected state incur an increase of 0.3% in FUTA tax for each year this condition continues. Michigan, in 2009, was the first state during this recession to incur a FUTA credit reduction. In 2010, Michigan will have an additional 0.3% increase. Indiana and South Carolina will incur their first 0.3% increase. In 2011, 22 other states will be subject to similar increases. The above organizations have also requested relief in this area as well.

Future Federal Action: The current Congress has considered several proposals which would call for increases in federal and state unemployment taxes. One of the most significant proposals includes an increase in the FUTA wage base and adjustments on a yearly basis through indexing. The current FUTA wage base, \$7,000, has remained unchanged since the early 1980's. If passed, all state UI wage bases that fall below the revised FUTA wage base would be required to increase the state wage base to meet the new FUTA wage base.

Extension of Emergency Unemployment Compensation: The current 99 weeks of unemployment benefits available to unemployed workers is set to expire November 30th and two million unemployed workers will be affected if this occurs. At present, there has been no clear indication of whether another extension will be passed.

Value

With varied proposals at both the Federal and State level, understanding how these measures will impact tax rates, wage bases, and the options available to both budget for and control these taxes will be key in navigating the new unemployment insurance environment. TALX can assist employers by ensuring timely information and assisting with proactive planning. 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>.