



Experience-rated unemployment taxes

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**More claims
result in a
higher tax rate**

**Employers
taxed on ratio
of claims to
reported wages**

**Most employers
are not billed
dollar-for-dollar
for benefits
paid to their
former
employees**

Experience-rated unemployment taxes

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.

In Washington, employers are taxed based on the degree to which their former employees draw unemployment insurance benefits. This is called an experience-rated tax system. 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 history determines its future tax rate.

How experience-rated taxes are calculated

A taxable employer's experience-rated tax is based on a ratio of benefit claims filed by former employees over the preceding four fiscal years and taxable wages reported by the employer. Taxable wages are those wages paid to employees on which employers must pay the unemployment tax; for example, in 2009, unemployment taxes are paid on the first \$35,700 of annual earnings paid to an employee.

Although typically referred to as "benefit charging," unemployment claims are not billed on a dollar-for-dollar basis to taxable employers. Experience-rated taxes function as insurance premiums that are paid into a trust fund from which unemployment benefits are drawn to pay claims.

However, another group of employers, referred to as reimbursable employers, do pay dollar-for-dollar on all unemployment benefits paid to former employees. Reimbursable employers do not pay experience-rated taxes. These employers include federal, state, county and local governments, public schools, some tribal entities and some non-profit organizations with 501(c)(3) status.

A taxable employer's experience-rated tax is calculated using the following steps.

Step 1, Identify benefits charged: Identify all the benefits charged to an employer. This typically includes everyone who worked for the employer and was laid off, quit with good cause or was fired without misconduct. There are some exceptions where the costs are spread across all employers (or socialized).

Step 2, Compile taxable wages reported: Compile the taxable wages reported to Employment Security over the previous four fiscal years. For 2009, the employer pays taxes on the first \$35,700 that each of its workers earns that year. Any wages that the worker earns above this amount are not subject to unemployment insurance tax. The taxable wage level is adjusted each year based on average wages in Washington.

Step 3, Calculate the benefit ratio: Calculate the benefit ratio by dividing benefit claims charged to the employer over the preceding four fiscal years and taxable wages reported by the employer.

**Tax rates
recalculated
annually**

Step 4, Determine tax rate: Once a year, Employment Security calculates the benefit ratio for every taxable employer in the state and use the resulting calculation to place every employer in one of the 40 rate classes, as set in state law. See the current tax rate table below.

Example: Over the last four years, an employer laid off three people, who received a total of \$1,500 in unemployment benefits. During that same time frame, the employer had \$120,000 of taxable wages. To calculate the benefit ratio, divide \$1,500 by \$120,000, resulting in a benefit ratio of 0.0125, an assigned rate class of 12, and an assigned experience tax of 1.28 percent.

Tax system – as approved in 2009 legislative session

Rate class	Benefit Ratio		Experience-Rated Tax Rate
	At least	Less Than	
01		0.000001	0.00%
02	0.000001	0.001250	0.11%
03	0.001250	0.002500	0.22%
04	0.002500	0.003750	0.33%
05	0.003750	0.005000	0.43%
06	0.005000	0.006250	0.54%
07	0.006250	0.007500	0.65%
08	0.007500	0.008750	0.76%
09	0.008750	0.010000	0.88%
10	0.010000	0.011250	1.01%
11	0.011250	0.012500	1.14%
12	0.012500	0.013750	1.28%
13	0.013750	0.015000	1.41%
14	0.015000	0.016250	1.54%
15	0.016250	0.017500	1.67%
16	0.017500	0.018750	1.80%
17	0.018750	0.020000	1.94%
18	0.020000	0.021250	2.07%
19	0.021250	0.022500	2.20%
20	0.022500	0.023750	2.38%
21	0.023750	0.025000	2.50%
22	0.025000	0.026250	2.63%
23	0.026250	0.027500	2.75%
24	0.027500	0.028750	2.88%
25	0.028750	0.030000	3.00%
26	0.030000	0.031250	3.13%
27	0.031250	0.032500	3.25%
28	0.032500	0.033750	3.38%
29	0.033750	0.035000	3.50%
30	0.035000	0.036250	3.63%
31	0.036250	0.037500	3.75%
32	0.037500	0.040000	4.00%
33	0.040000	0.042500	4.25%
34	0.042500	0.045000	4.50%
35	0.045000	0.047500	4.75%
36	0.047500	0.050000	5.00%
37	0.050000	0.052500	5.15%
38	0.052500	0.055000	5.25%
39	0.055000	0.057500	5.30%
40	0.057500		5.40%

Contacts

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