



Unemployment insurance taxes

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**Tax rates
recalculated
annually, based
on formula in
state law**

**Employers with
the most benefit
claims pay
higher rates**

**When benefit
payouts far
exceed taxes
collected,
social-cost
charge helps
keep the trust
fund stable**

Background

Employers in the state of Washington pay for unemployment benefits through unemployment taxes; workers do not pay unemployment taxes. (Note: Most government agencies, public schools, tribes and some nonprofits pay dollar-for-dollar for benefits paid to former employees, rather than paying a tax.)

Unemployment tax rates are calculated each year using a mathematical formula established in state law. The Governor and the Employment Security Department have no independent authority to adjust the rates.

State unemployment tax has two components

Here in Washington, the state unemployment tax has two components:

1. An **experience-rated tax**, which is based on an average of an employer's claim history over the past four fiscal years. The four-year rolling average cushions the effect of one bad year for an employer.

Just as drivers with a history of at-risk behavior pay higher automobile insurance premiums, employers with a history of more benefit claims generally will pay a higher unemployment tax rate.

There are 40 experience-rate classes in Washington. Employers with the most favorable experience are assigned the lowest rate, and those with the least favorable experience are assigned the highest rate. Thus, an employer's benefit-claim history determines its future rate class. Employers that had no former employees collecting benefits in the previous four years will be in rate-class one and will owe no experience-rate tax.

2. A **social-cost tax** is paid by nearly all employers to cover the shared costs of the insurance system. For example, it recovers costs from the previous year that can't be attributed to a specific employer (e.g., benefits paid to workers whose company went out of business).

During a deep recession, when benefit payouts far exceed the taxes collected, the social-cost tax also increases somewhat to slow the decline of the benefit trust fund, so employers aren't hit by sharper, more sudden tax increases in the future to protect the solvency of the fund.

Since the experience-rated taxes are averaged over four years, they don't replenish the fund fast enough to maintain an adequate level of stability during a recession, so the social-cost tax steps in to help.

The experience rate and the social-cost rate are added together to determine an employer's **total tax rate**.

Benefit trust fund

The taxes paid by employers go into the state's benefit trust fund, which is used to pay unemployment benefits. The amount of money in the trust fund at the end of each year is factored into the calculation of tax rates for the next year.

The Washington State Legislature has created a tax system that attempts to maintain enough money in the trust fund to pay for at least 12 months of unemployment benefits during a severe recession. Each year, the social-cost tax rate is adjusted based partly on the size of the trust fund; the formula for calculating the social-cost tax is written into state law.

In 2010, Employment Security paid out \$4.7 billion in unemployment benefits, nearly 59 percent from federal funds and the rest (\$2.3 billion) from the state trust fund. In the same time period, the department collected \$1.2 billion in unemployment taxes. At the end of 2010, the trust fund had \$2.3 billion (14.3 months of benefits).

2012 tax rates

Thanks to a healthy unemployment benefits fund and tax cuts adopted by the governor and state legislature in 2011, unemployment tax rates will decrease in all 40 rate classes in 2012. Here are some highlights:

- 88 percent of Washington employers will pay lower tax rates in 2012.
- Altogether, unemployment tax collections will drop by an estimated \$207 million in 2012 – on top of the estimated \$300 tax reduction in 2011.
- Overall, the average unemployment tax rate will drop by 13 percent (from 2.45 percent in 2011 to 2.12 percent in 2012).
- The lowest of the 40 rate classes will plummet by 71 percent – from 0.49 percent in 2011 to an all-time low of 0.14 percent in 2012. About 36 percent of all taxable employers in Washington are in rate-class 1, which includes businesses that had no layoffs in the past four years; 91 percent of employers in rate-class 1 have fewer than five employees.
- The tax rate for rate-class 40 also will decline, from 6 percent to 5.82 percent in 2012. About 8 percent of Washington employers are in this rate class.

Employers will pay unemployment taxes on the first \$38,200 of each employee's earnings in 2012. For an employee earning \$38,200 or more, the total tax for the year will range from \$53 (for employers in rate-class 1) to \$2,223 (for employers in rate-class 40). By contrast, the range was \$182 to \$2,238 in 2011.

Healthy benefits fund made tax cuts possible

A healthy benefits fund + legislation in 2011 result in tax-rate reductions in 2012 for most employers

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