

T&C UNEMPLOYMENT TIPS

The Monthly Newsletter of Thomas & Company

THE LATEST FROM THE T&C TIPS:

Intro - 1

How Rates Are Calculated - 2

Ways to Lower Tax Rates - 3

Joint Accounts - 4

UNEMPLOYMENT TAX RATES – BRINGING IT ALL TOGETHER

Michele Heckmann, Director of Customer Insights

Managing your unemployment claims is a critical part of the overall unemployment claims program. Responding to requests for separation information with complete information in a timely manner ensures that the state workforce agencies can make the correct determination on eligibility. Participating in hearings when there is a dispute over the claim for benefits can help ensure that the facts of the case are clearly presented. All of this work that is being done on a daily basis accounts for more than just a great winning percentage. Every dollar that is saved in benefit payments actually has an impact on the bottom line for your company and the fruits of your efforts are seen in the annual tax rate assessments. States are busy calculating the rates for 2023 and will be issuing the 2023 rates over the next few months.

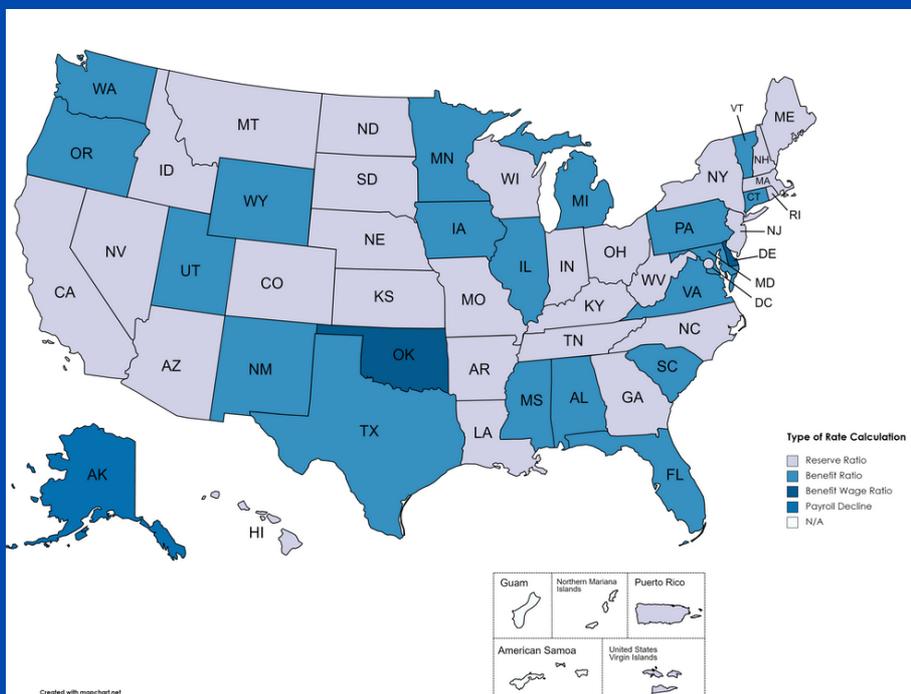


HOW RATES ARE CALCULATED

In the simplest of terms, unemployment tax rates are based on two factors: an employer's individual experience and the state's management of the trust funds. All employers tax rates are calculated using some type of experience factor (i.e. benefits) in relation to their payroll in that state. Some states use a system similar to a bank account by keeping a running total of the amount of money paid in (contributions) minus the amount of money paid out (benefits) to come up with a balance, which is called a reserve ratio. Other states simply look at the ratio of benefits paid to the payroll to determine how well the employer is doing to manage their account, which is called a benefit ratio.

Once the state determines the employer's ratio, they apply this to a rate table or schedule that sets the minimum and maximum rates for the year. These tables/schedules are often tied to the overall health of the state's unemployment trust fund. When a state's trust fund balance falls, the state will increase tax rates to help bring the overall balances up and vice-versa.

TYPES OF RATE CALCULATIONS





WAYS TO LOWER TAX RATES

In addition to managing your claims, some states offer employers additional opportunities to reduce their tax rates on an annual basis. One way is by making a voluntary payment, commonly called a voluntary contribution or VC, to the state to reduce the annual tax rate.

- This one-time payment is made at the beginning of the rate year to lower an assigned tax rate to the next lowest rate.
- Voluntary contributions must be made within specific time limits that are outlined on the notice of rate determination.
- There are several factors that determine the profitability of a voluntary payment including how close the employer is to the next lowest rate and what they expect their taxable payroll to be in the following rate year. In some cases, the savings can be substantial. As an example, a Texas employer was able to make a payment of \$282 to save \$26,818 dollars in taxes for the year.



AVOID PENALTIES

Your 2023 unemployment tax rates will be issued soon. Any outstanding contributions and/or missing contribution reports should be filed now in order to avoid a penalty rate being assigned. While we protest any penalty rates assigned, it is possible that the deadline to take care of the issue may have passed before the rate is assigned.

For example, Indiana will be issuing Merit Rate Delinquency Notices to employers with outstanding reports and/or balances in mid-September with a 10-day deadline to resolve. If delinquency is not resolved, a 2.00% penalty rate will be in effect for 2023. We advise employers to visit the Employer Self Service site to ensure your account(s) is in good standing to mitigate any potential delays in the USPS mailings.

State	Employer	Est. Taxable Wages	Original Tax Rate	VC Amount	Revised Tax Rate	SUI Tax Reduction	Net Tax Savings	Break-Even Taxable Payroll
GA	ABC Company	\$1,700,000	0.88%	\$1,557	0.77%	\$1,868	\$311	\$1,417,272
LA	ABC Company	\$1,416,800	1.74%	\$4,410	1.33%	\$5,809	\$1,399	\$1,075,610
TX	ABC Company	\$27,100,000	2.21%	\$282	2.11%	\$27,100	\$26,818	\$282,000



JOINT ACCOUNTS

Another tax savings opportunity could be forming a joint account. In the states that allow a joint account to be formed, an employer is essentially combining multiple legal entities for experience rating purposes on paper but all entities continue to operate and report payroll separately. A potential benefit of this combined experience can be a lower overall tax rate for the entities involved in the joint account.

It is important to review the terms of the joint account before making a commitment. Some states allow you to form a joint account for one tax year while in others, once the accounts are joined, they will always be linked for experience purposes. Employers considering joint accounts will also want to consider planned payroll variances and any voluntary contribution opportunities that may be made in conjunction with the joint account configuration.

Employer	Reserve Balance	Taxable Payroll	Reserve Ratio	SUI Tax Rate	Estimated Taxable Payroll	Estimated SUI Tax Due
Company A	\$24,124.17	\$231,732.86	10.41%	1.50%	\$180,000	\$2,700
Company B	\$67,900.43	\$822,951.49	8.25%	2.20%	\$1,500,000	\$33,000
Company C	\$1,634,603.84	\$12,644,633.04	12.92%	0.60%	\$12,000,000	\$72,000
Estimated Tax Due in 2022 if accounts remain separate:						\$107,700
Account Factors Combined						
Combined	\$1,726,628.44	\$13,699,317.39	12.60%	0.60%	\$13,680,000	
Estimated Tax Due in 2022 for Projected Joint Account:						\$82,080
Estimated Cash Flow Savings for 2022 from Projected Joint Account:						\$25,620

DID YOU KNOW?

Thomas & Company now offers state and local withholding registrations. Please contact Jeremy Muchnick (jmuchnick@thomas-and-company.com) for more information or visit <https://thomas-and-company.com/state-local-taxes/state-local-tax-registration-services/>

Thomas & Company strives to be a partner in managing your unemployment program and share information that will be beneficial to our combined success. If you have any questions about the information shared in this tip, please reach out to your Client Relationship Manager for more information.