

UNEMPLOYMENT COMPENSATION TAX
RCWs 50.04, 50.12, 50.24, 50.29, 50.44 and 50.50

Tax Base

Wages paid by employers. A maximum amount of wages paid to any individual is subject to the tax. The maximum is based on \$10,000 for calendar year 1985, increased by 15 percent each year (RCW 50.24.010). However, the calculated maximum annual wage subject to tax may not exceed 80 percent of the average annual wages paid, calculated pursuant to RCW 50.04.355. The maximum amount of annual wages subject to unemployment compensation tax during 2007 is \$31,400.

Tax Rate

From 1985 through 2004, employers' tax rates were determined by a statutory schedule specified in RCW 59.20.025. There were seven schedules in effect, depending upon the balance in the Unemployment Insurance Trust Fund as a percentage of wages paid. Each employer was placed into one of 20 different rate classes, using an array allocation method, where each rate class contained approximately 5 percent of the taxable wages.

Beginning in 2005, this methodology changed and a Tax Table containing 40 fixed array classes from 0.00 percent to 5.4 percent replaced the 20-rate schedule. Employers are assigned to a rate class using the "Array Calculation Factor Rate" that has fixed steps of 0.00125 for Rate Classes 1 through 31 and 0.0025 from 32 through 40.

Graduated Social Cost Factor: This was also new beginning in 2005. The factor is the "Flat Social Cost Factor" multiplied by a variable percentage assigned by rate class. The variable percentage ranges from 78 percent to 120 percent.

The Flat Social Cost Factor is determined by a complex formula. It is based on the benefits paid out in excess of the Array Calculation Factor Tax collected during the prior fiscal year. Also included in the calculation is an analysis of excess in the Trust Fund and minimum reduction calculations. The minimum for the Flat Social Cost Factor for 2007 is 0.5 percent for Rate Classes 2 through 40 and 0.45 percent for Rate Class 1.

There is a ceiling for the combined Array Calculation Factor Rate and the Graduated Social Cost Factor of 6.5 percent for qualified employers. However, those qualified that have been assigned specific NAICS codes may have a combined limit of 6 percent through 2007. These limitations do not apply to employers receiving a delinquent rate due to non-payment or non-reporting.

Solvency Surcharge: This is assigned after the limitations of 6 percent and 6.5 percent. It is assessed when the balance in the Trust Fund is not anticipated to be sufficient to pay benefits for the next year. The formula used to calculate the surcharge is fairly complicated and does

not lend itself to a short explanation. The surcharge rate is capped at 0.2 percent. There is no solvency surcharge for 2007.

Employment Administration Fund (EAF): The EAF is assigned at either 0.02 percent or 0.03 percent but is assigned after the limitations are made.

Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>
2006	\$1,427,639	4.3%
2005	1,369,428	12.0
2004	1,223,080	15.7
2003	1,057,376	9.6
2002	964,365	(0.3)
2001	967,149	2.0
2000	948,301	11.3
1999	851,742	11.7

Levied by State

Distribution of Receipts Unemployment compensation fund used to pay benefits to eligible unemployed individuals, calculated pursuant to RCW 50.20.120.

Administration

Employment Security Department. Each employer is notified by the Department of the assigned contribution rate to be paid for each year, as well as the amount of benefits paid to previous employees of the firm or its predecessor which are charged to the employer's account. All employers report on a quarterly basis. Taxable employers pay a quarterly tax with the filing of their reports. Employers who elect to make payments in lieu of contributions file a quarterly tax report but pay quarterly reimbursements, based on a billing for unemployment insurance benefits paid to their former employees.

Exemptions

Local government jurisdictions may elect either the taxable payment method or may choose to make payments in lieu of contributions for coverage of their employees. In such instances, RCW 50.44.035 provides for an alternative "local government tax." Taxable government tax rates are based on a reserve ratio and a benefit cost ratio specified in the statute; their rate of contributions ranges from 0.2 percent to 3 percent.

A similar alternate method for financing the benefits for employees of nonprofit organizations (according to Section 501(c)(3) of the Internal Revenue Code) is provided by RCW 50.44.060.

History

The tax was established in 1937 as part of the Social Security Act, administered by the Department of Social Security. The initial rate was 1.8 percent of wages paid. In 1942 a benefit experience factor was included and the maximum rate became 2.7 percent. The current rate system with six schedules and the 20 classifications was adopted in 1984; in 1993 a seventh rate schedule was added. In 2003 major revisions to the taxing structure took place as explained above. These major provisions were effective in 2005.

Discussion/Major Issues

The payroll tax represents a major obligation of employers doing business in Washington; total payments amount to more than one-half of state business and occupation tax liability. The tax is not usually considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding unemployment benefits. As such, it is more similar in nature to a state-required insurance program. Nonetheless, the amount of funds paid represents a significant financial obligation for employers, particularly for those firms which have experienced a high level of employee turnover in recent years.