
SERVICE BULLETIN

South Carolina Amendment Will Increase UI Taxes for 2011 and Beyond

June 17, 2010

Legislation signed by Governor Sanford on June 3, 2010 will change the way UI tax rates are calculated in South Carolina beginning next year. The legislation (Senate Bill 391) addresses the deficit in the state's Unemployment Insurance Trust Fund. A projection of the impact on your 2011 UI tax rate(s) is not yet available. However, we anticipate that the result will be significantly higher UI taxes for at least the next five years for South Carolina employers.

The unemployment taxable wage base will increase from \$7,000 for 2010 to \$10,000 for 2011, \$12,000 for 2012, and \$14,000 for 2015. In other words, for each employee who is paid at least \$14,000, your UI taxes will double by 2015, even if your tax rate is unchanged.

The formula for computing UI tax rates will change from a reserve ratio formula to a benefit ratio formula, which will react more quickly to changes in funding needs. The prior reserve ratio formula took into account the entire history of a company's tax payments and benefit charges resulting from UI claims. The new formula, after a three-year transition period, will assign tax rates based on no more than the most recent three years of benefit experience.

By shortening the look-back period for computing rates, a rapid improvement or deterioration in economic conditions will result in more rapid decreases or increases in UI tax rates. The downside to this tax scheme is that tax rates tend to rise when the state's economy has been struggling in the recent past, and when the economy may still be struggling. This increases the risk of assigning higher tax rates at the worst possible time for employers.

The South Carolina amendment also requires that a surcharge be imposed on all employers to pay the interest due on federal loans to the UI trust fund. South Carolina currently has an outstanding federal loan of nearly \$890 million. Interest is not payable on this loan for 2010 but will be payable for 2011 unless additional federal legislation suspends the interest assessment again.

As always, please feel free to contact us if you have any questions or comments.

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