

Update: February 2010

Tax Intelligence

Unemployment Tax - State Legislative Update

Situation

In response to severe recessionary economic conditions, several states either passed legislative changes in 2009 or had statutory provisions in place that resulted in significant state unemployment (SUI) tax increases for 2010.

Due to unprecedented pressure from the employer community, some states have proposed legislation that would reduce the SUI tax burden to employers of the previously enacted laws. The states of Florida, Indiana and Hawaii have proposed legislation which, if passed, would defer or lessen the significant increases in employer 2010 SUI rates and wage bases. A summary of the enacted 2009 legislation and proposed 2010 legislation in these three states are as follows:

Florida – 2009 enacted legislation increased the taxable wage base to \$8,500 (from \$7,000) and modified the rate calculation adjustment factors for 2010 – 2014. In 2010, the legislation proposed delays implementation of the wage base increase and changes in the calculation of adjustment factors until 2012. New 2010 rates are expected to be re-issued to all employers shortly after enactment and in time for first quarter filings.

Hawaii – 2010 proposed legislation would decrease the wage base for 2010 and 2011 and change applicable rate schedules to significantly reduce employer rates.

Indiana – 2009 enacted legislation increased the wage base to \$9,500 (from \$7,000) for 2010 and implemented new rate schedules with a minimum rate decrease to 0.7% (from 1.1%) and increased the maximum rate to 9.5% (from 5.6%). In 2010, proposed legislation would delay implementation until 2011 for both the wage base increase and rate changes.

In addition to these states, Massachusetts recently passed legislation which keeps SUI tax costs at 2009 levels. New Jersey, which would incur drastically increased SUI tax rates due to rate table changes, is considering some form of relief for employers (details are unknown at this time). The states of Kansas, Maryland and South Dakota also have legislation pending that could decrease 2010 rates. While pending legislation in these states (if passed) would impact employer's 2010 SUI tax costs, they only provide temporary relief and SUI taxes would increase significantly in future years. Conversely, it is important to note that there are several proposals in state legislature that would **increase** the SUI tax costs of employers starting in 2011 including Kansas, Kentucky, Mississippi, Nebraska, New Mexico, New York, South Dakota and Vermont.

Solution

It has become increasingly difficult for employers to anticipate changes resulting from the current economic conditions. The federal government and state workforce agencies are struggling to balance unemployment funding requirements with the immense pressure employers are facing in maintaining and expanding payrolls while managing their businesses in uncertain times. TALX expects to see continued legislative efforts as measures are developed to address depleted and insolvent state trust funds.

It is imperative that employers stay abreast of all changes occurring in the federal and state unemployment tax system to ensure that taxes are properly calculated and paid timely. Not only are there penalties and interest exposures for inaccurately or untimely filing of state unemployment taxes, there is also the potential for direct impact to future rate calculations or to state tax credits to offset federal unemployment taxes. Based on recent state proposals and the impacts to federal unemployment taxes resulting from title XII loans, retroactive unemployment tax adjustments are likely to continue and expand. Employers should be closely monitoring this situation and planning ahead for potential changes.

Value

The enhanced SUI rate forecasting services offered by TALX leverage our industry experience and extensive government relations resources to account for the many variables that impact an employer's unemployment tax costs. TALX is able to provide periodic rate forecasting updates so employers can proactively monitor and update unemployment tax budgets. For more information, please contact Pete Krieshok at (314) 214-7325 or pkrieshok@talx.com.

Note: This document includes information on pending legislation which will not go into effect until enacted.