SERVICE BULLETIN

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TO: T&T Clients

FROM: Josh Kendall

RE: Increase in Florida Unemployment Taxes for 2010

DATE: August 31, 2009

Florida Unemployment Tax Will Be More Expensive Next Year

Legislation signed by Governor Crist on June 1, 2009 will substantially increase UI tax payments for all for-profit employers in Florida. This legislation is a reaction to the high level of unemployment and the significant increase in benefit payouts.

The taxable wage limitation will increase from $7,000 to $8,500 for 2010 through 2014 (unless subsequent legislation extends the increase, which we view as likely). If your tax rate for 2010 is unchanged, you will pay 21% more taxes on each employee whose wages are $8,500 or higher. However, tax rates will generally increase, which in turn will amplify the impact of the taxable wage increase.

The bill (SB 810) also increases the "positive fund balance adjustment factor" and makes it trigger on sooner. This will add to the assigned tax rate for every experience-rated employer.

It is anticipated that Florida will need to borrow federal funds to pay regular unemployment benefits. More revenue (meaning more employer tax payments) is needed to restore the Florida unemployment trust fund to solvency. When a state borrows federal funds, interest is payable on the federal loan, except for this year and next year, because the Recovery Act has waived the interest for these years. If the loan continues beyond 2011, which is likely, interest will begin to accrue. Additionally, the federal unemployment tax rate for Florida employers will begin to increase unless the anticipated loan is repaid by November 10, 2011. We mention this because the legislative analysis indicates that even with these tax increases the Florida fund will still have a deficit of $997 million in the second quarter of 2014. This would suggest that further tax increases are possible in the next three years.

There is good news for unemployed workers in the bill, which establishes the alternative trigger for extended benefits, increasing the potential extended benefits from 13 weeks (or 13 times the weekly benefit amount) to 20 weeks (or 20 times the weekly benefit amount). This provision expires at the end of 2009, with a phase-out period ending May 29, 2010.

The risk exists that the Extended Benefits as well as the Emergency Unemployment Compensation benefits, which take effect after a claimant has exhausted all possible regular unemployment benefits, will encourage some claimants to delay their search for work. All claimants are required to be available for work, but in a practical sense this is difficult to monitor. To the extent that the potential additional benefits result in a disincentive to find or accept work, these extensions will increase the regular unemployment benefits, which are paid first. This will increase benefit ratios, and cause state unemployment tax rates to increase.

These issues are not unique to Florida of course. Eighteen states have received outstanding federal loans at this time and a nineteenth (Alabama) will be added to the list in the near future. We will see many more increases in UI taxable wage bases and tax rates before January 1, 2010 rolls around.

If there are any questions please contact us.

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