Headway Workforce Solutions Analyst Statement: SUTA Tax Increases

State Unemployment Tax Act (SUTA) Unemployment Insurance Rates are on the Rise

As numerous reports indicate, state governments continue to struggle with the funding of their unemployment claims. Accordingly, nearly all state unemployment insurance funds are facing some kind of jeopardy due to the high payout of unemployment benefits; 31 state unemployment funds are insolvent, and 35 states are borrowing from the Federal government to pay their unemployed workers' benefits.

Some states have dramatically increased their SUTA unemployment insurance tax rates to alarming levels. Maryland, for example, increased their minimum SUTA rate, charged to employers, by more than 630% (0.3% to 2.2%) and their maximum SUTA rate by 80% (7.5% to 13.5%) from 2008 to 2010. States that changed their SUTA taxes have increased, on average, their maximum SUTA rates by 15% and their minimum SUTA rates by 95% from 2008 to 2010.

Furthermore, in order to pay back these loans to the Federal government and re-build their unemployment benefit fund levels, most states have increased their SUTA tax rates and/or their taxable SUTA wage base, which both effectively raise the taxes employers pay. This trend is expected to continue for the next several years with some reports indicating SUTA taxes will double or triple in the next year in order to address these massive overruns and burdens.

Increases in SUTA Rates Affects Your Bottom Line

The SUTA tax rates apply to each employee's wages up to a wage cutoff threshold or wage base. These thresholds vary by state, but generally run from the first $7,000 of wages all the way to the first $30,000+ of wages. For each of these wage dollars, the employer is required to pay the state-specified SUTA tax rate for all payroll dollars.

> **Example:** If you have 5,000 employees, and on average the states where they are located have a threshold of $10,000, an increase of average SUTA rates from 5.0% to 6.0% represents a **<u>$500,000 increase</u>** in taxes that must be paid by the employer
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> 5,000 employees x $10,000 tax threshold/employee = $50,000,000 in payroll subject to SUTA tax;
> $50,000,000 x (new SUTA rate (6.0%) – old SUTA rate (5.0%)) = **$500,000**

How Will Increases In SUTA Taxes Impact Retailers?

With SUTA tax rates on the rise retailers can be some of the hardest hit by the unemployment tax increases that states impose on employers. Retailers, in part due to the cyclical nature of their workforce as well as having traditionally higher turnover rates, can be more at risk to receiving higher unemployment tax rates, especially if their seasonal workforce negatively impacts their experience rating due to a higher ratio of unemployment claims filed to their overall payroll dollars.

Seasonal Workers Can Increase SUTA Rates

For many companies in the retail sector, it is very common to bring on a variety of additional workers (store level, call center, warehouse, et al) to support peak sales periods; this could be early winter (coats and outerwear), early fall (back to school), late fall (Halloween-centered), or Holiday Season (general retail). Many of these workers are brought on for periods that can typically range from 1 to 12 weeks, at which time their work ends.

While the requirements to claim unemployment benefits vary from state to state, there are many cases where terminated seasonal workers are able to claim unemployment benefits. As a retailer's ratio of unemployment benefits paid versus total payroll increases, it will usually lead to increases in their SUTA rates. Accordingly, **seasonal employees can negatively affect a retailer's SUTA rates.** Furthermore**,** any increase in a retailer's experience rating or higher SUTA tax rate(s) is applied to the retailer's entire workforce. Removing seasonal workers from your payroll (not "employing" them) and engaging a third party Employer of Record (EOR) program is one way that could effectively mitigate and shift your risk of SUTA tax rate increases. There are also other cost savings achieved through an EOR program, including; payroll processing, time tracking, benefits, claims and tax management, as well as Workers Comp & HR administration.

What Is "SUTA Dumping?"

According to various state unemployment insurance agencies, "SUTA Dumping is tax evasion that involves employer's manipulating their unemployment insurance (UI) tax rate to primarily achieve a lower rate, and thereby pay less SUTA taxes.

SUTA Dumping typically occurs when a business transfers payroll out of an existing company or organization to a new or different entity or Federal Employment Identification Number (FEIN), solely or primarily to reduce their UI taxes."

Why Should Companies Be Concerned About SUTA Dumping?

States are very aware about the practice of SUTA rate exploitation and fully understand the financial and economic damage that occurs as a result of SUTA Dumping practices. Accordingly, they are more alert than ever and are aggressively watching, observing, auditing and, in some cases, prosecuting offending companies or organizations.

The penalty for SUTA Dumping varies from state to state, but can typically incorporate severe penalties, interest expense (when owed), increased SUTA rates (many times to the state's maximum rate) and, in certain cases, could potentially involve criminal tax evasion investigations and charges, as well as civil penalties. SUTA Dumping can potentially have a devastating impact on an organization's financial viability and legal standing.

Headway's Online SUTA Impact Calculator

In order to help organizations better understand the impact SUTA tax rates can have on a business, Headway developed a simple and intuitive online widget that quickly calculates how state unemployment tax increases can affect your organization's bottom line. You will be able to run multiple scenarios and input variable workforce estimates and see how anticipated SUTA rates may increase your tax costs at www.headwaycorp.com/sutaimpact. This site also lists the **TOP 15 States** having the largest percentage increase in their SUTA rates.

For More Information, Please Contact Headway at: **HeadwayCorp.com** *or* **919.424.5800**

SOURCES:
Department of Labor, National Association of State Workforce Agencies, Department of Treasury, Staffing Industry Analysts, Michigan UIA, CNNMoney, Internal Revenue Service. Office of Unemployment Insurance.