

Update: October 2010

Tax Intelligence

Major Unemployment Tax Increases Expected for 2011 and Beyond

Situation

The unemployment insurance (UI) system continues to face enormous pressure from continued high unemployment and lack of job creation. Due to insolvent state UI trust funds and the current economic data and trends, employers should expect **significant federal and state unemployment tax liability increases for 2011 and beyond.**

National Unemployment Economic Update

- The nation's total unemployment rate (TUR) for September 2010 was 9.6%, which remained the same as August 2010 and was slightly lower than the September 2009 rate of 9.8%.
- For the week ending October 16, 2010 the four-week moving average of initial claims was 458,000, with an initial claim volume of 452,000. Prior history indicates that when the four-week moving average of initial claims is below 450,000 (and trending towards 400,000) an employment recovery is in process.
- Nonfarm businesses added 763,000 jobs in the first eight (8) months of 2010. However, U.S. Department of Labor (USDOL) data shows there were 8.5 million jobs lost during the 18-month recession (beginning in December 2007).

Impact to Federal Unemployment (FUTA) Taxes

- As of October 20, 2010, there are **32 jurisdictions** (including the Virgin Islands) that have borrowed over **\$41 billion** in Title XII loans to pay current unemployment benefits. There are currently twelve states that have outstanding Title XII loans over \$1 billion.
- In 2010, it is expected that employers in Indiana and South Carolina will lose 0.3% of their FUTA tax credit (effective 2010 FUTA tax rate of 1.1%) as a result of the outstanding loan balances. Employers in Michigan are also expected to lose an additional 0.3% of their FUTA tax credit for a 0.6% total reduction in 2010 (effective FUTA tax rate of 1.4%).
- In 2011, employers in an additional 22 states may be in jeopardy of losing a portion of their FUTA tax credit.

Impact on State UI Taxes

- Based on TALX data, employers experienced a 33% increase in 2010 unemployment tax rates (to an average of 3.02%) over the average rate of 2.27% in 2009, as published by the US Department of Labor.
- A survey completed by the National Association of State Workforce Agencies (NASWA) shows that 35 states raised UI taxes in 2010 with a median increase of 27.5% over 2009 (broadly ranging from 2.5% to 600% increases).
- Many states are expected to continue these increases in 2011 through various means. 21 states are expected to raise UI taxable wage bases, ranging from \$100 to \$7,000 increases.
- There are 16 states that have enacted legislation that will affect employer's 2011 UI tax liability. The majority of enactments include changes to UI taxable wage bases, rate tables, and interest/penalty or administrative charges.
- While not anticipated for 2011, if the FUTA wage base is increased, all states with taxable wage base limits below the new FUTA wage base will be required to increase their wage base limits as well. There are currently 21 states with a UI taxable wage base under \$10,000.

Solution

Economic data and government trends continue to indicate that employers should anticipate higher federal and state UI taxes in their financial forecasts associated with continued pressure on state unemployment tax reserves. TALX projects that UI increases will continue for the next five to ten years. Employers should ensure that financial models anticipate the significant tax increases expected over the extended economic recovery. As employers begin to receive UI tax rate notices for the upcoming year, effectively utilizing tax planning opportunities including voluntary contributions, joint accounts, and special elections will assist with reducing unemployment tax burden.

Value

TALX can assist employers with budgeting for the anticipated increases in 2011 unemployment tax costs and beyond. Our experience and expertise allow TALX to partner with organizations 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>.