

# SERVICE BULLETIN



## Is a Federal Unemployment Tax Increase Coming?

*TO:* T&T Clients  
*FROM:* Kris Thorngren  
*RE:* Potential Increase in FUTA Taxes  
*DATE:* May 19, 2009

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We are passing along to you the attached letter from the U.S. Chamber of Commerce to a House of Representatives subcommittee, expressing concern about measures in the Recovery Act that will increase unemployment taxes for employers.

As we mentioned in an earlier Service Bulletin, the Recovery Act includes incentives to states for liberalizing UI benefits. The Chamber specifically expresses opposition to forcing states to approve UI claims when the reason for separation is a “compelling family reason.” Although the Recovery Act does not quite “force” states to liberalize UI benefits, the incentive payments can hardly be refused in a political sense, and we expect most states to seek the incentives (their share of \$4.7 billion).

Clearly there will be increased state unemployment taxes to pay for increased UI benefits. The Chamber’s letter references a “projected 52% increase in UI tax receipts over four years.” The Chamber’s points are good, but the Recovery Act has become law and the liberalization of UI benefits looks inevitable.

Of particular interest is the Chamber’s comments that employers are likely to be asked to pay increased federal unemployment tax (in addition to significant state UI tax increases) in order to replenish the Federal Unemployment Account. We think the Chamber is correct to anticipate this increase, which could happen as early as 2010.

Currently, the net federal unemployment tax rate is 0.80% of taxable payroll, or \$56 per full-time worker, per year. The deficit in the Federal Unemployment Account may very well compel legislators to increase this tax. We suspect that it is only a matter of months before a possible federal unemployment tax increase is considered.

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Thomas & Thorngren, Inc.

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CHAMBER OF COMMERCE  
OF THE  
UNITED STATES OF AMERICA

**RANDEL K. JOHNSON**  
VICE PRESIDENT  
LABOR, IMMIGRATION & EMPLOYEE  
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May 7, 2009

The Honorable Jim McDermott  
Chairman  
Subcommittee on Income Security and  
Family Support  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable John Linder  
Ranking Member  
Subcommittee on Income Security and  
Family Support  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chairman McDermott and Ranking Member Linder:

The U.S. Chamber of Commerce, the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region, appreciates this opportunity to provide a statement for the record as part of the committee's ongoing oversight of unemployment insurance ("UI"), especially during a time of economic uncertainty. For the reasons described below, the Chamber opposes any move to force states as a condition of receiving special incentive distribution payments to permanently expand the eligibility of individuals to receive UI compensation, which would create a disincentive for individuals to return to work, hamper job creation, and increase the tax burden on employers.

The American Recovery and Reinvestment Act ("Recovery Act") reserved \$7 billion in the Federal Unemployment Account ("FUA") for states that enact permanent legislative changes to "modernize" their UI systems. States are eligible to receive one-third of the state's share of the \$7 billion by adopting an alternative-base period, and the remaining two-thirds by enacting two of the four provisions outlined in the bill. The four provisions include: prohibiting the denial of UI compensation to individuals who limit their availability to only part-time work; expanding UI eligibility to individuals who quit work for a "compelling family reason"; extending the length of benefits to individuals who are participating in training programs; and adding dependents' allowances to the amount of UI compensation. Further, the Recovery Act provides \$500 million in administrative funding, including amounts for states' administrative costs in dealing with the influx of the additional individuals who would be eligible for compensation.

The Chamber believes that forcing states to adopt laws that do not disqualify a worker from UI compensation for separation of employment if it is for a "compelling family reason" is an egregious change to the UI system. This drastic change expands eligibility for UI

compensation to an increased number of individuals who were not laid off because of tough economic times. Rather, this is an effort to force states through federal requirements to alter and expand their UI programs when previous proposals at the state level failed because stakeholders readily agreed that the system and its eligibility requirements were already properly balanced without such expansions. These changes will greatly undermine the original goal of UI to provide assistance to workers who lose their job through no fault of their own in connection with their work, and moves the UI system from a temporary insurance program for employees, to a government benefit that compensates for unemployment.

Not only does expanding UI coverage under the Recovery Act directly conflict with the original tenets of the UI system, it prevents economic recovery. Further expanding and extending benefits at this point in the recovery actually discourages individuals from re-entering the workforce because they continue to receive unemployment compensation. Businesses will see a dramatic increase in taxes needed to pay for the expansion and extension of benefits, preventing them from creating new jobs. Further, forcing states to adopt certain expansions in order to receive additional federal funds will hamper states' future efforts to improve their systems.

The Chamber is equally concerned with how Congress intends to replenish the FUA, from which the \$7 billion in incentive money will be distributed. Due to the \$9 billion that states have already borrowed to shore up their systems as a result of the increase in UI claims and the money being spent for emergency and extended benefits under the Recovery Act, the U.S. Department of Labor projects that over \$16 billion will need to be borrowed from the General Revenue in FY 2010 in order to eliminate the deficit in UI accounts. This will place an extra burden on other government programs that rely on such funding and slow our economic recovery.

In addition, the President's FY 2010 budget projects federal and state unemployment insurance tax receipts to increase from \$44 billion in 2009 to \$53 billion in 2010, and then to jump to \$67 billion by 2013, a 52% increase from 2009.

Borrowing against the General Revenue, coupled with a projected 52% increase in UI tax receipts over four years, signals only one thing: **a greater tax burden on employers.**

Employers are likely to be asked to pay increased Federal Unemployment Tax Act ("FUTA") taxes in order to re-fill the FUA and meet the President's budget projections. The FUTA tax is entirely paid by employers, as there is no federal payroll withholdings from employees' wages. In addition to the increase in the FUTA tax, state UI taxes will also likely increase in part due to federally required expansions. In short, despite the uncertainty in the economy, employers of all sizes are likely to be compelled to pay the entire amount needed to restore the FUA to appropriate levels.

Businesses across the country that are simply trying to survive in these difficult times want to improve their economic position and be able to hire new employees and do their part to revive the economy. To stimulate economic recovery across the country we should be investing in measures to encourage individuals to actively seek and accept work, eliminate barriers to

employment, and stimulate the creation of new jobs. The expansion of UI eligibility appears to move in the opposite direction on all of these key points with dramatic increases in taxes and the permanent continuation of UI entitlement expansions.

The federally imposed UI entitlement expansions and increases in the FUTA tax will delay economic recovery and will stifle the ability of businesses to grow. The Chamber urges you to consider these important concerns and looks forward to working with you on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Randel K. Johnson", written in a cursive style.

Randel K. Johnson  
Vice President, Labor, Immigration & Employee  
Benefits  
U.S. Chamber of Commerce

Cc: Members of the Subcommittee on Income Security and Family Support