Unemployment Compensation Tax: Fiscal Impact of Business Proposals

January 11, 2012

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Fiscal Situation

- The current UC Tax law is designed to allow the Unemployment Compensation Trust Fund to recover from its insolvency. As of January 5th, Florida had paid $56.1 million in interest payments, owed nearly $1.8 billion in federal advances and was subject to a reduction in the 2011 FUTA Credit.

State	Credit Reduction
Arkansas	0.3%
California	0.3%
Connecticut	0.3%
Florida	0.3%
Georgia	0.3%
Illinois	0.3%
Indiana	0.6%
Kentucky	0.3%
Michigan	0.9%
Minnesota	0.3%
Missouri	0.3%
North Carolina	0.3%
New Jersey	0.3%
Nevada	0.3%
New York	0.3%
Ohio	0.3%
Pennsylvania	0.3%
Rhode Island	0.3%
Virginia	0.3%
Virgin Islands	0.3%
Wisconsin	0.3%

Current Law

- Current law has the methodology for calculating tax rates and taxes due for 2012, 2013, and 2014 based on $8,500 in annual wages paid per employee (referred to as the "taxable wage base"). The federally mandated *minimum* wage base is $7,000.

- Additionally a "fund size factor" (sometimes called a recoupment or trust fund balance trigger) designed to restore the Trust Fund to solvency is based on a three-year recovery period until 2015 when it returns to four years.

Business Industry Proposal

- Effective with the 2012 tax rates, return the $8,500 maximum taxable wage to $7,000. The wages used to calculate tax rates would also be based on $7,000 instead of $8,500.

- Modify the “fund size factor” to be based on a six-year period for stabilizing the trust fund, instead of three.

- Both of these changes would work to reduce the minimum tax rate.

Summary of Impact

- In the short term, tax rates and taxes due would be lower. This results in more federal advances, more interest due on those advances, lower trust fund balances, and lower trust fund interest earnings.

- In the longer term, tax rates and taxes due would be higher due to lower trust fund balances. If there is another recession, this problem would be exacerbated.

- Additionally, the loss in the federal tax credit would be extended out an additional year, resulting in higher federal taxes due for calendar year 2013.

Minimum Tax Rate Comparison

	MINIMUM TAX RATE	
	Baseline	Industry Proposal
2010	0.36%	0.36%
2011	1.03%	1.03%
2012	2.02%	1.68%
2013	1.57%	1.15%
2014	0.86%	0.75%
2015	0.42%	0.45%
2016	0.18%	0.31%

State Tax per Employee at Minimum Rate

	STATE TAX PER EMPLOYEE AT MINIMUM RATE	
	Baseline	Industry Proposal
2010	$ 25.20	$ 25.20
2011	$ 72.10	$ 72.10
2012	$ 171.70	$ 117.60
2013	$ 133.45	$ 80.50
2014	$ 73.10	$ 52.50
2015	$ 29.40	$ 31.50
2016	$ 12.60	$ 21.70

State Tax per Employee at Maximum Rate

	STATE TAX PER EMPLOYEE AT MAXIMUM RATE	
	Baseline	Industry Proposal
2010	$ 378.00	$ 378.00
2011	$ 378.00	$ 378.00
2012	$ 459.00	$ 378.00
2013	$ 459.00	$ 378.00
2014	$ 459.00	$ 378.00
2015	$ 378.00	$ 378.00
2016	$ 378.00	$ 378.00

Additional Federal Taxes Due

	Federal Tax Credit reduction	
	Baseline	Industry Proposal
2010-11	$ -	$ -
2011-12	$ 150.0	$ 150.0
2012-13	$ 306.5	$ 306.5
2013-14	$ -	$ 312.3
2014-15	$ -	$ -
2015-16	$ -	$ -
2016-17	$ -	$ -

The 2013 Federal tax credit loss in the Industry Proposal assumes that the State applies for and receives a cap of 0.6% on its FUTA credit loss.

Interest Due on Federal Advances

	INTEREST DUE ON FEDERAL ADVANCES	
	Baseline	Industry Proposal
2010-11	$ -	$ -
2011-12	$ 56.1	$ 56.1
2012-13	$ 43.3	$ 47.2
2013-14	$ -	$ 14.6
2014-15	$ -	$ 0.3
2015-16	$ -	$ -
2016-17	$ -	$ -

Year Ending Federal Advances

	ENDING FEDERAL ADVANCES BALANCE	
	Baseline	Industry Proposal
2010-11	$ 1,574.1	$ 1,574.1
2011-12	$ 634.3	$ 939.4
2012-13	$ -	$ 7.6
2013-14	$ -	$ -
2014-15	$ -	$ -
2015-16	$ -	$ -
2016-17	$ -	$ -

Year Ending Trust Fund Balance

	ENDING TRUST BALANCE			
	Baseline		Industry Proposal	
2010-11	$	-	$	-
2011-12	$	-	$	-
2012-13	$	868.2	$	12.4
2013-14	$	1,850.7	$	808.8
2014-15	$	2,508.5	$	1,247.0
2015-16	$	2,873.1	$	1,599.8
2016-17	$	3,129.3	$	1,892.8

Current Situation for PEOs

- A **professional employer organization** (PEO) is an outsourced manager for human resources, employee benefits, payroll and workers' compensation and other services, such as recruiting, risk/safety management, and training and development. It does this by hiring the client company's employees, thus becoming their **employer of record** for tax purposes and insurance purposes.

- PEOs are required to report leased employees under the leasing company's UC tax account and contribution rate.

Business Industry Proposal for PEOs

- Referred to as the Client State Unemployment Tax Authority (SUTA) Option
- The PEO would be allowed to make a one-time decision to report leased employees under the accounts of its clients for unemployment tax purposes only.

Summary of PEO Proposal Impact

- The analysis assumes all PEOs with an IBR>5.4% would make the election effective with the 2013 tax rate calculation. The IBR (Individual Benefit Ratio) is the factor in the employer's tax rate that is specific to the employer's experience (three years of benefit charges divided by three year of taxable payrolls).

- The result is that while projected taxes collected do not change by very much, there is a shift in liability among taxpayers: the PEOS and their clients experience reduction in taxes due, while all other taxpayers experience an increase.

PEO Proposal Impact

Taxes for calendar year 2013 taxable wages			
	PEOs		
Baseline	Proposal		Change
$ 2,454,729,397	$ 2,464,546,291	$	9,816,894
	PEOs	$	(56,728,008)
	Clients	$	56,362,558
	Net for all others	$	10,182,344

Taxes for calendar year 2014 taxable wages			
	PEOs		
Baseline	Proposal		Change
$ 1,986,209,218	$ 1,985,379,010	$	(830,208)
	PEOs	$	(57,999,929)
	Clients	$	54,671,809
	Net for all others	$	2,497,911

Taxes for calendar year 2015 taxable wages			
	PEOs		
Baseline	Proposal		Change
$ 1,364,838,696	$ 1,363,875,832	$	(962,864)
	PEOs	$	(49,807,954)
	Clients		43,144,351
	Net for all others	$	5,700,739

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