

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1018
Economic Matters

(Delegate B. Robinson, *et al.*)

**Task Force to Study the Impact of Unemployment Insurance Contribution
Fluctuations on Small Businesses**

This bill establishes a Task Force to Study the Impact of Unemployment Insurance Contribution Fluctuations on Small Businesses to examine (1) the fairness of the unemployment insurance (UI) contribution system; (2) the factors influencing variations in UI contributions made by small businesses and the impact thereof; (3) the impact of government contracting on small business owners and potential relief for these businesses following termination of a government contract; and (4) the need to alter the current UI contribution system in order to ensure small businesses are not disparately impacted. The task force must make specific recommendations on the steps to be taken to ensure that Unemployment Insurance Trust Fund (UITF) payments remain adequate and equitable for both employees of small businesses and their employers and submit a final report by December 31, 2014. The Department of Labor, Licensing, and Regulation (DLLR) must provide staff for the task force. Members of the task force may not receive compensation but are entitled to reimbursement for expenses.

The bill takes effect July 1, 2014, and terminates June 30, 2015.

Fiscal Summary

State Effect: Staffing of the task force and reimbursement can likely be handled with existing budgeted resources. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Unemployment insurance provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for the unemployment insurance programs. Funding for the program is provided by employers through unemployment insurance taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their unemployment insurance trust funds. Using federal tax revenues, the unemployment insurance program is administered pursuant to state law by state employees. Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

An employer's State tax rate is based on the employer's unemployment history and ranges within a certain percentage of the total taxable wages of the employer's employees. The taxes are deposited in UITF and can be used only to pay benefits to eligible unemployed individuals. Maryland employers are assigned one of three different types of tax rate: the new account rate; the standard rate; or the experience (earned) rate. After an employer has paid wages to employees in two rating years prior to the computation date, the business is entitled to be assigned a tax rate reflecting the amount of UI benefits claimed by former employees. If the employer's former employees receive benefits regularly which result in benefit charges, the employer will have a higher tax rate.

The earned rate is determined by finding the ratio between the benefits charged to the account and the taxable wages reported in the three fiscal years prior to the computation date. The benefit ratio is then applied to the tax table in effect for the year. The table in use for a particular calendar year is determined by measuring the adequacy of the Maryland UITF to pay benefits in the future. There are six tables, ranging from the lowest (A) to the highest (F).

If the balance of UITF exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. When UITF is depleted to the point the balance is less than 3.0% of the taxable wages, the highest rate table (Table F) is used to determine employer rates. State and local governments and some nonprofit organizations reimburse UITF dollar-for-dollar in lieu of paying State and federal UI taxes. **Exhibit 1** shows the six rate tables that determine the amount charged to each employer. Taxable wages are defined as the first \$8,500 earned by each covered employee in a calendar year.

Exhibit 1
Unemployment Insurance Tax Rates

<u>Table</u>	<u>Ratio of UITF to Taxable Wages</u>	<u>Minimum Rate</u>	<u>Maximum Rate</u>	<u>Taxes Per Employee</u>	
				<u>Minimum</u>	<u>Maximum</u>
A	UITF exceeds 5%	0.3%	7.5%	\$25.50	\$637.50
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	9.0%	51.00	765.00
C	UITF exceeds 4%, but not in excess of 4.5%	1.0%	10.5%	85.00	892.50
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%	119.00	1,003.00
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%	153.00	1,096.50
F	UITF is 3% or less	2.2%	13.5%	187.00	1,147.50

Source: Department of Legislative Services

Exhibit 2 shows for each year since 2006 the balance of UITF on September 30 and the tax tables in effect during the calendar year.

Exhibit 2
UI Trust Fund Balance and Tax Rate Table
Calendar 2006-2014

<u>Calendar Year</u>	<u>Tax Rate Table in Effect</u>	<u>UI Trust Fund Balance*</u> <u>(\$ in Millions)</u>
2006	B	\$1,032.5
2007	A	1057.8
2008	A	895.4
2009	B	301.7
2010	F	273.4
2011	F	460.2
2012	F	794.5
2013	C	954.7
2014	A	N/A

*Balance as of September 30.

Source: Department of Labor, Licensing, and Regulation; Department of Legislative Services

Chapters 50 and 51 of 2007 created the Joint Committee on Unemployment Insurance Oversight. The committee is authorized to examine the need for additional alterations to the UI system, including rate charging and taxation provisions and eligibility and benefit provisions. DLLR provides annual updates to the committee on the status of UITF and addresses issues or questions raised by the committee.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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