

THE SILENT PAYROLL TAX: BEST PRACTICES IN NAVIGATING STATE UNEMPLOYMENT TAX

Carolinas Payroll Conference:
Amazing Payroll Race

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SIX IMPORTANT QUESTIONS

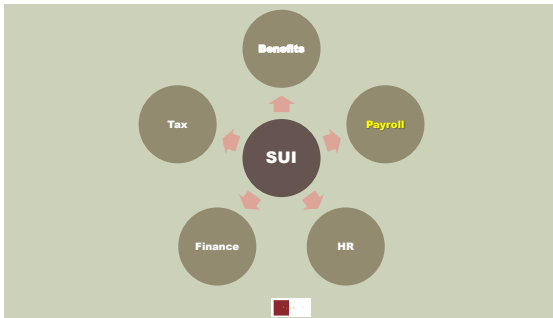
- Who are the impacted/responsible stakeholders?
- How are state unemployment tax costs calculated?
- Where are unemployment tax costs being felt most?
- Why do unemployment tax costs change?
- When can unemployment be most impacted?
- What can I do to control my unemployment costs?



WHO ARE THE RESPONSIBLE STAKEHOLDERS?



WHO HANDLES UNEMPLOYMENT SHARED RESPONSIBILITIES



SUI TAX COST COMPARISON NATIONAL AVERAGES

Domestic Employment	*Taxable Wages	Taxable Payroll	*Median Tax Rate	Estimated Tax Cost
50,000	\$13,600	\$870,000,000	2.71%	\$18,428,000
10,000	\$13,600	\$174,000,000	2.71%	\$3,685,600
1,000	\$13,600	\$17,400,000	2.71%	\$368,560
500	\$13,600	\$8,700,000	2.71%	\$184,280
100	\$13,600	\$1,740,000	2.71%	\$36,856

HOW ARE STATE UNEMPLOYMENT TAX COSTS CALCULATED?



SUI UNEMPLOYMENT TAX GLOSSARY OF DEFINITIONS

Experience Rating

- Unemployment tax rates are based on the stability of the employment history of an organization

Reserve Balance

- Sum of the total contributions paid, less unemployment claims collected against an account. (+ or -)

Reserve Ratio

- Reserve balance divided by taxable payroll

Benefit Charges

- Unemployment benefit payments made to previous employees

Benefit Ratio

- Benefit charges divided by taxable payroll



BENEFIT VS RESERVE RATING CALCULATION

BENEFIT STATES

- 20 States use this calculation
- Calculates tax rate based on Taxable Payroll & Benefit Charges
- Benefit Charges collected have a more direct effect on the unemployment tax rate
- **SC** & NM Recently converted

RESERVE STATES

- 33 States use this calculation
- Calculates tax rate based on Taxable Payroll, Benefit Charges & Reserve Balance
- Reserve Balance is like your "Bank Account" for unemployment taxes



BENEFIT RATIO STATES

States Where Unemployment Claim Activity Most Affect Rate

Alabama	Mississippi
Alaska*	Oklahoma
Connecticut	Oregon
Delaware	Pennsylvania**
Florida	Texas
Illinois	Utah
Iowa	Virginia
Maryland	Vermont
Michigan**	Washington
Minnesota	Wyoming

* Payroll Stabilization (AK)

**Combination of Reserve & Benefit Ratio state (PA & MI)



RESERVE RATIO STATES

States Where [Tax Contributions](#) Most Affect Rate

Arkansas	Louisiana	New Jersey
Arizona	Massachusetts	New Mexico
California	Maine	New York
Colorado	Michigan	Ohio
District of Columbia	Missouri	Pennsylvania
Georgia	Montana	Rhode Island
Hawaii	Nebraska	South Carolina
Idaho	North Carolina	South Dakota
Indiana	North Dakota	Tennessee
Kansas	Nevada	West Virginia
Kentucky	New Hampshire	Wisconsin



STATE OF SOUTH CAROLINA REFERENCE CHART

Rate Calculation:	Reserve State	Maximum Tax Rate:	5.46%
Wage Base:	\$14,000	Penalty Rate:	N/A
Rate Issue Date:	11/6	Average Weekly Benefit Amount:	\$ 253.29
Joint Accounting:	Yes (12/31)	Max Potential Benefit Amount (20 weeks):	\$ 326 x 20 = \$6,520
Voluntary Contributions:	No	Respond to Claim (Deadline):	10 Days
New Business Rate (NBR):	1.39%	1st Level Appeal (Deadline):	14 Days
NBR (Duration):	2 Years	Worksite State:	No
Minimum Tax Rate:	0.06%		



SOUTH CAROLINA UNEMPLOYMENT RATE

Annual Taxable Wage Base		Tax Rate %		Rate for 2016	
\$14,000		0.460 + 0.60 = 0.520 %		UI Tax Rate and Solvency Surcharge + Departmental Admin Contingency Assessment	
Experience Year		Benefit Charge Amount		Taxable Wages Amount	
7/1/12 – 6/30/13		357.74		1,305,854.42	
7/1/13 – 6/30/14		178.87 -		1,375,739.79	
7/1/14 – 6/30/15		0.00		1,688,093.62	
Total		178.87		4,369,687.83	
Benefit Ratio for 2016	Benefit Charges	Divided By	Taxable Wages	Equals	Benefit Ratio
	\$178.87	/	4,369,687.83	=	0.000041

A benefit ratio of 0.000041 qualifies for a tax rate class of 2 with a total rate of 0.520% for calendar year 2016.



STATE OF SOUTH CAROLINA

M & A / REORGANIZATION CHART

Common Ownership <i>Total Reorganization</i>	• Successor rate for the remainder of the year, commingled thereafter
Common Ownership <i>Partial Reorganization</i>	• Successor rate for the remainder of the year, commingled thereafter
(Non) Common Ownership <i>Total Reorganization</i>	• Mandatory transfer successor rate for the remainder of the year, commingled thereafter
(Non) Common Ownership <i>Partial Reorganization</i>	Optional transfer successor rate for the remainder of the year, commingled thereafter
New Company (Reorg)	• Highest rate of all predecessors

WHERE IS UNEMPLOYMENT TAX COSTS BEING FELT & WHY HAVE COSTS CHANGED?



LEGISLATIVE UPDATES

FEDERAL & STATE LEVELS

State	Federal
2014 – 2015 <ul style="list-style-type: none"> 4 States increased rate schedules or calculation factors 12 States decreased rate schedules or contribution factors 25 states increased taxable wage bases 	<ul style="list-style-type: none"> Only 3 jurisdictions have outstanding loans: <ul style="list-style-type: none"> California \$3.35 Billion Virgin Islands \$69.2 Million CA and VI will have a 2016 FUTA rate of 2.40%
2015 – 2016 (2017) <ul style="list-style-type: none"> 6 States increased rate schedules or calculation factors 14 States decreased rate schedules or contribution factors 25 states increased taxable wage bases (2017) 5 states have announced increases while 1 state announced a decrease 	<ul style="list-style-type: none"> OH will be at 0.60% for 2016, but there will be an fee in the 1st Quarter of 2017 of ~\$50/EE

SUI TAXABLE WAGE CHANGES 2014 - 2016

State	2016	2015	2014	State	2016	2015	2014
Alaska	\$ 40,000	\$ 38,700	\$ 37,400	North Carolina	\$ 22,300	\$ 21,700	\$ 21,400
Colorado	\$ 11,900	\$ 11,800	\$ 11,700	North Dakota	\$ 37,600	\$ 35,600	\$ 33,600
Florida	\$ 7,000	\$ 7,000	\$ 8,000	Oklahoma	\$ 15,300	\$ 17,000	\$ 18,700
Hawaii	\$ 41,400	\$ 40,900	\$ 40,400	Oregon	\$ 36,400	\$ 35,700	\$ 35,000
Idaho	\$ 36,800	\$ 36,000	\$ 35,200	Pennsylvania	\$ 9,500	\$ 9,000	\$ 8,750
Iowa	\$ 28,300	\$ 27,300	\$ 26,800	Rhode Island	\$ 21,800	\$ 21,200	\$ 20,600
Kansas	\$ 14,000	\$ 12,000	\$ 8,000	South Carolina	\$ 14,000	\$ 14,000	\$ 12,000
Kentucky	\$ 10,200	\$ 9,900	\$ 9,600	South Dakota	\$ 16,000	\$ 15,000	\$ 14,000
Massachusetts	\$ 16,000	\$ 15,000	\$ 14,000	Utah	\$ 31,800	\$ 31,300	\$ 30,800
Minnesota	\$ 31,000	\$ 30,000	\$ 29,000	Vermont	\$ 16,800	\$ 16,400	\$ 16,000
Montana	\$ 30,000	\$ 29,500	\$ 29,000	Virgin Islands	\$ 23,300	\$ 22,900	\$ 22,500
Nevada	\$ 28,200	\$ 27,800	\$ 27,400	Washington	\$ 44,000	\$ 42,100	\$ 41,300
New Jersey	\$ 32,600	\$ 32,000	\$ 31,500	Wyoming	\$ 24,900	\$ 24,700	\$ 24,500
New York	\$ 10,700	\$ 10,500	\$ 10,300				

FUTA TAX REVIEW POTENTIAL EMPLOYER COST IMPACT

FUTA Tax Rate	FUTA Wage Base	FUTA Tax Impact
6.00%	\$7,000	\$420 Per Employee

FUTA Tax Rate	FUTA Tax Credit	FUTA Tax Rate (Net: less credit)	FUTA Tax Impact
6.00%	5.40%	0.60%	\$42 Per Employee

Please Note:

- If Federal Title XII loan remains outstanding for two years, employers in the affected state lose 0.30% of the 5.4% credit (or \$21 per employee)
- 0.30% FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1 = 0.3%; Year 2 = 0.6%, etc.)

FUTA SUI IMPACT TAXABLE WAGE BASE LESS THAN \$15,000

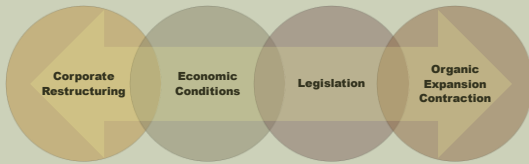
State	Wage Base	State	Wage Base	State	Wage Base
AL	\$8,000	KY	\$9,900	OH	\$9,000
AR	\$12,000	LA	\$7,700	PA	\$9,000
AZ	\$7,000	MA	\$15,000	PR	\$7,000
CA	\$7,000	MD	\$8,500	SC	\$14,000
CO	\$11,800	ME	\$12,000	TN	\$9,000
DC	\$9,000	MI	\$9,500	TX	\$9,000
FL	\$7,000	MO	\$13,000	VA	\$8,000
GA	\$9,500	MS	\$14,000	WI	\$14,000
IL	\$12,960	NE	\$9,000	WV	\$12,000
IN	\$9,500	NH	\$14,000		
KS	\$12,000	NY	\$10,500		

NOTE: (Proposed) 2017 FUTA wage base increase to \$15,000

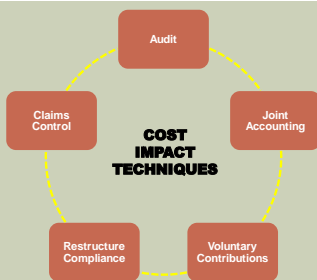
WHEN CAN UNEMPLOYMENT BE
MOST IMPACTED & WHAT CAN BE
DONE TO CONTROL IT?



WHAT DRIVES UNEMPLOYMENT COSTS



HOW TO CONTROL UNEMPLOYMENT



AUDIT REVIEW & RECOVERY PENNSYLVANIA PENALTY ASSESSMENT

We identified an error in their issued rate (10.7886%). After further investigation, the state issued an **additional penalty assessment of 3.153%**. The penalty rate was originally assigned due to incorrect account balancing derived from interest and penalty of \$123.48 as a result of "underpaying" the 1st Quarter.

Taxable Payroll	UI Tax Rate (Issued)	UI Tax Rate (Revised)	UI Tax Rate Differential	Projected Tax Savings
\$9,182,000	10.7886%	7.6356%	3.1530%	\$289,508



JOINT ACCOUNTING

NJ based Pharmaceutical Company: By sharing unemployment tax reserves between commonly owned subsidiaries the following actual savings was secured:

Company	Estimated Taxable Payroll	Individual Tax Rate	Joint Tax Rate	Reserve Balance	Actual Savings
Company A	\$62,764,560	6.10%	1.20%	(\$3,240,356)	\$3,075,463
Company B	49,023,381	2.60%	1.20%	3,563,365	686,327
Company C	27,465,313	2.30%	1.20%	2,164,587	302,118
Company D	52,906,850	1.80%	1.20%	6,858,509	211,227
Company E	12,357,890	1.60%	1.20%	1,295,358	49,4302
Company F	0	1.60%	1.20%	1,531,686	0
Company G	22,990,173	1.20	1.20%	6,092,569	0
Company H	28,598,645	1.20	1.20%	5,325,672	0
Company I	43,490,062	1.20	1.20%	10,996,033	0
Company J	0	3.70	1.20%	8,890	0
Joint Acct Totals	\$299,496,874		1.20%	\$23,954,804	\$4,324,568



VOLUNTARY CONTRIBUTION ANTICIPATED GROWTH

	30 Employees Voluntary Contribution <u>Next</u> Rate Group	1,030 Employees Voluntary Contribution <u>Next</u> Rate Group	1,030 Employees Voluntary Contribution <u>Min</u> Rate Group
Taxable Payroll	\$270,000	\$9,540,000	\$9,540,000
Current Tax Rate	6.22%	6.22%	6.22%
Voluntary Contribution	(\$1,000)	(\$1,000)	(\$12,000)
<i>Revised Rate</i>	6.12%	6.12%	0.22%
Gross Savings	\$270	\$9,540	\$572,400
Annual Net Savings	(\$730)	\$8,540	\$560,400



RESTRUCTURE COMPLIANCE

TRANSFER RATE VS. NEW BUSINESS RATE

State	Taxable Payroll	Existing Rate	NBR	Duration	1 st Year Savings	Total Savings
OH	\$4,500,000	1.40%	2.70%	2 Years	\$58,500	\$117,000
PA	\$4,000,000	2.4370%	3.6785%	2 Years	\$49,660	\$99,320
MI	\$4,750,000	1.53%	3.91%	2 Years	\$113,050	\$226,100
Estimated Savings:					\$221,210	\$442,420

*Example based on estimated 500 employees per state




RESTRUCTURE COMPLIANCE

Entertainment Client

This company acquired property during it's entry into the state of Ohio. There were three existing entities at the point of acquisition. They avoided a maximum tax rate (from one of the properties) and secured a near minimum tax rate to save for (at least) the next 3 years as follows:

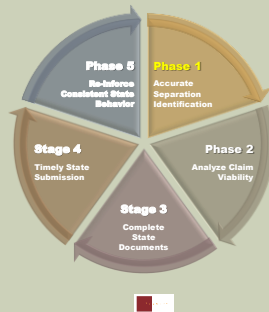
Year	Estimated Taxable Payroll	Potential (Transfer) Rate	Secured Tax Rate	Projected Tax Savings
2012	\$1,500,000	9.60%	0.90%	\$129,000
2013	1,500,000	9.60%	0.90%	129,000
2014	9,500,000	8.60%	3.00%	532,000
Corporate Restructure Compliance Tax Savings				\$790,000



UNEMPLOYMENT CLAIMS MANAGEMENT PROCESS & FINAL THOUGHTS



BEST PRACTICE METHOD UNEMPLOYMENT CLAIM PROCESS



BEST PRACTICE – SEPARATIONS DOCUMENT CHECKLIST

	Company Policy	Signat Acknowledgment	Warnings	Incident Reports	Additional Documentation
Alcohol or Drugs Company Property	Y	Y			<ul style="list-style-type: none"> Drug Test Results Chain of Custody (Drug Administrator) Relief Program (Employee Explanation)
Attendance Tardiness	Y	Y	Y		<ul style="list-style-type: none"> Attendance Records Call-in Time Sheets On-Note Corrective Action
Insubordination Personal Misconduct	Y	Y	Y	Y	<ul style="list-style-type: none"> Witness Statements (Testimony)
Theft Company Property	Y	Y			<ul style="list-style-type: none"> Signed Written Admission Video Surveillance Police Report(s) Complete List (Missing Items)
Fighting Company Property	Y	Y	Y	Y	<ul style="list-style-type: none"> Witness Statements Med Records (Injuries) Police Reports Corrections
Employee Harassment	Y	Y	Y	Y	<ul style="list-style-type: none"> Witness Statements (Testimony)
Monetary Funds Shortages/Overages	Y	Y	Y		<ul style="list-style-type: none"> Merchandise Receipts Cash Register Receipts
Company Property Destruction	Y	Y	Y		<ul style="list-style-type: none"> Written Admissions Signed Witness Statements Police Reports/Repair Estimates Property Damages (pics)
Employee Record Falsification	Y	Y		Y	<ul style="list-style-type: none"> Falsified Records Proof of Falsification

UNEMPLOYMENT CLAIMS CONTROL TAX COST IMPACT PROJECTION

State	Protested Wins	Liability Removed	Taxable Payroll	Tax Rate (Projected)	Tax Rate (Actual)	Annual Tax Savings
IL	376	(3,027,725)	81,500,000	6.05%	3.45%	2,119,000
MI	265	(2,012,362)	61,000,000	7.14%	5.63%	921,100
PA	642	(5,607,844)	80,500,000	7.73%	6.67%	851,690
OH	211	(1,598,566)	80,500,000	2.30%	1.50%	644,000
FL	146	(878,281)	59,000,000	4.49%	3.44%	619,500
Top 5 States	1,640	(13,124,777)	362,500,000	5.54%	4.13%	5,155,290
Other States	686	(5,384,040)	251,500,000	4.51%	3.58%	1,761,900
	2,326	(18,508,817)	614,000,000			6,917,190

EXPERIENCE RATE VS. REIMBURSABLE

Experience Rated Company - (Estimated Annual Benefit Charges - \$10,000)

Employee Count	Taxable Wage Base	Taxable Wages	Minimum Tax Rate	Maximum Tax Rate	Minimum Tax Cost	Maximum Tax Cost
300	\$8,500	\$2,550,000	1.10%	9.90%	\$28,050	\$252,450

Employee Count	Workforce Reduction (Layoff)	Average Benefits (per Employee)	Total Benefit Charges	Potential Cost Differential
300	299	\$10,000	\$2,990,000	\$2,737,550

RECOMMENDATIONS UNEMPLOYMENT BUSINESS PROCESS

- #1 Know Where your Costs are & Why they Changed
- #2 Maximize State Regulated Savings Techniques
- #3 Follow up Ensuring Unemployment Claims are Under Proper Review
- #4 Review Address of Record (re-file POA forms)
- #5 Project both SUTA and FUTA rates (or have TPA project them)

BARNETT ASSOCIATES THANKS YOU

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