

The Forthcoming Employer Tax Increase

Unfortunately, most employers don't realize they are likely to see a significant tax increase regardless of anything the legislature in Carson City or Washington does. It is existing law and rules dating back to the 1930's with some changes over the years. The tax we are talking about is the Unemployment Insurance (UI) tax. Historically, most Nevada employers have paid little attention to their UI rate because it was low and stable. It was not a large enough bill to be an attention-getter for most employers.

That situation existed for several reasons which you need to understand. First, up until about a year ago, over 52% of all employers had such a low experience factor for UI that they were paying 0.25% of payroll for the state portion of UI. The reason so many were paying at such a lower rate is obvious if you ponder it for a couple minutes. For a couple of decades, we were the fastest growing state in the nation. Most companies were hiring and the few people who were laid off for whatever reason typically found a job in a few days or weeks. It was not uncommon for good employees to have a new job the same day they left their old employer. One employer estimated he paid UI on "perhaps one out of 40 or more who left over the years." There were a few exceptions, but people willing to work found work. If few were getting charged for UI payments, the experience factor dropped for most employers. In an email floated around our peer group in many other states, most found our 52+% at the lowest rate "truly amazing".

"Truly amazing" has come to an end. In rough terms we gained about 400,000 jobs over the course of a decade prior to the start of this recession. By the end of this year, it is expected we will have lost HALF of those jobs in under three years. It is hard to find a company of any size and in nearly any sector which has not reduced head count via layoffs, attrition, site closures or whatever. The reductions in government and education work forces are finally starting to happen. The recession in Nevada is far from over.

This means the experience factor for all employers will change on the anniversary date of your registration with Employment Security. Many companies will see large increases. In a year, we think the average rate could be 4% or higher just from the change in experience factor. A few companies in most classifications have just gone away; their burden will spread over the survivors. A few will have some really rude awakenings. In one case, a company moved the production operations to another state, but left a small core of engineers here. When the company's anniversary date arrives, the burden to the 100+ laid off will hit the experience factor of the few who remain. That cost will put a burden on the company to eliminate the remaining jobs and leave the state, with the burden shifting to other employers in the classification. Our maximum UI state rate is 5.4% of payroll and this company will be at that rate fairly soon. We suspect the remaining staff will be gone shortly afterwards.

Just this side of the scenario will make UI rates a real attention getter. However, the full picture is even worse. In October, we became one of about 40 states to exhaust their UI state trust fund and start borrowing about \$20 million per month from the federal government to pay UI claims. Our UI rolls are now about 140,000 people collecting payments each week. Under the current rules, our state gets the loan from the federal government on an interest-free basis for a year before they need to start paying it back. With over forty other states in the same mode, some expect action from Congress. Expecting Congress to do anything on any one of a dozen or two areas adversely

effecting employers is asking a lot. The reality of this sort of plays out like this: The federal government needs to sell treasury bonds (mostly to China) to finance our shortage in our UI trust funds for the loss of millions of U.S. jobs, with a good part of that loss to new jobs in China. I can just see a campaign ad opposing a congressman running for re-election reading something like: "Congressman "X" voted to accept money from China in exchange for U.S. jobs." If the loan repayment law stands then the employers in states with the highest UI situations will face a new substantial bill long before at least this state sees any real signs of recovery. We don't think the federal government can afford to continue to fund the UI trust fund payments with debt they are paying interest on themselves.

Our guess and speculation is some companies who have enjoyed the 0.25% UI rate will find themselves very close to the maximum rate in Nevada of 5.4% of payroll within this year. That is a 21.6 times increase or 2160% increase just based on the change to the experience factor for your company and your classification. This DOES NOT include any increase which is related to paying back the loan to our UI trust fund to the federal government which will be a much bigger issue in 2011.

Factors to remember in this mess

Companies who have cut back employment drastically or have closed in your industry classification left their tail of UI claims which will burden all in that class code. If they are still in business, they will take a huge hit. If they closed, then the burden shifts to others in that classification. Loosing a competitor who goes out of business still has a cost to you. Even if your employment has been stable, most employers will see a UI rate increase.

The Cashman Good Government Award was recently award to the Unemployment Insurance Section of DETR (Dept of Employment, Training and Rehabilitation). They received the award for starting the use of Debt Cards for UI recipients at NO expense to the state or the recipients in November of 2007 just as the recession was starting. The estimated savings to employers in the state is over \$8 million already. Were this not in place now, they would be processing and issuing about 140,000 checks each week and mailing them. The \$8 million is probably low since just the postage would now be over \$5k per week plus all the handling, materials and labor involved. The timing of the new system was nearly perfect, but the important issue is it is a cost not incurred or passed on to employers. The benefit is passed electronically to the cards each week in less than a couple days.