

# The bill has come due: What's next for unemployment taxes?

By Maggie Moree

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ith the economy recovering and unemployment rates slowly declining, the clock has also run out on provisions within the federal stimulus that waived interest due on funds states had to borrow to keep their Unemployment Insurance Trust Funds (UFT) solvent. Over thirty states, including New York, have insolvent trust funds and, without Congressional action, the first payment on interest payments on the \$3.2 billion that New York has borrowed will come due before October 1, 2011.

President Obama's budget proposal was released in early February, just as the State Department of Labor (NYSDOL) was preparing bills to apportion this year's interest owed on New York's outstanding \$3.2 billion loan balance. Included in the President's FY 2012 Budget Request is one of three proposals that affect spending from the Unemployment Trust Fund.

The President's UI solvency proposal is designed to improve the solvency of state accounts in the UTF and to provide temporary relief to employers in states with loan balances. This would be accomplished by increasing the Federal wage base (last increased in 1983) and indexing it and by making loans interest-free for a specified period as well as delaying the application of the Federal Unemployment Tax Act (FUTA) credit reduction schedule in states that have outstanding loans. The President's budget estimates that 35 to 40 states would benefit from interest relief and as many as 30 states would benefit from the delay in application of the credit reduction schedule. The President's budget proposes that the FUTA tax rate would be lowered when the higher Federal wage base goes into effect to make the proposal revenue neutral that year. The budget proposal anticipates that as States react to the change in the Federal wage base, they will take the opportunity to adjust their UI tax structures to pay off their loans and improve their solvency.

While the waiver of the loan interest for two years has generated buzz, the proposed increase in the FUTA taxable wage base has generated negative reactions both inside and outside Congress. There is recognition within Congress related to the burden outstanding loan balances across the states will have on economic recovery, but it is too soon to gauge whether the President's proposal will gain traction and, if so, what the impact will be on NY employers where our current loan balance exceeds \$3 billion. One thing the President's budget did not address, but which is certainly putting added pressure on the FUTA, is the continued extension of unemployment benefits for the long-term unemployed. Whether there is sufficient political will to address that head-on along with changes to the FUTA will need to be closely monitored.

Should Congress take no action on the President's budget proposal and interest comes due, NYSDOL estimates interest owed for this year at approximately \$115 million, amounting to a per employee charge of \$24. At the end of this calendar year as well, New York employers will start repayment of the principal balance owed through FUTA credit reductions. Initial estimates are that it will take New York six years to repay the loan balance through the annual reduction of the FUTA credit method.

One solution several states have pursued which has been raised as a possibility in New York is for the State to use tax-exempt bonds to pay off the federal UI loan balance. This option has the potential to control the interest expense and repayment period, as well as preserve the full FUTA credit for New York's employers. This option along with ways to address the structural imbalance in New York's UI Trust Fund likely will be part of this legislative session now that the budget is complete.

The Business Council will continue to reach out to our members to understand their concerns about any solutions or suggestions on how to return New York's Trust Fund to solvency while meeting the obligation to repay what has been borrowed from the federal government. Please feel free to contact me with your thoughts at [margaret.moree@bcnys.org](mailto:margaret.moree@bcnys.org).



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