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Tax Intelligence

Unemployment Tax Liability Expected to Increase Dramatically for 2011

Situation

The current economic recession has placed significant pressure on the unemployment insurance (UI) system as states provide increased unemployment benefits to former employees for longer periods of time. Consequently, employers have been challenged with increased 2010 state UI tax rates despite efforts to control costs. Based on the economic data and historical trends, employers should expect **significant unemployment tax rate increases in 2011**.

Due to insolvent state UI trust funds, 34 states (plus the Virgin Islands) have received (or requested) funds from the federal government via Title XII loans to pay unemployment benefits. Currently, states have borrowed over \$37 billion. Eleven states have loans of over \$1 billion dollars, with California having the highest balance of almost \$7 billion.

U.S. Department of Labor predicts that total Title XII loan balances could grow to over \$90 billion by 2014. As a result, employers will continue to experience **increased federal unemployment (FUTA) tax costs in 2011** and beyond due to unpaid Title XII loans.

Solution

Based on the current environment, employers should proactively manage and budget for increases in unemployment tax liability for 2011 and future years. Employers' unemployment tax projections should take into account various factors including:

Federal Economic Factors

- **Anticipated FUTA credit reductions** – FUTA credit reductions due to unpaid Title XII loans are likely to be in place for several years to come. In 2009, MI employers lost 0.3% of their FUTA credit. In 2010, MI will likely lose another 0.3% (0.6% total) and IN and SC will likely lose 0.3%. In 2011, an additional 22 states plus the Virgin Islands may incur FUTA credit reductions.
- **Title XII interest assessments** – The American Recovery and Reinvestment Act (ARRA) suspended the interest component of the Title XII loans through the end of 2010. If the interest suspension is not extended, states could impose interest assessments/surcharges on employers through current statutory provisions or legislative actions.
- **FUTA wage base increase** – An increase in the FUTA taxable wage base (currently \$7,000) is under consideration. If this occurs, any state with a lower taxable wage base will be required to increase the unemployment taxable wage base at least to the new federal limit to continue to receive federal funding.

State Economic Factors

- **State unemployment trust fund solvency** – Impact of state legislation to raise trust fund balances.
- **State Total Unemployment Rate (TUR)** – Impact of socialized benefit charges on employer accounts.
- **State legislation** – Proposed, pending, and passed (anticipate changes in rate tables, wage bases and surcharges).

Individual Employer Factors

- Historical taxable payroll trends and *expected* taxable payroll in coming years.
- Historical benefit charge activity, recent reductions in workforce and *expected* unemployment claims activity.
- State unemployment tax contributions and the impact on the tax rate computation.

Value

High unemployment and insolvent state UI trust funds will have a long term impact and many **employers will likely continue to see increases in federal and state unemployment tax liabilities for the next five to eight years**. TALX can assist employers with budgeting for the anticipated increases in 2011 unemployment tax costs. Our experience and expertise allow TALX to partner with employers 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>.