Legislative Analysis

TAXABLE WAGE LIMIT CALCULATION

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Senate Bill 500 (Substitute S-1, as passed by the Senate)
Sponsor: Sen. Ken Horn
House Committee: Workforce and Talent Development
Senate Committee: Economic Development and International Investment
Complete to 11-4-15

(Enacted as Public Act 240 of 2015)

SUMMARY:

Senate Bill 500 would amend Section 44 of the Michigan Employment Security Act by modifying how the taxable wage limit is calculated by basing the limit on an annual, rather than quarterly, determination of the balance of the Unemployment Compensation Fund. It would require that the taxable wage limit be reduced from $9,500 to $9,000 for the calendar year if the balance equaled or exceeded $2.5 billion on the previous June 30 and was projected to remain at that level for the next quarter.

The bill also addresses what constitutes a delinquent employer for purposes of determining the wage limit reduction, and makes other changes as detailed below.

The taxable wage limit is part of the formula that determines how much an employer must contribute to the Unemployment Compensation Fund. The contribution is determined by multiplying the employer's "unemployment tax rate" (a percentage based on several factors, including the employer's history of benefit charges) by a "taxable wage limit" (or base) for each covered employee.

As of calendar year 2012, the taxable wage limit has been $9,500, unless, at the beginning of a calendar quarter, the balance in the Unemployment Compensation Fund equals or exceeds $2.5 billion. Under current law, if the fund balance meets or exceeds that amount, and the agency projects that the fund will remain at or above that balance for the remainder of that quarter and the entire succeeding calendar quarter, then the taxable wage limit for <u>that quarter and succeeding quarter</u> would be $9,000, as long as an employer is not delinquent in the payment of unemployment contributions, penalties, or interest.

Senate Bill 500 would add new language stating that beginning calendar year 2016, if on June 30 of the preceding calendar year the balance in the Unemployment Compensation Fund equals or exceeds $2.5 billion, and the agency projects the fund balance to remain at or above that balance for the succeeding calendar quarter, then the taxable wage limit for <u>the calendar year</u> would be $9,000, as long as an employer is not delinquent in the payment of unemployment contributions, penalties, or interest.

If the fund balance on June 30, or the agency projection, does not meet those conditions, the $9,500 taxable wage limit would apply to all employers in the next calendar year.

SB 500 also would define delinquency, for purposes of determining eligibility for the wage limit reduction, as having an outstanding quarterly balance of $25 or more related to the payment of unemployment contribution, penalties, or interest. However, if an employer meets one of the following, then that employer would not be considered delinquent:

- The employer has filed a timely protest or appeal of the notice of assessment and the assessment has not become final.
- Within 45 days after the beginning of the first calendar quarter in which the reduced taxable wage base limit takes effect for nondelinquent employers, all outstanding balances owed to the unemployment agency are paid in full.
- If the employer is a domestic employer, all applicable contributions, interest, and penalties are paid on or before the date specified by the agency, which, according to administrative rule R 421.121, is the 25th day of the month next following the last day of the calendar quarter or, for employers with a history of delinquency or otherwise at risk of not paying in full, the 25th day next following the last day of the month.

FISCAL IMPACT:

The bill would not have a significant fiscal impact on the state's account within the Unemployment Trust Fund over the long run. This is because the transition from the current rolling quarterly analysis of the Trust Fund balance—potentially triggering quarterly (if decreasing) or semiannual (if increasing) adjustments to the taxable wage base—to the proposed annual adjustment could result in either higher or lower contributions during any given year, as compared to those under current law, dependent on the balance within the Trust Fund on the preceding June 30.

However, because the taxable wage base is currently $9,000 based on the Trust Fund balance on 07/01/15, the bill could result in a maximum reduction of approximately $57.0 million in contributions deposited into the Trust Fund during FY 2015-16 should the Trust Fund balance decline below $2.5 billion in FY 2015-16. Additionally, the bill would engender nominal cost savings for the Unemployment Insurance Agency (UIA) to the extent that the UIA would only be required to analyze projections of the Trust Fund balance, as it pertains to adjusting the taxable wage base, annually rather than quarterly.

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