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Tax Intelligence

Voluntary Contributions – Reduce Employment Tax Liability

Situation

Many employers have faced difficult challenges over the past year managing increased unemployment tax liabilities. Unfortunately, some tax planning strategies are often overlooked that can have a substantial impact on unemployment tax rate reductions. A voluntary contribution is a tax technique that should be reviewed annually for tax savings opportunity. Voluntary contributions are allowed in twenty-six (26) states.

Solution

A *voluntary contribution* is a special payment, which if made during a specified period, reduces an employer's unemployment tax rate. The additional unemployment tax contribution increases an employer's reserve balance in reserve ratio states or decreases benefits charged in benefit ratio states. Once the state receives the additional tax payment, the employer's unemployment tax rate is revised downward. Voluntary contributions are time sensitive and payments must be calculated and submitted to the state within specified deadlines.

When an employer is considering the *profitability* of the voluntary contribution, several factors should be analyzed with respect to each tax account being reviewed. Any change to the employee headcount (i.e. taxable payroll) will impact the profitability of the voluntary contribution. The following should be considered when analyzing a voluntary contribution:

- ✓ Does the employer anticipate new locations or increased employee headcount?
- ✓ Does the employer anticipate downsizing or a reduction in the employee headcount?
- ✓ Did the employer analyze all possible tax rate reductions (based on an increased voluntary contribution) to reduce the unemployment tax rate multiple brackets?
- ✓ Does the employer anticipate any *mergers, acquisitions, reorganizations or divestitures* that will impact employee headcount?

Value

As an existing TALX client, voluntary contributions will be reviewed in the upcoming 2010 unemployment tax rate season.

In the event you are planning a merger, acquisition, reorganization or divestiture, please contact Pete Krieshok at 314-214-7325 or via email at pkrieshok@talx.com to ensure this option is properly reviewed.