

SERVICE BULLETIN

TO: T&T Clients
FROM: Josh Kendall
RE: Hawaii Unemployment Taxes are Expected to Soar in 2010
DATE: September 25, 2009

It appears likely that Hawaii unemployment taxes will increase by an unprecedented amount next year, due to a combination of a higher taxable wage base and a higher tax rate schedule. Unfortunately, the Hawaii unemployment tax rate notices are normally not issued until March, so it is difficult for an employer to know what amounts to accrue until that time. If you accrue at your 2009 rates until you receive your tax rate notice, you will be in for an unpleasant surprise.

Legislation which limited UI taxes in Hawaii was passed in 2007. This legislation is set to expire at the end of 2009 because the state unemployment trust fund has fallen below a threshold level specified in the law. As a result, the state unemployment taxable wage base for Hawaii employers will increase from \$13,000 to a projected \$37,500.

In addition to the higher taxable wage base, there will be a significant increase in tax rates. Currently tax rate schedule A is in effect. This tax rate schedule contains the lowest possible tax rates, ranging from 0.00% to 5.40%, depending on the employer's experience. However, the Hawaii Department of Labor and Industry projects that tax rate schedule G or H (which contains the highest possible tax rates, ranging from 2.40% to 5.40%) will take effect for next year.

In short, the calculation of tax payments for Hawaii employers is expected to suddenly change from a taxable wage base of \$13,000 to a taxable wage base of \$37,500 and from the lowest possible tax rate schedule to one of the two highest rate schedules. The combined effect will possibly be the highest one-year unemployment tax increase on record.

I took a look at one company's tax rate calculation, which is in the mid-range of the tax rate brackets. This company's 2009 tax rate is 1.30%, so they will pay \$169 per full-time worker for 2009, assuming the worker is paid wages of at least \$13,000. For 2010, assuming this company remains in the same rate bracket (their experience is unchanged) their tax rate on Schedule H would be 4.80%, so they will pay \$1,800 per full-time worker, assuming the worker is paid wages of at least \$37,500. This would be more than a ten-fold increase.

Following is a news release from the Hawaii Department of Labor and Industrial Relations, which we recommend reading. If there are any questions please do not hesitate to contact us.


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DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

News Release

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**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS PREPARES
HAWAII BUSINESSES FOR HIGHER UNEMPLOYMENT INSURANCE
TAX IN 2010**

HONOLULU – The Department of Labor and Industrial Relations (DLIR) is reminding Hawaii businesses that they should be preparing for higher unemployment insurance (UI) taxes in 2010. By law, the increases will automatically take effect starting in April 2010 in order to help maintain the state's unemployment insurance trust fund.

In 2007 the unemployment insurance trust fund reached an all-time high balance of \$552 million, with taxes paid by employers averaging \$280 per employee. This was a result of low unemployment rates, which ranged from 2.2 percent to 3.2 percent, Hawaii experienced between 2004 and 2007. Under Act 110, which was passed in 2007, unemployment insurance taxes were lowered to an average of \$90 per employee for 2008 and 2009. The law included a provision to automatically raise the unemployment insurance tax when the unemployment insurance trust fund balance dipped below an adequate level.

Due to the current recession, the UI trust fund has paid out an average of \$31.7 million per month since January 2009. Hawaii ranks among the most generous states in unemployment

benefits, paying a maximum of \$545 per week for 26 weeks of state-funded benefits and an additional 33 weeks of federally approved benefits. With these generous benefits, higher unemployment rates (7.2 percent in August), and lower UI tax collections in 2008 and 2009, the DLIR projects that the UI trust fund balance will be depleted by the last quarter of 2010.

“Under the current law, unemployment insurance taxes will automatically increase to about \$450 to \$2,040 per employee depending upon the company’s unemployment experience rating,” said DLIR Director Darwin L.D. Ching. “New employers with no experience rating will pay about \$1,500 in unemployment insurance taxes per employee, so businesses need to prepare now for the tax increase that will start in 2010,” Ching added.

The DLIR calculates the UI tax schedule each year in December using the end of November UI trust fund balance. In March, after collecting employer data from the 4th quarter of the previous year, the DLIR calculates individual businesses’ experience ratings. This experience rating determines which tier on the tax schedule a company will be in. First quarter UI taxes for 2010 will be due in April, with the 2nd quarter taxes due in July, 3rd quarter in October, and 4th quarter in January 2011.

To ensure employers are prepared for the pending UI tax increase, DLIR officials are meeting with various business groups, chambers of commerce, ethnic chambers, trade and industry associations and employers councils to explain the tax increase rates and to answer questions employers may have.

DLIR also has information about the unemployment insurance trust fund and the tax increase posted on its web site (http://hawaii.gov/labor/reports/Briefing_091709.pdf).

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For more information, go to: www.hawaii.gov/labor

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