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# Tax Intelligence

## 2011 Federal Unemployment Insurance Tax Cost Uncertainty

### Situation

Legislation introduced in Congress is contributing to uncertainty concerning how federal (FUTA) and state (SUI) unemployment tax costs will be impacted in 2011 and in the years to come. At issue are diametrically opposed bills seeking to provide employers with relief from two additional costs:

- **FUTA credit reductions** – FUTA credit reductions due to unpaid Title XII loans which increase FUTA taxes are likely to occur in 24 states in 2011.
- **Title XII interest assessments** – Interest on these loans was suspended in 2009-2010 by the provisions of the American Recovery and Reinvestment Act. However, because those provisions were not extended, the 29 states with outstanding Title XII loans due to insolvent state unemployment trust funds are now assessing employers or finding other means to pay the interest which is due by September 30, 2011.

### Congressional Proposals

Both parties have expressed concern over the imposition of credit reductions and interest payments as they are seen as impediments to the fledgling employment recovery from the Great Recession. However, the approaches for offering relief differ greatly.

**President Obama's 2011-2012 Budget Proposals** – While offering short-term relief, in the long-term the proposal would solve concerns about the lack of proper funding for the UI system through significant, ongoing increases in SUI contributions.

- Short-Term Relief
  - The Administration's budget proposal would suspend any FUTA credit reductions for 2011-2012.
  - In addition, interest on Title XII loans would be suspended for the same period.
- Long-Term Increases
  - The Administration has called for an increase in the FUTA taxable wage base from \$7,000 to \$15,000 starting in 2014 and to index the wage base similar to the Social Security wage base for future years. However, the proposal would also reduce the FUTA tax to offset the initial increase.
  - The FUTA wage base increase would require states having state taxable bases less than \$15,000 to increase state wage bases to the federal level and to index as well.

**HR 1745** – Sponsored by Rep. Camp (R-MI), HR 1745 seeks to offer employers similar relief but through alternative approaches which provide states more control in how moneys are used.

- HR 1745 would allow the states to determine how they would spend the funds currently budgeted for the payment of 77 weeks of federally funded unemployment benefits. States could continue to pay these benefits through the end of 2011 or they could end the benefits on July 1, 2011 and use the funds to pay Title XII loan balances, related interest costs or to offset increased FUTA taxes for those states incurring credit reductions this year.
- The "temporary" 0.2% FUTA tax would be allowed to expire on June 30, 2011 as currently provided in law.
- Proponents assert that because the funds are already in the budget and would merely be redirected to other uses, there would be no detrimental impact to the federal deficit.

Both of these proposals have a direct impact on employer's 2011 UI tax costs. The House of Representatives is expected to pass the Camp proposal in the next few weeks and will send it to the Senate where both proposals will be debated. The outcome of that debate has the potential to provide significant relief for employers in 2011 or no relief at all dependent on state actions. Combine an unknown outcome with expected retroactive effective dates and employers are faced with considerable uncertainty for 2011.

### Value

President Obama's budget proposal and HR 1745 could each significantly alter how much in 2011 federal unemployment taxes are due from employers. Properly anticipating these costs now will allow employers to be prepared for whatever outcome occurs. 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 Krieschok at (314) 214-7325 or [pkrieschok@talx.com](mailto:pkrieschok@talx.com), or visit our corporate blog at <http://blog.talx.com>.