

Strategies to Reduce SUI Tax Rates

September 21-22, 2023



**2023 Wisconsin Statewide
Payroll Conference**



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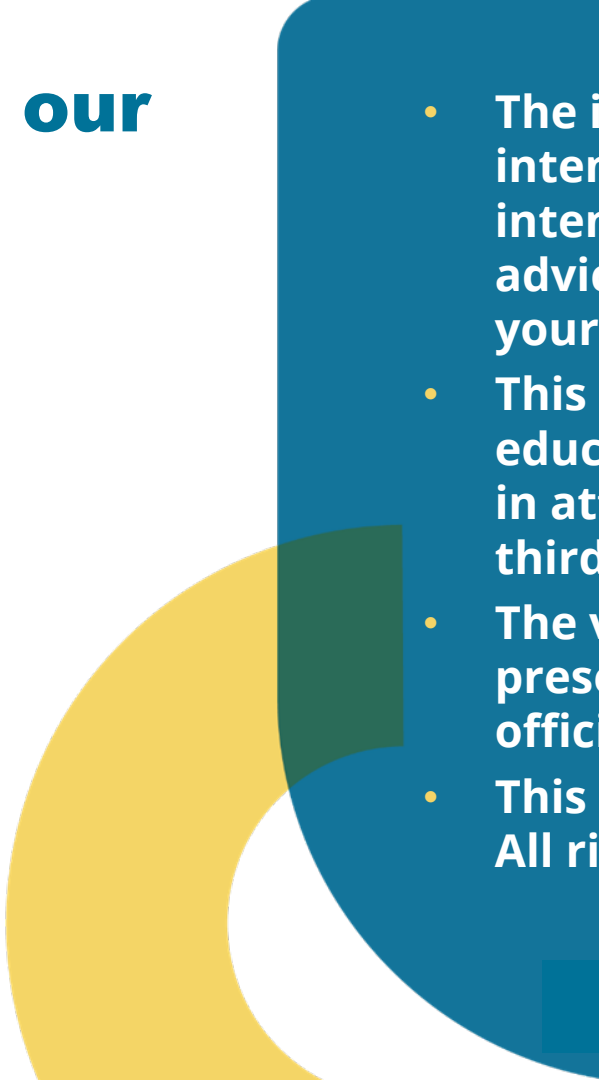
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Agenda

- State of the UI Program
- SUI Rating Calculations
- Voluntary Contributions
- Joint Accounts
- Other Special Rating Strategies
- Equifax Resources
- Parting Thoughts



To keep our lawyers happy...

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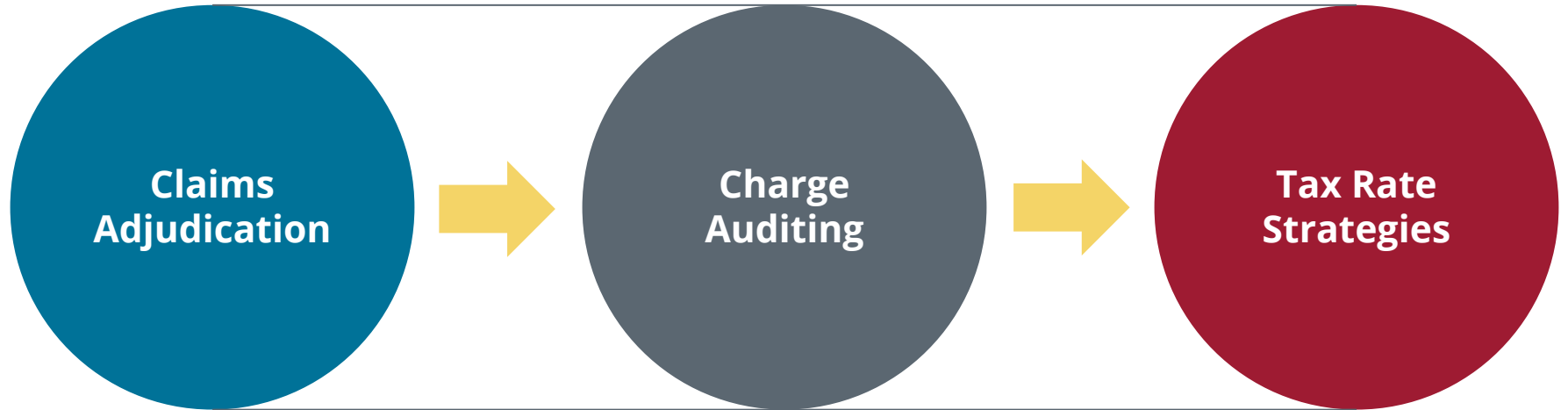
State of the Unemployment Insurance Program



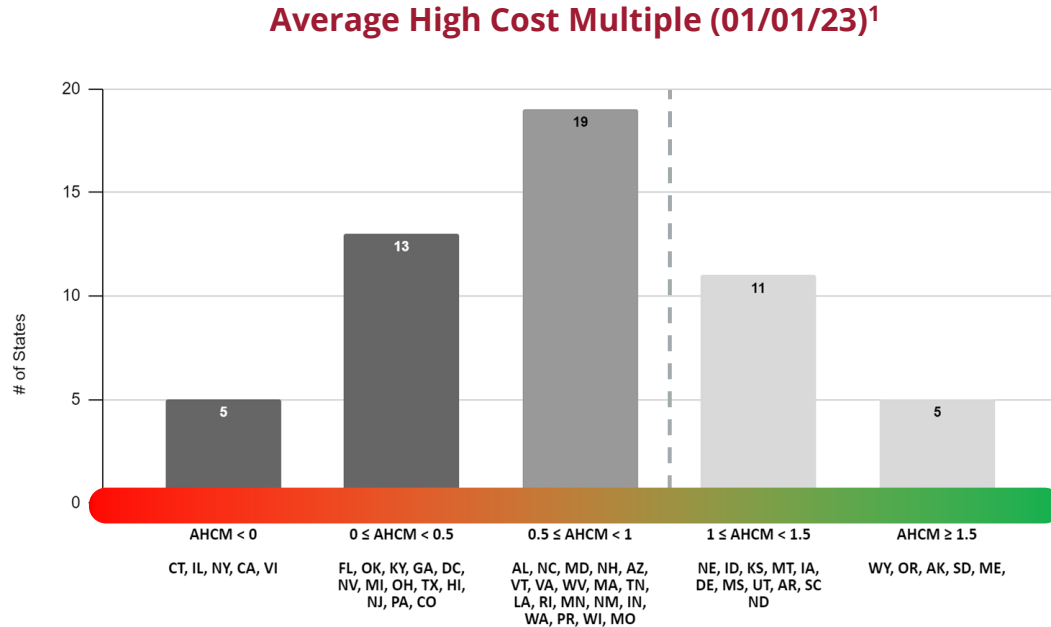
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Holistic Approach to Unemployment Cost Management



Key Driver of SUI Tax Rates: Trust Fund Solvency



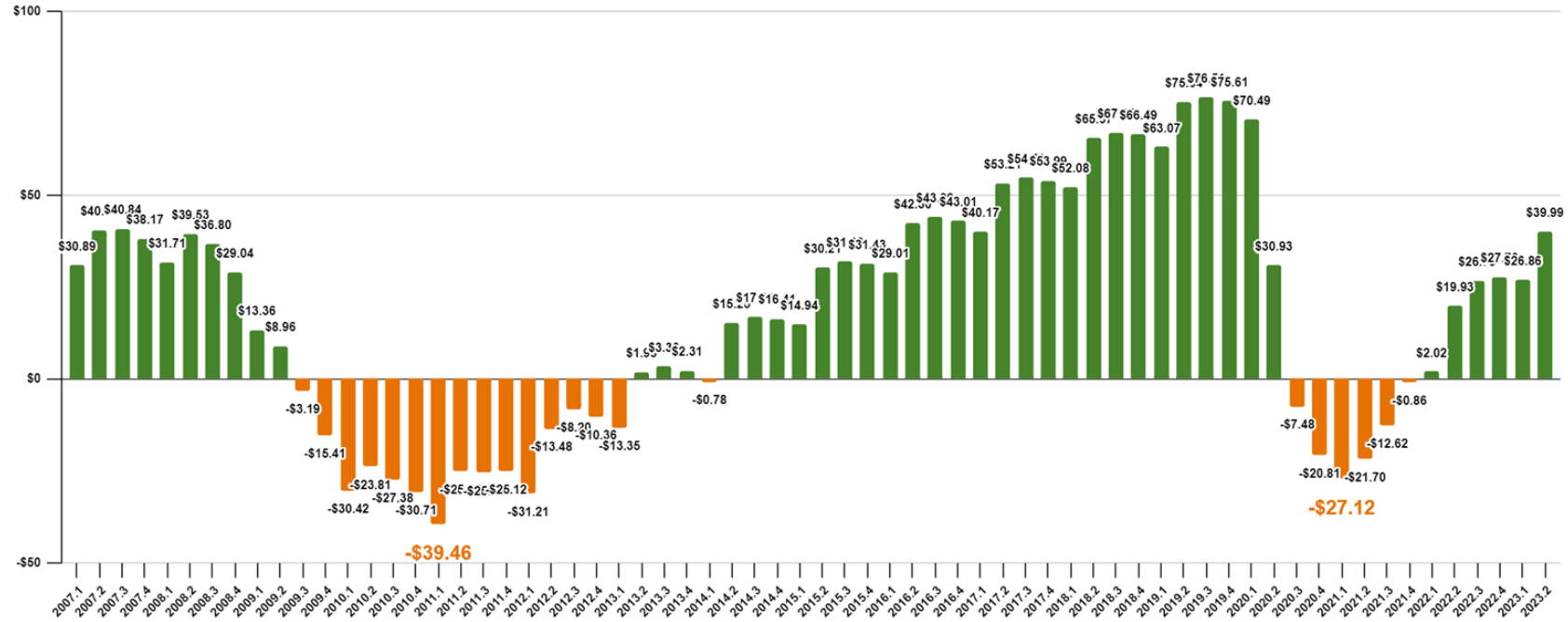
Source: U.S. DOL, SUI Trust Fund Solvency Report for 2023 (issued March 2023)

¹ Represents the Average High Cost Multiple (AHCM), which is measured as the Reserve Ratio (Trust Fund as a % of Total Wages) at the end of the calendar year immediately preceding the report year, divided by the Average High Cost Rate. The Average High Cost Rate is the average of the three highest calendar year benefit cost rates in the last 20 years (or a period including three recessions, if longer).



UI Trust Fund Balance Trends (billions)

(through June 30, 2023)

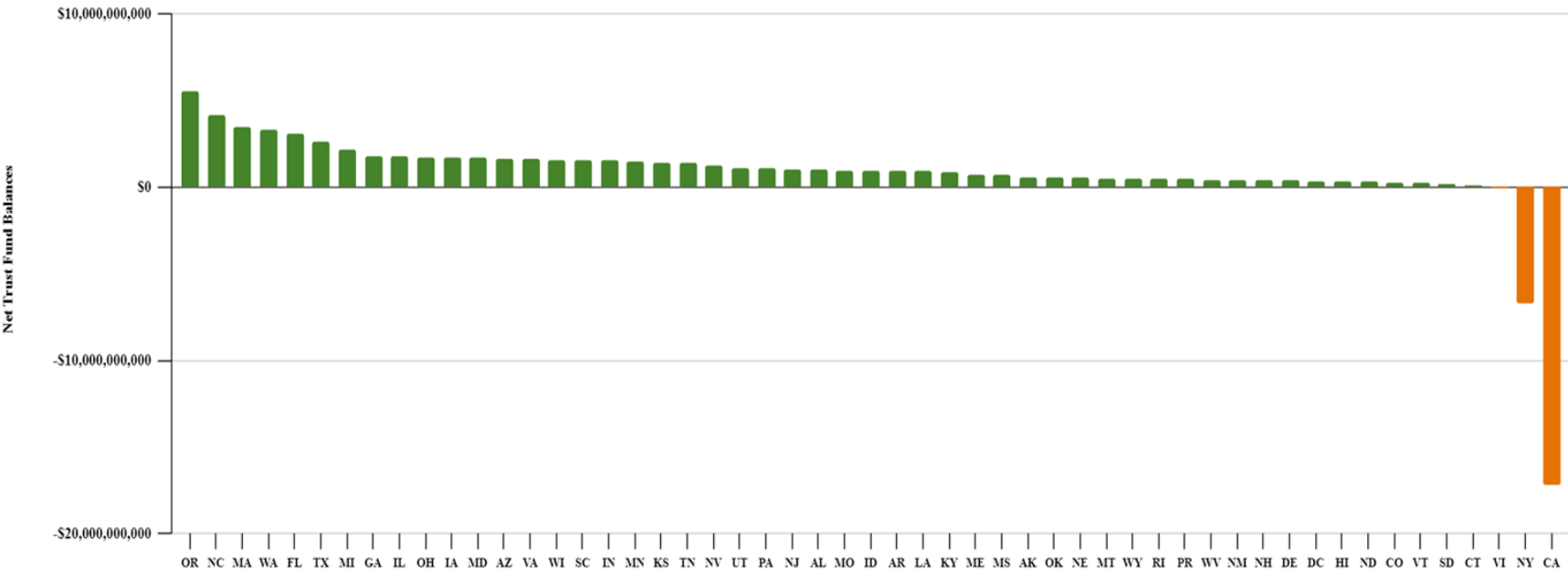


Source: U.S. Department of Labor
Total State Trust Fund Balances – Total Title XII Loan Balances = Net State Trust Fund Balances



UI Trust Fund Balances by State

(as of June 30, 2023)



Source: Per data obtained from the TreasuryDirect “Unemployment Trust Fund Report Selection” site (a service offered by the U.S. Department of the Treasury Bureau of the Fiscal Service).



Title XII Advances and FUTA Credit Reductions for 2022

Employers in states that accept advances during calendar year 2020 were not subject to FUTA credit reductions until 2022 if advances remained outstanding as of:

- The first January 1st (January 1, 2021);
- The second January 1st (January 1, 2022); and
- November 10, 2022.

Employers in the states of **California, Connecticut, Illinois, and New York** were subject to a 0.30% increase in the FUTA tax rate, from 0.60% to 0.90%, for the entire 2022 calendar year. **Virgin Islands** was subject to a 0.30% increase in FUTA tax rate, from 3.90% to 4.20% for the entire 2022 calendar year.

Source: Per data obtained from the FiscalData (an official website jointly created by the U.S. Department of the Treasury and the Bureau of the Fiscal Service).



Title XII Advances and FUTA Credit Reductions for 2023

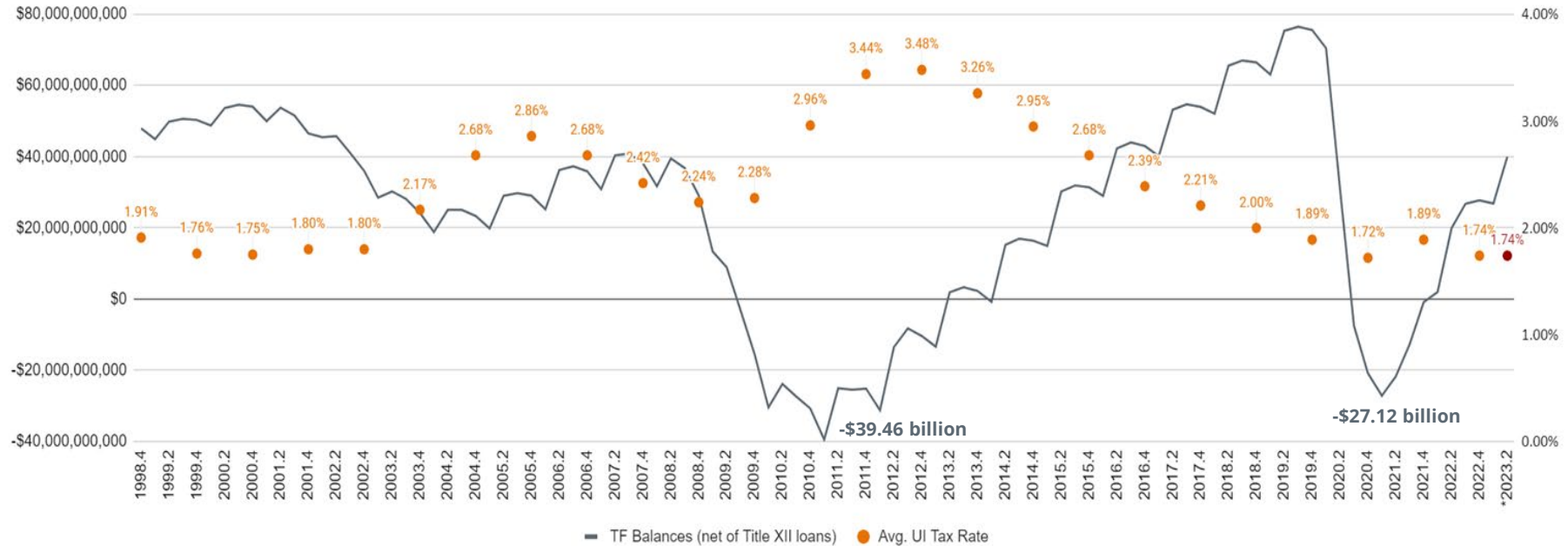
- Connecticut and Illinois:** Connecticut and Illinois repaid all outstanding Title XII advances. Because of this action, the states should not be subject to a FUTA credit reduction for calendar year 2023, as long as the states do not borrow again and have no outstanding advances as of November 10, 2023.
- Colorado and Pennsylvania:** Colorado and Pennsylvania took Title XII advances during 2023 but repaid the advances shortly thereafter.
- Virgin Islands:** If the Virgin Islands continues to have an outstanding Title XII advance as of November 10, 2023, the jurisdiction will be subject to another 0.30% increase in the FUTA tax rate, **from 4.20% in 2022 to 4.50% in 2023**. The BCR rate has been waived during all prior years.
- California and New York:** If California and New York continue to have outstanding Title XII advances as of November 10, 2023, the jurisdictions will be subject to another 0.30% increase in the FUTA tax rate, **from 0.90% in 2022 to 1.20% in 2023**.

State	Title XII Loan Balances (September 8, 2023)
California	18,354,797,092
Colorado	-
Connecticut	-
Illinois	-
New York	6,717,960,945
Pennsylvania	-
Virgin Islands	87,753,315
Totals	25,160,511,352

Source: Per data obtained from the FiscalData (an official website jointly created by the U.S. Department of the Treasury and the Bureau of the Fiscal Service).



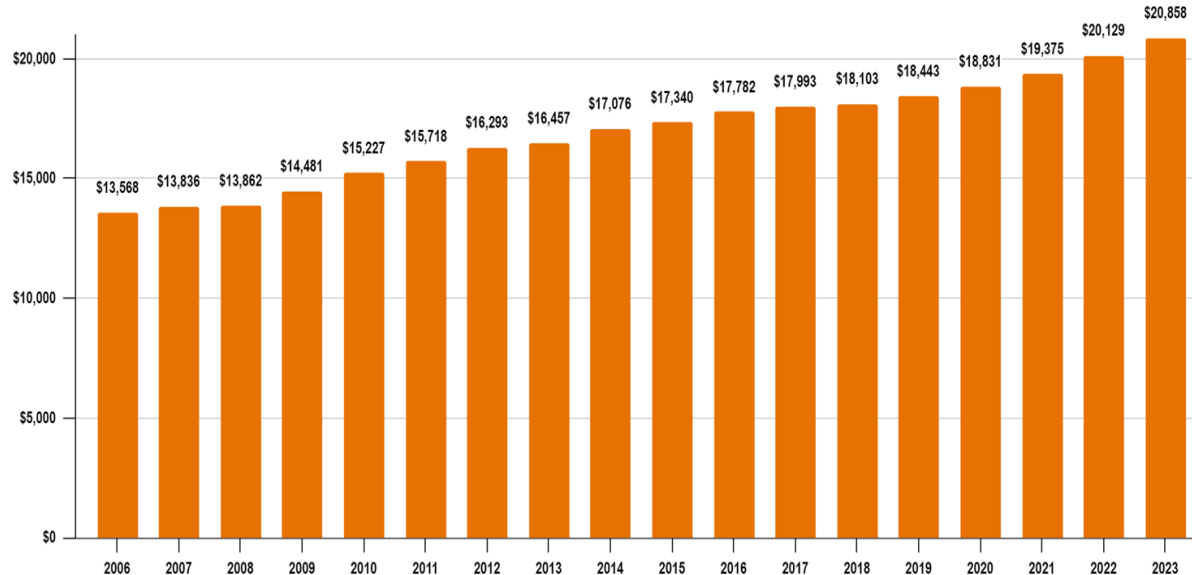
Correlation of Tax Rates to Net SUI Trust Funds



Source: Per Average Employer Contribution Rates by State issued by the U.S. Department of Labor. Net Trust Fund Balances per respective Unemployment Insurance Data Summary reports published by the U.S. Department of Labor. *2023 Average UI Tax Rate is estimated.



Historical Average SUI Annual Taxable Wage Bases



- Over the past 15 years, taxable wage bases have increased by an average of 2.8% annually.
- During the height of the Great Recession, the average annual increase was 4.8%.
- From 2022 to 2023, taxable wage bases increased by an average of 4.8%.
- Methods used to adjust Annual Taxable Wage Bases:
 - Indexed Based on % of State Average Annual Wage (14 States)
 - Variable Based on Trust Fund Balances (6 States)

Source: Information obtained from source considered to be reliable (e.g., state legislative changes, state workforce agency announcements, state surveys, etc.).



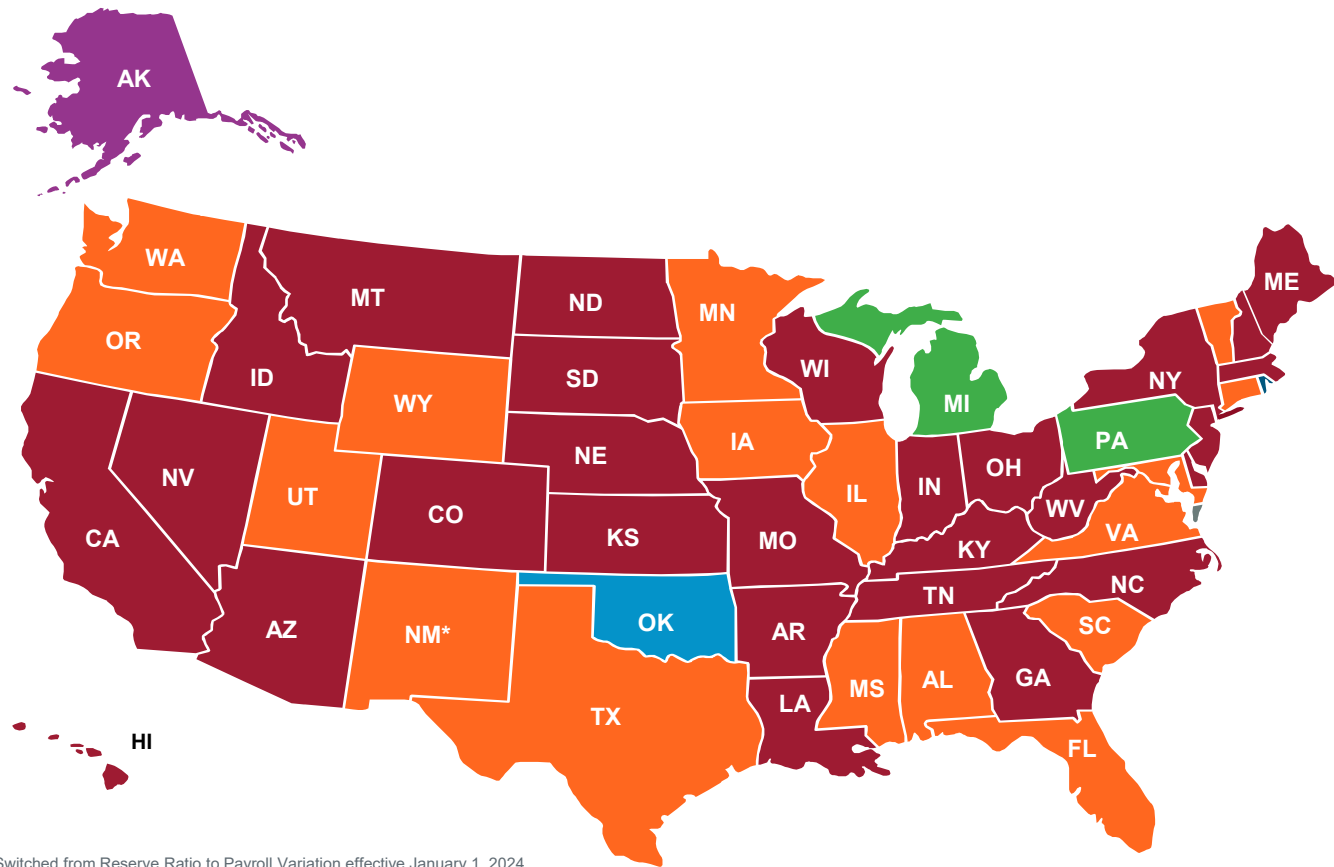
SUI Rating Calculations



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Tax Rating Calculations by State



CT
DC
DE
MA
MD
NH
NJ
PR
RI
VI*
VT

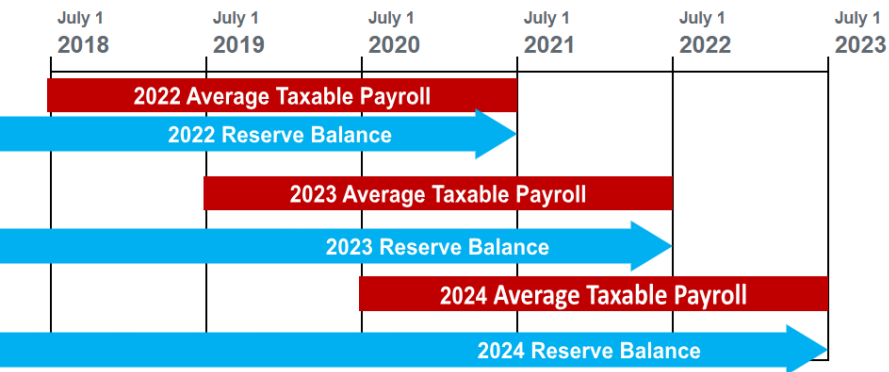
- Reserve Ratio (29 jurisdictions)
- Benefit Ratio (17 jurisdictions)
- Combined Rate Formulas (2 jurisdictions)
- Benefit Wage Ratio (2 jurisdictions)
- Payroll Variation (2 jurisdiction)

* Switched from Reserve Ratio to Payroll Variation effective January 1, 2024.



Primary Tax Rating Calculations

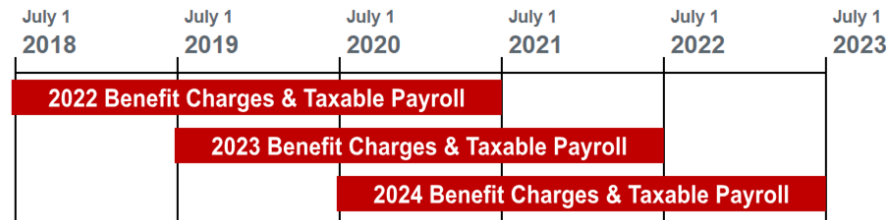
$$\text{Sample Reserve Ratio} = \frac{\text{Ending Reserve Balance}}{\text{Avg. Annual Taxable Payroll}}$$



Reserve Ratio

- Similar to “checking account”
- Aggregates entire history of account
- Avg. Annual Taxable Payroll is typically 3 years

$$\text{Sample Benefit Ratio} = \frac{\text{3 Yr. Benefit Charges}}{\text{3 Yr. Taxable Payroll}}$$

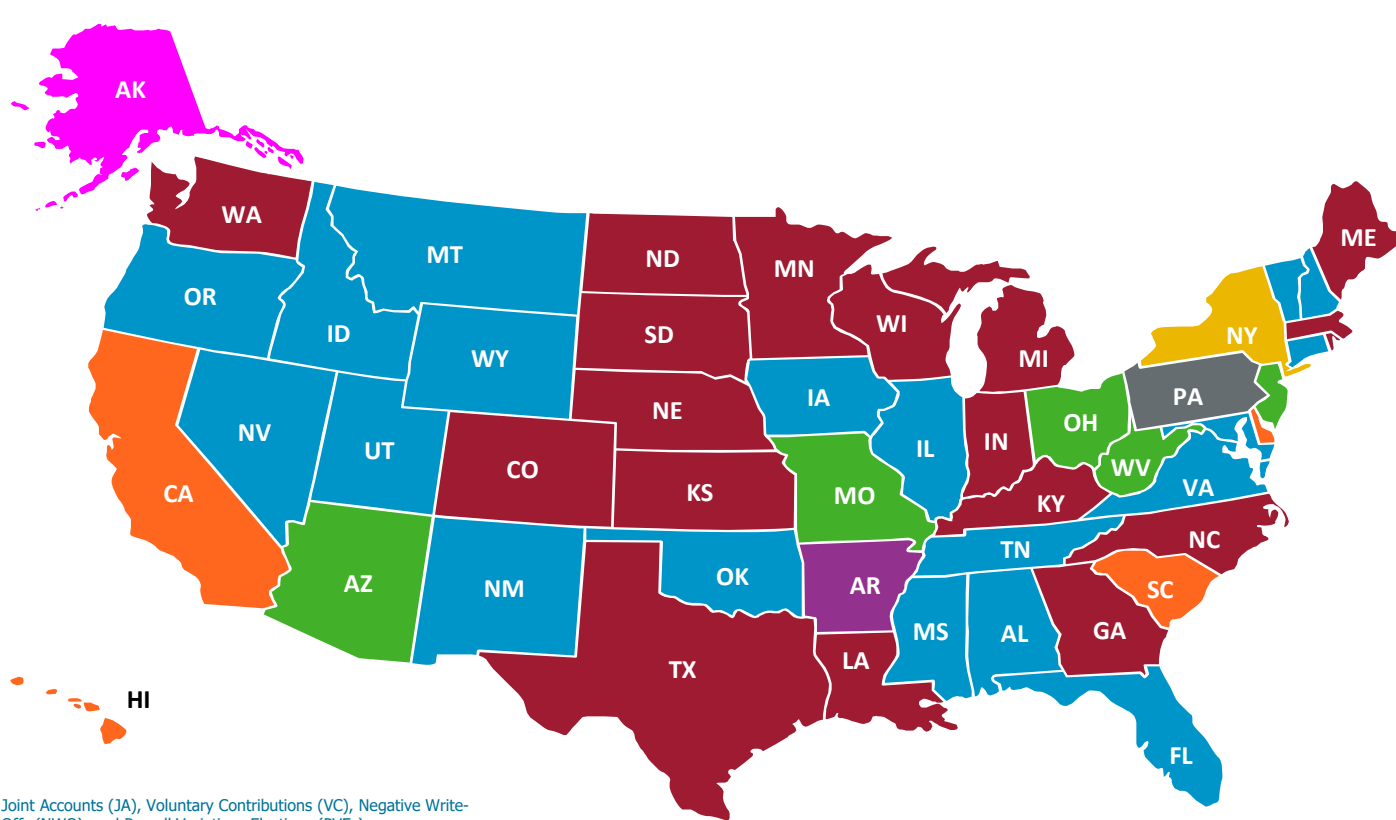


Benefit Ratio

- Considers just claims paid and taxable payroll, not contributions paid
- Rates determined based on short-term window of experience (typically 3 years)



Statutory Elections



- VC only (18 Jurisdictions)
- JA only (4 Jurisdictions)
- Both VC and JA (5 Jurisdictions)
- Not applicable (22 Jurisdictions)
- VC, JA, and PVE (1 Jurisdiction)
- VC and NWO (1 Jurisdiction)
- VC, JA, and NWO (1 Jurisdiction)
- PVE (1 Jurisdiction)

Joint Accounts (JA), Voluntary Contributions (VC), Negative Write-Offs (NWO), and Payroll Variations Elections (PVEs)

Source: Per information collected and consolidated by Equifax from sources considered to be accurate and reliable (e.g., taxing jurisdiction statutes, regulations, rules, surveys and other guidance).



Voluntary Contributions



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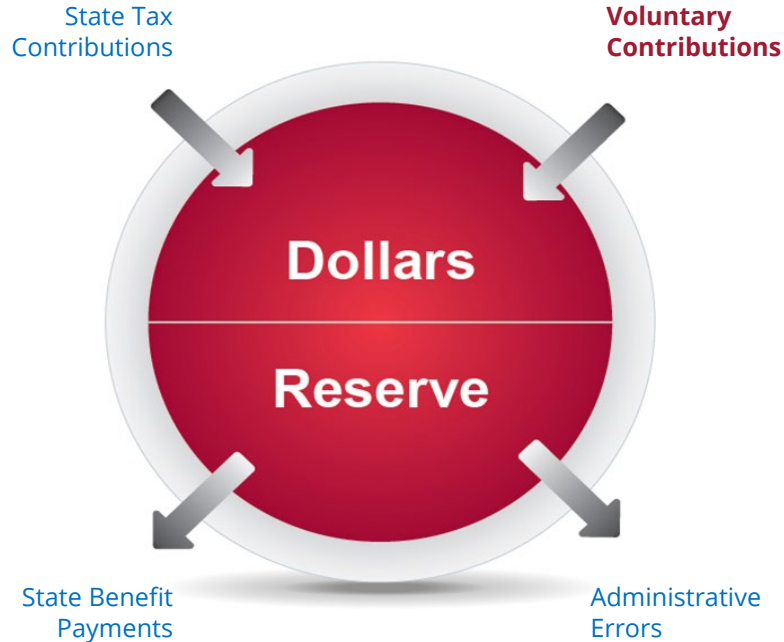


Overview of Voluntary Contributions (VCs)

- Twenty-six states permit employers to make VCs to their unemployment accounts.
- A VC is a special payment which, if made to the state within a specified period, reduces the employer's tax rate.
- Depending on the state, an employer's rate may be decreased by one or more rate table brackets, even to a minimum rate in some states.
- A voluntary contribution increases the employer's reserve balance in reserve ratio states or decreases the benefits charged against the employer in benefit ratio states.
- Once the state receives the voluntary contribution, the tax rate is re-computed using the new factors.
- If any outstanding delinquencies exist on an employer's account, the submitted voluntary contribution payment may first be applied to the debt and then to the rate calculation, creating a shortage in the amount necessary to reduce the tax rate.
- Voluntary contributions are generally nonrefundable.



Voluntary Contributions (VCs)



States Allowing Voluntary Contributions

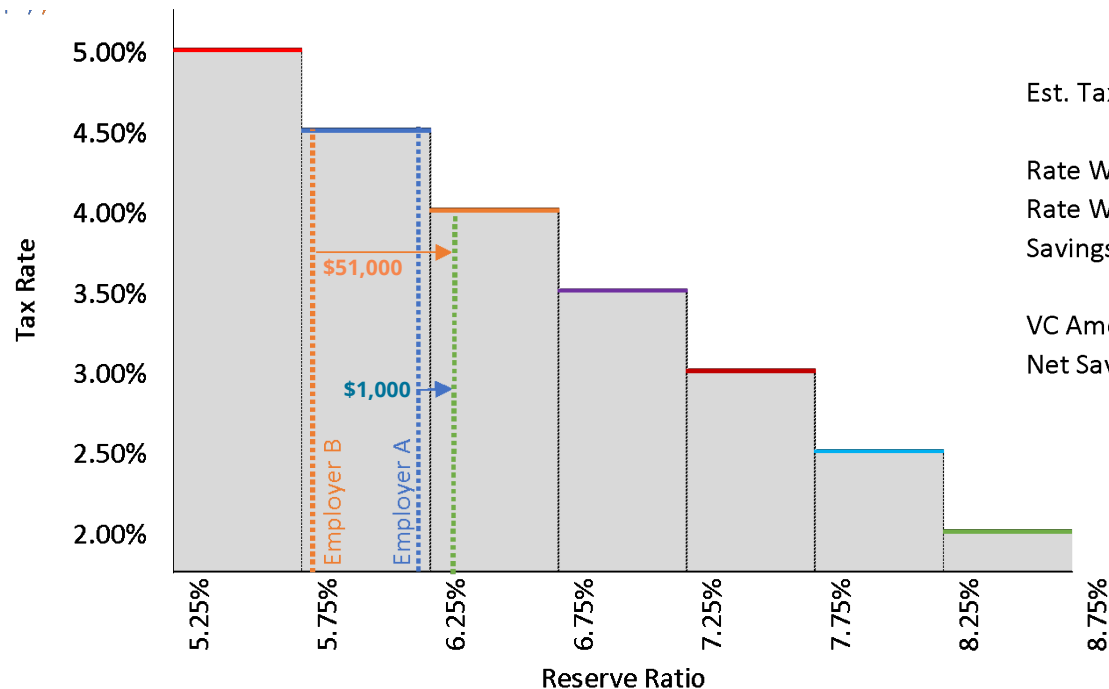
Arkansas	Massachusetts	Ohio
Arizona	Michigan	Pennsylvania
Colorado	Minnesota	Rhode Island
Georgia	Missouri	South Dakota
Indiana	Nebraska	Texas
Kansas	North Carolina	Washington
Kentucky	North Dakota	Wisconsin
Louisiana	New Jersey	West Virginia
Maine	New York	

Additional considerations:

- Employee population
- Mergers, acquisitions, and reorganizations
- Multiple bracket reductions
- Expected increases and decreases in taxable payroll



Voluntary Contribution Example



	Employer A	Employer B
Est. Taxable Payroll	10,000,000	10,000,000
Rate Without a VC	4.50%	
Rate With a VC	4.00%	
Savings	50,000	50,000
VC Amount	1,000	51,000
Net Savings (Cost)	49,000	(1,000)



Joint Accounts



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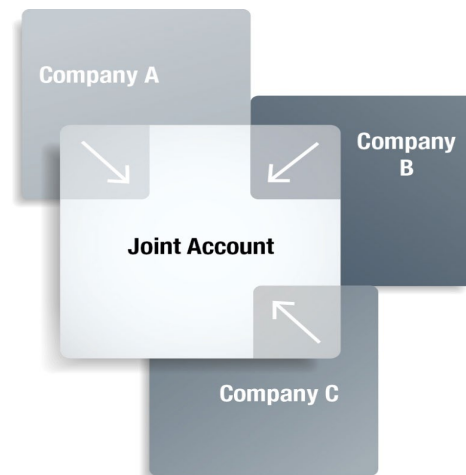
Overview of Joint Accounts (JAs)

- Several states offer employers the option to reduce unemployment taxes by forming a Joint Account or Common Rate Group.
- The formation of a JA permits two or more legal entities to combine their state unemployment experience rating factors to obtain a single or common SUI tax rate applicable to all members electing to participate in the group.
- The goal is to achieve a lower combined unemployment tax cost for the members as a whole.
- The combination is strictly for SUI rating purposes and does not require changes to organizational or legal entity structures.
- Each JA member will continue to file their quarterly contribution reports utilizing their respective SUI account numbers, with limited exception.



Joint Account Planning

- Planned changes in organizational structure due to mergers, acquisitions, reorganizations, or divestitures.
- Anticipated material changes in workforce for any of the electing members.
- All possible legal entity combinations, including unaffiliated legal entities in certain jurisdictions.
- Assess requirements, including:
 - ✓ Application deadlines
 - ✓ Minimum duration (“lock-in” period); the longer the lock-in period, often the riskier it becomes
 - ✓ Dissolution provisions
 - ✓ Ownership restrictions
- Modifications to existing joint accounts.
- Concurrent use of voluntary contributions to help maximize profitability.



Revocable Joint Account Options for 2024

State	"Lock-In" Period (years)	Anticipated Tax Rate Notice Issue Date	Anticipated Application Deadline	Anticipated Termination Deadline
Arizona	2	12/30/2023	02/28/2024	02/28 of the year of termination.
Arkansas ⁽¹⁾	2	12/21/2023	12/01/2023	09/30 prior to year of termination.
Hawaii	1	03/15/2024	12/31/2024	Automatically terminated.
Missouri ⁽¹⁾	2	12/05/2023	03/31/2024	12/31 prior to year of termination.
New Jersey ⁽²⁾	3	08/24/2023	05/31/2023	01/31 prior to fiscal year of termination.
New York	2 1/4 - 3	02/08/2024	03/31/2024	12/31 prior to year of termination.
Ohio	1	11/06/2023	12/31/2023	12/31 prior to year of termination.
South Carolina	5	11/10/2023	Anytime prior to the effective quarter.	Anytime after minimum duration met.
West Virginia	1	12/09/2023	30 days of rate notice mail date.	Automatically terminated.

The table above contains a listing of states with revocable joint account elections for 2024. Other states (e.g., California and Delaware) have joint account provisions, but the "lock-in" period is permanent.

(1) Arkansas and Missouri have the ability to make a joint account permanent if it is in the states' best interest.

(2) New Jersey has a rate year from July 1 to June 30. All other states providing for Joint Accounts have a rate year from January 1 to December 31.



Joint Account Example

Member	Est. Taxable Payroll	Member Tax Rate	Joint Tax Rate	Est. Savings
Company 1	\$ 110,500	1.50%	4.80%	\$ (3,647)
Company 2	8,500	1.60%	4.80%	(272)
Company 3	265,101	4.10%	4.80%	(1,856)
Company 4	21,643,645	6.60%	4.80%	389,586
Company 5	11,282,953	4.20%	4.80%	(67,698)
Company 6	2,847,098	6.40%	4.80%	45,554
Company 7	17,500	2.90%	4.80%	(333)
Company 8	204,000	1.50%	4.80%	(6,732)
Gross Savings				\$ 354,603
Less: Required VC				(21,376)
Net Savings				\$ 333,227



Other Special Rating Strategies



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Other Special Rating Strategies

- Alaska Payroll Variation Election
- Arkansas Single Year Payroll Election
- New York Negative Write-Off Election
- Pennsylvania Negative Write-Off Election





Alaska Payroll Variation Election

- Alaska's SUI rating system is based on an employer's experience with quarterly wage declines.
- If an employer has a decline in "reportable" wages (not taxable wages) from one quarter to the next, this decline in wages is known as a quarterly decline. For rating purposes, a quarterly decline quotient is calculated, which is the percentage decrease in wages from one quarter to the next.
- All the quarterly decline quotients for an employer's qualifying quarters are added together, and this total is then averaged.
- A SUI tax rate is then assigned based on this average of all the quarterly decline quotients.





Alaska Payroll Variation Election

- Employers can elect to remove the negative impact on the quarterly declines.
- An employer can choose to either delete or apportion the wage payments in order to obtain a more favorable rate.
- Employers are required to file an “option form” for every quarter in which their artificial decline situation arises. Artificial declines include such events as:
 - ✓ Bonuses and/or lump sum payments
 - ✓ Seventh bi-weekly pay periods
- Options may be used to change a rate retroactively.
 - ✓ Through June 30, options can be used to correct the rate for the preceding calendar year as well as the current year.
 - ✓ From July 1, only the current year’s rate can be changed, but the lower rate would be retroactive to January 1 of the current year.¹

¹ Per Alaska Unemployment Insurance Tax Handbook.





Alaska Payroll Variation Election

Without Election

Year / Quarter	Quarterly Payrolls	Quarterly Decline	Quarterly Decline Quotient
2019/3	1,668,241		
2019/4	2,123,709	-	-
2020/1	1,802,009	321,700	0.151480264
2020/2	2,026,505	-	-
2020/3	1,683,620	342,885	0.169200175
2020/4	2,540,040	-	-
2021/1	2,021,115	518,925	0.204297964
2021/2	2,170,039	-	-
2021/3	2,397,100	-	-
2021/4	1,968,291	428,809	0.178886571
2022/1	2,665,579	-	-
2022/2	1,951,844	713,735	0.267759838
Eligibility status code	Rate class if eligible	Sum of quarterly decline quotients	0.97162481
E	06	Average Quarterly Decline Quotients	0.08832953
		SUI Tax Rate	1.69%

With Election

Year / Quarter	Quarterly Payrolls	Quarterly Decline	Quarterly Decline Quotient
2019/3	1,668,241		
2019/4	2,123,709	-	-
2020/1	1,802,009	321,700	0.151480264
2020/2	2,026,505	-	-
2020/3	1,683,620	342,885	0.169200175
2020/4	2,134,251	-	-
2021/1	2,021,115	113,136	0.053009698
2021/2	2,170,039	-	-
2021/3	2,397,100	-	-
2021/4	1,968,291	428,809	0.178886571
2022/1	2,345,011	-	-
2022/2	1,951,844	393,167	0.167661047
Eligibility status code	Rate class if eligible	Sum of quarterly decline quotients	0.72023775
E	06	Average Quarterly Decline Quotients	0.06547616
		SUI Tax Rate	1.23%

* As the Average Quarterly Decline Quotient declines, so does the tax rate.





Arkansas Single Year Payroll Election

- The state of Arkansas allows employers to elect to use a one-year taxable payroll factor in its SUI tax rate computation instead of the standard three-year average or five-year average taxable payroll.
- If a one-year taxable payroll factor is less than the three or five-year average, a one-year payroll factor election must be requested in writing with the state workforce agency by July 31st of the year prior to the year the election is to become effective.²

² Per Arkansas Division of Workforce Services Employer Handbook.





Arkansas Single Year Payroll Election – Example

Reserve Balance

Cumulative Tax Contributions
Cumulative Benefit Charges
Net Contributions (Reserve)

Average Taxable Payroll

Reserve Ratio

Tax Rate

Taxable Payroll

Tax

Savings

	Without Election		With Election
	5-Year Average	3-Year Average	1-Year Average
Cumulative Tax Contributions	10,215,202	10,215,202	10,215,202
Cumulative Benefit Charges	(6,430,429)	(6,430,429)	(6,430,429)
Net Contributions (Reserve)	3,784,773	3,784,773	3,784,773
Average Taxable Payroll	53,085,960	46,875,488	40,876,300
Reserve Ratio	7.13%	8.07%	9.26%
Tax Rate	N/A	1.80%	0.70%
Taxable Payroll		40,876,300	40,876,300
Tax		735,773	286,134
Savings			449,639





New York Negative Write-Off Election

- When unemployment benefits charged to an employer's account exceed the contributions paid in and credited, the result is a negative reserve account balance and the SUI tax rates are based on the employer's negative reserve ratio.
- If, as of December 31 of any given year, an employer's negative reserve account balance exceeds 21% of its most recent fiscal year taxable payroll (from October 1 to September 30), the portion above 21% is mandatorily transferred out (i.e., "written-off") of the employer's account, by the state, and charged to the General Fund.
- For the following year, the employer is assigned a normal rate based on the employer's negative account percentage prior to the transfer and, for the three succeeding years, will be assigned the maximum rate for that year's size of fund index.³

³ Per New York State Department of Taxation and Finance Employer's Guide to Unemployment Insurance, Wage Reporting, and Withholding Tax.





New York Negative Write-Off Election

- An employer may elect to make a special payment to avoid the maximum SUI tax rate assignment for three years. The due date for this special payment is March 31st of the impacted year.
- A cost-benefit analysis should be performed to determine if the expected savings from a reduced SUI tax rate for three years sufficiently exceeds the amount of the special payment necessary to repay the amount of the write-off.
- Employers seeking to utilize the special payment provision should be mindful of the following scenarios:
 - ✓ Anticipated organic growth within the state of New York.
 - ✓ Merger & acquisition plans within the state of New York.





New York Negative Write-Off Election - Example

Period	Rate Year	Taxable Payroll	Negative Write-Off Threshold %	Write-Off Threshold	Reserve Balance	Automatic Write-Off Amount
Fiscal Year Ending September 30, 2018		1,897,034				
Fiscal Year Ending September 30, 2019		1,945,890				
Fiscal Year Ending September 30, 2020		2,032,777				
Fiscal Year Ending September 30, 2021		2,199,543				
Fiscal Year Ending September 30, 2022	2023	1,750,000	21%	367,500	(390,194)	(22,694)
Fiscal Year Ending September 30, 2023		1,500,000				
Fiscal Year Ending September 30, 2024		1,750,000				
Fiscal Year Ending September 30, 2025		2,000,000				
Fiscal Year Ending September 30, 2026		2,250,000				

* The New York Department of Labor will notify employers when a negative reserve exceeds 21% of annual taxable payroll.





New York Negative Write-Off Election - Example

Negative Write-Off Without Election to Repay

Date	Rating Factors	Reserve Balance	5-Year Average Taxable Payroll	Reserve Ratio	Tax Rate	Rate Year
12/31/2021	Beginning Reserve Balance	(318,671)				
	Tax Contributions	571,520				
	Benefit Charges	(643,043)				
12/31/2022	Ending Reserve Balance	(390,194)	1,965,049	-19.86%	9.20%	2023
	Reserve Write-Off to General Fund	22,694				
	Repayment of Write-Off	-				
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2023	Ending Reserve Balance	(217,500)	1,885,642	-11.53%	9.90%	2024
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2024	Ending Reserve Balance	(67,500)	1,846,464	-3.66%	9.90%	2025
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2025	Ending Reserve Balance	82,500	1,839,909	4.48%	9.90%	2026





New York Negative Write-Off Election - Example

Negative Write-Off With Election to Repay

Date	Rating Factors	Reserve Balance	5-Year Average Taxable Payroll	Reserve Ratio	Tax Rate	Rate Year
12/31/2021	Beginning Reserve Balance	(318,671)				
	Tax Contributions	571,520				
	Benefit Charges	(643,043)				
12/31/2022	Ending Reserve Balance	(390,194)	1,965,049	-19.86%	9.20%	2023
	Reserve Write-Off to General Fund	22,694				
	Repayment of Write-Off	(22,694)				
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2023	Ending Reserve Balance	(240,194)	1,885,642	-12.74%	7.80%	2024
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2024	Ending Reserve Balance	(90,194)	1,846,464	-4.88%	6.50%	2025
	Tax Contributions	500,000				
	Benefit Charges	(350,000)				
12/31/2025	Ending Reserve Balance	59,806	1,839,909	3.25%	4.40%	2026





New York Negative Write-Off Election - Example

	2023	2024	2025	2026	Total Net Tax Savings
Taxable Payroll	1,500,000	1,750,000	2,000,000	2,250,000	
Merit Rate	9.20%	7.80%	6.50%	4.40%	
Penalty Rate	9.20%	9.90%	9.90%	9.90%	
Difference	0.00%	2.10%	3.40%	5.50%	
Tax Savings	-	36,750	68,000	123,750	
Repayment of Write-Off	-	(22,694)	-	-	
Net Tax Savings	-	14,056	68,000	123,750	205,806





Pennsylvania Negative Write-Off Election

- In Pennsylvania, a higher SUI tax rate is assigned when an employer's reserve account has a negative balance. If the benefits charged to an employer's reserve account exceed the amount of contribution credits to the employer's reserve account by an amount which is more than 20% of the employer's annual payroll, the employer may elect to have its reserve account downwardly adjusted to a negative balance equal to 20% of its average annual payroll.
- Upon election, the maximum experience rate will be assigned for the current and the following two calendar years. This could result in a lower rate in subsequent years if benefit charges are negligible during the three years that the election is in effect.
- The election must be made in writing after January 1st but no later than April 30th of the tax year in question. The request is not revocable after 10 days from the postmark date.⁴

⁴ Per Pennsylvania Office of Unemployment Compensation website (Debit Reserve Balance Adjustment).



Equifax Resources

- [Workforce Wise™ Blogs](#)
- [Employer Unemployment Insurance Resource Center](#)
- [Outlook for SUI Tax Rates in 2024 and Beyond](#)
- [2024 SUI Tax Guide](#)
- Monthly Unemployment Tax Bulletins
- Periodic Unemployment Claims Bulletins

Parting Thoughts



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Parting Thoughts...



- Fully adjudicate your unemployment claims
- Audit benefits charged to your accounts
- Verify the accuracy of your tax rates
- Take advantage of tax rate savings strategies:
 - ✓ Voluntary contributions
 - ✓ Joint/Common Rating
 - ✓ Other special strategies
- For M&A events:
 - ✓ Proper reporting to the state workforce agencies
 - ✓ Carryover the wage bases when possible
- Forecast future SUI tax rates each year