

## What You Need to Know About Unemployment Taxes

*Federal (FUTA) and State (SUTA) tax rates are headed up. Anyone that tells you otherwise is ignoring the numbers. Important issues must be resolved. How much will tax rates increase? Over what period of time? What changes in the tax and benefits system are needed? CAI is part of a coalition of business groups working on solutions.*

### The Problem

The primary problem is that our state's "Trust Fund" paid out \$2.7 billion dollars *more* in unemployment benefits than it took in since 2009. That difference was borrowed from the federal government and interest is now due. The debt is about \$725 per employee in North Carolina and still growing. This is considered a debt of the employer community (not the state) and federal

law will raise FUTA tax rates on employers each year until it is repaid, if we do nothing. Employers would see FUTA tax rates rise from about .9% (today) to as much as 6% on the first \$7,000 of payroll per employee. The state SUTA tax on the first \$20,400 of payroll per employee would also increase to re-establish a trust fund balance. None of this includes additional charges caused by an indi-

vidual employer's own experience rating (from 0% to 6.84% on the first \$20,400).

In these last few years, NC employers saw automatic tax increases triggered by low trust fund balances, news of large benefit overpayments by the Employment Security Commission (now the DES), failed and wasteful IT projects at the agency, haphazard (or worse) unemployment claims decisions, and most

recently, the first of many annual increases in the FUTA tax rates due to the debt owed. Yes, it is a complex system and the Great Recession caused most of the financial problem, but we also have serious benefit design and management problems at the newly-named-but-legacy-led Division of Employment Services.



### MY PREDICTION:

This problem has the business community's attention. CAI just provided major funding for a study of the challenges and possible solutions.<sup>1</sup> The goal is to repay the debt in an orderly way, return the system to solvency, and, using a balanced approach, improve our competitiveness, system affordability and re-employment results. The study (expected in late April) will include best practices from other states, a review of current plans at DES, an analysis of job-seeker assistance results and ideas for re-engineering the benefits structure in a sound way. Some of the issues under review include: NC's high payroll tax base, high weekly benefits maximum and high maximum number of benefit weeks in comparison to other states in the Southeast. We also have the fourth highest debt owed to the feds and the second highest per employee debt ratio in the nation.<sup>2</sup>

<sup>1</sup>The North Carolina Chamber Foundation's 2012 Unemployment Insurance Study

<sup>2</sup>Source of debt data: U.S. Department of Labor.



### HOW TO PREPARE:

This is a serious set of problems demanding serious solutions. It is not useful to draw hard lines "against any form of tax increase" nor to beat the "benefits are inadequate" drum. The reality is the feds will fix the debt problem through automatic and severe tax rate hikes over the next seven or eight years (plus charge interest all the while) if we do not act. I believe the General Assembly is aware of the problem and will carefully analyze solutions as they are presented. We need your support to make the best we can of a bad situation on behalf of workers who need the safety net and job-creators who must fund the system. We have asked our members to help us with ideas for fixing the system and to provide evidence of the problems they see each day. We invite your participation. We will keep you informed as things progress and welcome your questions. Contact us at 919-878-9222 or 336-668-7746.

Contact me directly if I can help you or your team.

*Bruce*

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*Executive Scan* is written by CAI's CEO, Bruce Clarke, JD.

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