Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader - Revised

House Bill 554 (Delegate Charkoudian)
Economic Matters

Unemployment Insurance Modernization Act of 2025

This bill generally expands the State's unemployment insurance (UI) program by increasing both employee benefits and employer UI taxes, and indexing several major components to wage growth or inflation. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: Federal fund revenues and expenditures for the Maryland Department of Labor (MD Labor) increase by approximately $750,000 in FY 2026 and approximately $815,000 in FY 2027 for programming expenses. State expenditures to reimburse the Unemployment Insurance Trust Fund (UITF) increase significantly beginning in FY 2026. State finances are also affected beginning in FY 2026 due to the tax treatment of UI benefits and employer UI taxes. Nonbudgeted UITF revenues and expenditures increase significantly beginning in FY 2026, concurrent with changes to employer UI taxes and UI benefits. Assumptions used and context for these effects are discussed below.

Local Effect: Meaningful. Local governments are affected in much the same way as the State government, as employers and recipients of tax revenues, as discussed below.

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law: Changes to employee benefits and taxable wages are shown in **Exhibit 1**. Estimated dollar amounts are shown in **Exhibit 2**. Actual amounts depend on wage growth, inflation, and the percentages the Secretary of Labor chooses to use to phase in the maximum weekly benefit amount (WBA) and the taxable wage base.

Exhibit 1
Changes to Employee Benefits and Employer Taxable Wages under the Bill

Current Law	The Bill
Minimum WBA is $50 per week. Maximum WBA is $430 per week. There are no annual updates. WBA approximates one twenty-fourth of high-quarter wages in base period.	Minimum WBA is 15% of State AWW. Maximum WBA must increase annually from 2025 through 2027 to reach 50% of AWW beginning in calendar 2028. Amounts are updated July 1 each year. WBA is one twenty-fourth of high quarter wages in base period.
Dependent allowance is $8, limit of five. Cannot increase maximum WBA.	Dependent allowance is $25, limit of five. Cannot increase maximum WBA. Annual inflation adjustment.
The first $50 in weekly wages is disregarded for determining WBA.	The first $50 in weekly wages is disregarded for determining WBA. Annual inflation adjustment.
Taxable wage base is $8,500.	Taxable wage base must increase annually in 2026 and 2027 to reach 20% of AAW beginning in calendar 2028.

AAW: average annual wage (in the State)
AWW: average weekly wage (in covered employment)
WBA: weekly benefit amount

Source: Department of Legislative Services

Exhibit 2
Illustrative Dollar Amounts[1] by Calendar Year

	2025	2026	2027	2028	2029	2030
Applicable AWW	$1,495	$1,540	$1,585	$1,635	$1,680	$1,730
Minimum WBA	$225	$230	$240	$245	$250	$260
Maximum WBA[2]	$525	$615	$715	$815	$840	$865
Dependent Allowance	$25	$25	$25	$25	$30	$30
Maximum Income Disregard	$50	$50	$55	$55	$55	$55
Employer Taxable Wage Base[2]	$8,500	$11,490	$14,905	$18,060	$18,605	$19,160

AAW: average annual wage (in the State)
AWW: average weekly wage (in covered employment)
WBA: weekly benefit amount
TWB: taxable wage base

[1] All dollar amounts shown are rounded to the nearest $5 and are for illustrative purposes only. AWW in future years is based on the 2023 AWW of $1,409 with an annual growth rate of 3%. Under the bill, WBAs are effective July 1 of the listed calendar year; all WBAs shown assume an initial change from current law coincident with the bill's July 1, 2025 effective date. Dependent allowance and income disregard must be increased annually for inflation but otherwise have no specified timeframe for doing so during the calendar year. Employer TWBs are effective in each full calendar year.

[2] The Secretary of Labor must annually increase the maximum WBA and the employer TWB before ongoing percentages apply beginning in 2028. For the maximum WBA, this example assumes 35% wage replacement beginning 7/1/2025, 40% beginning 7/1/2026, and 45% beginning 7/1/2027. For employer TWBs, this example assumes annual growth of 3% for the AAW and 13.5% of AAW in 2026 and 17% of AAW in 2027.

Source: Department of Legislative Services

Unemployment Insurance Program – Generally

For a general overview of the State UI program, see the **Appendix – Unemployment Insurance**.

State Fiscal Effect: The bill significantly increases employee benefits and employer taxes/reimbursements under the State UI program. Taxable wages increase beginning January 1, 2026. Consistent with the effective date of the bill, and the requirement that the Secretary of Labor determine the minimum and maximum WBAs on July 1 each year, employee benefits are assumed to begin increasing July 1, 2025; although this analysis is based on the bill's requirements, MD Labor advises that, due to the complexity of reprogramming and testing changes to the UI system, it may not be able to meet the

July 1, 2025 deadline for increasing benefits. Any delay in implementing benefit changes similarly delays some of the bill's fiscal effects. The bill's changes affect MD Labor as the program administrator, the State as an employer, income tax revenues, and UITF revenues and expenditures, as discussed below.

Maryland Department of Labor

MD Labor advises that programming costs associated with the changes in the bill are estimated to be approximately $750,000 in fiscal 2026 and $815,000 in fiscal 2027. This estimate assumes additional above-base federal funding will be provided if existing federal funding is insufficient for these expenses. Absent federal funding, general funds are required. MD Labor does not anticipate the need for additional staff.

State as an Employer

The State, as an employer, reimburses UITF dollar-for-dollar for UI benefits paid to former employees on a quarterly basis and has historically reimbursed approximately 1.3% of State UI benefits paid. This estimate assumes that UI benefits increase beginning July 1, 2025; accordingly, State expenditures for reimbursements increase significantly beginning in fiscal 2026. Amounts could exceed $1.0 million annually.

Income Tax Revenues

UI benefits are taxable income, although not all Maryland UI benefits paid show up on Maryland tax returns, for a variety of reasons. The bill significantly increases UI benefits, which increases State (and local) government revenues from income taxes on those benefits. However, increased employer UI tax payments also decrease employer federal income taxes (as a deductible expense), which reduces State and local income tax revenues. The net effect on State (and local) government finances from increasing both UI benefits and employer UI taxes is unknown at this time; however, given the magnitude of the changes, it could be significant beginning in fiscal 2026. The effect on local highway user revenues (LHURs) depends on the extent of corporate income tax revenue changes.

UITF Effect: Broadly, nonbudgeted UITF revenues and expenditures increase beginning in fiscal 2026, concurrent with changes to employer UI taxes and assumed changes to UI benefits. The Department of Legislative Services cannot reliably estimate the effects at this time, although amounts are likely several hundred million dollars annually once fully phased in (fiscal 2028 and 2029, respectively). Generally, the bill appears to roughly double employer UI taxes and UI benefits. For additional context:

- In 2024, UITF revenues were approximately $425 million (under Table A), and UITF expenditures were approximately $415 million.

- Based on its own wage growth and unemployment assumptions, MD Labor estimates UITF revenues of approximately $1.0 billion and UITF expenditures of approximately $900 million in calendar 2028 under the bill.

Local Fiscal Effect: Local government reimbursements to UITF for UI benefits paid increase significantly beginning in fiscal 2026. The amount is unknown at this time but should approximate the overall UI benefit increases under the bill.

Local government revenues are affected, potentially significantly, from changes associated with enhanced UI benefits and employer UI taxes beginning in fiscal 2026. The effect on LHURs depends on the extent of corporate income tax revenue changes. The amount is unknown at this time.

Small Business Effect: Small businesses pay significantly higher State UI taxes due to the increased taxable wage base beginning in fiscal 2026.

While not considered small businesses for purposes of fiscal and policy notes, small nonprofit employers must reimburse UITF for the cost of increased employee UI benefit payments under the bill, which are assumed to begin in fiscal 2026.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 104 and HB 205 of 2024 and SB 670 and HB 724 of 2023.

Designated Cross File: SB 752 (Senator Kramer) - Finance.

Information Source(s): Maryland Department of Labor; Maryland Association of Counties; Comptroller's Office; Judiciary (Administrative Office of the Courts); Department of Budget and Management; Department of Human Services; U.S. Department of Treasury; U.S. Department of Labor; Department of Legislative Services

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Appendix – Unemployment Insurance

Program Overview

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits of up to $430 per week to individuals 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 UI programs. Generally, funding for the program is provided by employers through UI taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their UI trust funds. Using federal tax revenues, the UI program is administered pursuant to state law by state employees. The Maryland Department of Labor's (MD Labor) Division of Unemployment Insurance administers the State's UI program.

Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Employer Contributions

Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse the Unemployment Insurance Trust Fund (UITF) for claims paid in lieu of paying taxes. Therefore, for most Maryland employers, the State UI tax rate is a function of:

- the employer's specific unemployment claims history; and
- the applicable tax table, which is based on the State's UITF balance and applies to most taxable employers.

Exhibit 1 shows the range of State UI taxes a typical employer owes based on the tax table in effect; there are other rates for new employers and in other limited circumstances. State UI taxes and reimbursements are typically due quarterly. As UI taxes are applied to the *first* $8,500 earned by each employee, each calendar year, the first two quarterly tax payments are typically the largest.

Exhibit 1
Tax Tables and Applicable Employer Tax Rates

	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages		Trust Fund Balance ($ in Millions)		Then Next Year's Tax Rates Range from			Annual Tax Per Employee (Rate x $8,500)		
Tax Table	**Exceeds**	**Up to**	**Exceeds**	**Up to**	**No Claims**	**Single Claim**	**Up to**	**No Claims**	**Single Claim**	**Up to**
A	5.00%	n/a	$1,067.8	n/a	0.30%	0.60%	7.50%	$25.50	$51.00	$637.50
B	4.50%	5.00%	961.0	$1,067.8	0.60%	0.90%	9.00%	51.00	76.50	765.00
C	4.00%	4.50%	854.2	961.0	1.00%	1.50%	10.50%	85.00	127.50	892.50
D	3.50%	4.00%	747.5	854.2	1.40%	2.10%	11.80%	119.00	178.50	1,003.00
E	3.00%	3.50%	640.7	747.5	1.80%	2.60%	12.90%	153.00	221.00	1,096.50
F	0.00%	3.00%	0.0	640.7	2.20%	3.10%	13.50%	187.00	263.50	1,147.50

Notes: Fund balance threshold dollar amounts are based on the 2023 taxable wage base and are subject to modest changes each year. State law also generally requires a federal solvency goal to be met prior to moving to a tax table with lower rates (*i.e.*, from Table F to Table A). The federal solvency goal, which is designed to ensure the State's ability to pay claims during periods of high unemployment, is approximately $1.7 billion and varies with the total wages paid in the State and benefits paid during recent recessions.

A "single claim" represents the tax rate applicable to the lowest possible rate associated with nonzero (.0001 to .0027) benefit ratios. Taxes are applied to the first $8,500 earned by each employee, each year; compensation less than that amount reduces taxes owed accordingly.

Table F was in effect in 2021 due to the COVID-19 pandemic; prior to that, Table A had been in effect since 2016. Table C was in effect in 2022 and 2023 pursuant to Chapter 73 of 2021, which also resulted in an $830 million infusion of federal funds into the trust fund in 2021. Table A was in effect in 2024 and is once again in effect in 2025.

As of January 1, 2025, the trust fund balance was $1.9 billion.

Source: Department of Legislative Services

Benefit Payments

Generally, the weekly benefit amount a claimant is eligible for is based on the quarterly wages that the claimant was paid for covered employment in the calendar quarter of the claimant's base period in which those wages were highest. The base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year, or, if the individual does not qualify under that definition, the four most recently completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from $50 to $430 per week, based on earnings in the base period. There is also a dependent allowance of $8 per dependent, for up to five dependents, although the allowance cannot raise the weekly benefit amount above $430. The first $50 of any wages earned by an individual receiving UI benefits in a given week is disregarded for purposes of calculating the weekly benefit amount, after which the benefit payment is reduced dollar for dollar. These amounts do not adjust for inflation. Generally, during a benefit year, a claimant is entitled to 26 times the claimant's weekly benefit amount. During periods of high unemployment, extended benefits may also be available.

2021 Legislation Enhanced and Required Evaluation of the State Unemployment Insurance System

The unprecedented volume of claims and benefit payments due to COVID-19 strained the State UI system to its limit, which raised numerous concerns about the system's ability to effectively meet the needs of claimants and employers. Consequently, during the 2021 legislative session, the General Assembly required several system reforms, including an MD Labor-led study regarding various longer-term reforms.