# HB 416

# Department of Legislative Services

Maryland General Assembly
2008 Session

## FISCAL AND POLICY NOTE
**Revised**

House Bill 416 (Chair, Economic Matters Committee)
(By Request – Departmental – Labor, Licensing, and Regulation)

Economic Matters Finance

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**Unemployment Insurance - State Collection of the Federal Unemployment Insurance Tax**

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This departmental bill authorizes the Department of Labor, Licensing, and Regulation to directly collect from employers the federal unemployment insurance tax, if the U.S. Department of Labor provides such authority. Funds derived from the collection of these federal taxes would be used only to administer the Unemployment Insurance and Employment Services programs. DLLR must submit any agreement reached with the federal government to the Joint Committee on Unemployment Insurance Oversight for review.

The bill terminates September 30, 2013.

## Fiscal Summary

**State Effect:** An additional $26.3 million in FY 2009 and $39.3 million in FY 2013 could be available, *if the United States government permits Maryland to directly collect the federal UI tax.* Federal fund expenditures could increase beginning in FY 2009. This estimate reflects the bill's October 1, 2008 effective date. Future year federal fund revenues reflect annualization.

| (in dollars) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|---|---|---|---|---|---|
| FF Revenue | $26,250,000 | $35,000,000 | $35,000,000 | $35,000,000 | $35,000,000 |
| FF Expenditure | - | - | - | - | - |
| Net Effect | $26,250,000 | $35,000,000 | $35,000,000 | $35,000,000 | $35,000,000 |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** The Department of Labor, Licensing, and Regulation has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Current Law:** Maryland can collect federal unemployment insurance taxes only if the U.S. Department of Labor provides such authority.

Under the Federal Unemployment Tax Act (FUTA), the Internal Revenue Service is authorized to collect a federal employer tax used to fund state workforce agencies. Employers pay this tax annually to cover the costs of administering all states' Unemployment Insurance and Job Service programs. FUTA also pays one-half of the cost of extended unemployment benefits and provides a fund from which states may borrow, if necessary, to pay benefits.

The FUTA tax rate is 6.2% of taxable wages. The taxable wage base is the first $7,000 paid in wages to each employee during a calendar year. Employers who pay the state unemployment tax on a timely basis receive an offset credit of up to 5.4% regardless of the rate of tax they pay the state. Thus, the net FUTA tax is generally 0.8%, for a maximum FUTA tax of $56 per employee per year. The FUTA tax provides for 100% of the administrative costs for Maryland's Unemployment Insurance and Employment Services programs (*e.g.*, salaries, computers, postage).

**Background:** The bill establishes enabling legislation for the Department of Labor, Licensing, and Regulation to collect the FUTA tax. DLLR advises that, although there is no current initiative to authorize a pilot program, there have been federal proposals to do so in the recent past. Thus, if the U.S. Department of Labor were to allow some or all states to collect the FUTA tax on a pilot basis, beginning sometime in the future, Maryland would have already expressed its desire to participate with this bill. The new collection process would provide significant financial control to the states.

Currently, the FUTA tax is paid by employers in every state. DLLR advises that, in 2005, Maryland employers paid over $135 million in FUTA taxes (at $56 per worker). Of that $135 million, Maryland received less than $68 million. If Maryland has authority to directly collect these taxes, the State would be entitled to a minimum of 75% of the total FUTA taxes collected. The remaining 25% would be returned to the federal government to be deposited into two federal unemployment insurance accounts for loans and extended benefits. Thus, if the U.S. Department of Labor provides such authority immediately, Maryland could realize a net gain of approximately $35 million on calendar-year basis.

**State Fiscal Effect:** An additional $26.3 million could be available to DLLR beginning in fiscal 2009, *if the United States government permits Maryland to directly collect the FUTA tax.* Future year federal fund revenues could be approximately $35 million a year.

Legislative Services advises that, at this time, it is unclear if the bill would have any impact on the overall workload of DLLR, since the U.S. Department of Labor has not granted authority to Maryland to collect these federal taxes. If the U.S. Department of Labor were to grant Maryland such tax collection authority, DLLR advises that the UI Division would need to expand its tax collection and audit group. DLLR advises that expenditures to implement such a tax collection program may result in additional staff, programming modifications, and forms. DLLR did not provide any specific information regarding the number of staff or program cost that may be needed; however, any expenses incurred would be paid from the additional administrative funds generated by the new collection process.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 26, 2008
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