

South Carolina

State Unemployment Tax Relief  
2011

Senator Paul Campbell  
South Carolina

# Background

- SC Unemployment Trust Fund declined from a \$600M surplus to a \$933M deficit in ten years
  - \$30M per year in ESC fraudulent claims
  - Legislature should have been more active
  - SUTA tax too low to cover claims w/ higher unemployment rate
- Dec 2008: SC began borrowing money from the Feds to pay unemployment benefits
- SC has borrowed \$933 million to date

# New Tier System

- Employers placed in 20 tiers
- Based on employers benefit ratio for last seven years
- Employers with zero unemployment claims placed in Tier 1 (\$10/employee/year)
  - 53 percent of SC businesses
- Employers with most unemployment claims placed in Tier 20 (\$1,127/employee/year)

## 2011 SC Unemployment Insurance Tax Rates: A comparison between 2010 and 2011

This document demonstrates the cost differences to SC employers as it relates to their SUTA (state unemployment tax) rates from 2010 to 2011. The numbers you see below are the cost per employee per year that employers must pay to the state for their unemployment insurance.

2010 Employer Rates (per employee per year)	Tier	2011 Employer Rates (per employee/year)	Estimated Number of SC Employers in Each Tier
\$86.80	1	\$10.30	45,426
\$111.30	2	\$103.80	1,963
\$135.80	3	\$114.30	1,383
\$160.30	4	\$126.90	950
\$184.80	5	\$140.60	953
\$209.30	6	\$155.30	1,212
\$233.80	7	\$172.10	1,026
\$258.30	8	\$190.00	1,425
\$282.80	9	\$211.00	1,640
\$307.30	10	\$233.10	1,479
\$331.80	11	\$258.30	1,469
\$356.30	12	\$286.70	1,771
\$380.80	13	\$543.30	2,133
\$405.30	14	\$602.20	2,219
\$427.00	15	\$668.40	2,844
	16	\$742.00	2,724
	17	\$824.00	3,007
	18	\$915.50	3,051
	19	\$1,016.40	2,955
	20	\$1,127.90	<u>5,601</u>
			85,231

# New Tier System

Rate Class	Current Base Tax Rate	Current Benefits + Loan Principal	Current Loan Interest	Current Contingency	Current Total Cost per Worker
1	0%	0	\$4.30	\$6.00	\$10.30
2	0.93%	\$93.00	\$4.80	\$6.00	\$103.80
3	1.03%	\$103.00	\$5.30	\$6.00	\$114.30
4	1.15%	\$115.00	\$5.90	\$6.00	\$126.90
5	1.28%	\$128.00	\$6.60	\$6.00	\$140.60
6	1.42%	\$142.00	\$7.30	\$6.00	\$155.30
7	1.58%	\$158.00	\$8.10	\$6.00	\$172.10
8	1.75%	\$175.00	\$9.00	\$6.00	\$190.00
9	1.95%	\$195.00	\$10.00	\$6.00	\$211.00
10	2.16%	\$216.00	\$11.10	\$6.00	\$233.10
11	2.40%	\$240.00	\$12.30	\$6.00	\$258.30
12	2.67%	\$267.00	\$13.70	\$6.00	\$286.70
13	5.11%	\$511.00	\$26.30	\$6.00	\$543.30
14	5.67%	\$567.00	\$29.20	\$6.00	\$602.20
15	6.30%	\$630.00	\$32.40	\$6.00	\$668.40
16	7.00%	\$700.00	\$36.00	\$6.00	\$742.00
17	7.78%	\$778.00	\$40.00	\$6.00	\$824.00
18	8.65%	\$865.00	\$44.50	\$6.00	\$915.50
19	9.61%	\$961.00	\$49.40	\$6.00	\$1,016.40
20	10.67%	\$1,067.00	\$54.90	\$6.00	\$1,127.90

# Results of New Tier System: The Good News

- Puts forth a plan to pay back the Fed loan
- SC does not have to borrow interest bearing loans from Federal government to cover unemployment benefits

# Results of New Tier System: The Bad News

- 100 to 600 percent increase in SUTA taxes to 30+ percent of SC businesses
  - Unfairly penalizes employers in punitive tiers
  - Only based on last seven years (during Great Recession)
  - Tens of thousands to millions of dollars in increases
  - No warning of increases
  - Hiring freezes
  - Expansion freezes
  - Capital investment freezes
  - Layoffs
  - Considering a move to another state

# SUTA Relief

- Budget Conference Committee unanimously approved \$146M in appropriations to pay towards the 2011 Federal Loan repayment
- The House approved the Budget Conference Report 57-54
- The Senate approved Budget Conference Report 24-17



# SUTA Relief

- H. 3762 passed and signed into law
  - Reduces benefit weeks to 20 weeks from 26 weeks ~ 8 percent relief
  - Enforces seasonal worker restrictions ~ 3 percent relief
  - New employers placed in Tier 12 until they have gained 12 months experience
  - For 2011 only, employers with an unemployment insurance surplus for last seven years will be placed no higher than in Tier 12
  - Interest on SUTA payment plans were reduced to .25 percent from 1 percent per month until June 30

# Results?

- \$146M along with the unemployment reform bill (H.3762) will result in a 27-28 percent SUTA reduction for Tiers 2-20 employers for 2011
- Full FUTA credit restored
- Gives relief to businesses as they come out of the Great Recession

# Credit/Refund Implementation

- SC DEW will post new rate table first week of August
- Currently, US DOL will only allow credits to be issued for first quarter payments
- Employers may have the option to receive credits or refunds
- Refunds will be issued for second quarter payments if employers pay at full rate in second quarter
  - Refunds can be issued when employers “over pay”

# 2012 Changes

- Seasonal restrictions go into effect January 1
  - Employers that “customarily carry on production operations only within a regularly recurring active period or periods less than an aggregate of 36 weeks in a calendar year”
  - Employers will have to submit an application for seasonal determination 30 days prior to season
  - SC DEW will provide seasonal determination signage for employer to display

# 2012 Changes

- SUTA Taxable Wage Base increases to \$12,000 January 1
- Taxable Wage Base will increase to \$14,000 January 1, 2015
- Look back period remains seven years until January 2014 at which time it will be reduced to three years

# 2012 Changes

- FUTA reduced by .2% as of July 1, 2011
- Full FUTA credit restoration expected November 10
- Total effective FUTA “should” equal .6%
- FUTA Taxable Wage Base is \$7,000

# Possible Future Changes...

- Benefit reductions for those receiving severance
- Benefit disqualification for job applicants failing drug tests
- Benefit dollar amount reduced
- Employee contributions

- Questions?????
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