EQUIFAX

WORKFORCE SOLUTIONS

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ETS Tax Intelligence: 2018 SUI Tax Rate Forecasting

Situation

As mentioned in last month's issue of *Tax Intelligence*, for a majority of states the date used to calculate state unemployment insurance ("SUI") tax rates for the forthcoming calendar year is June 30th, which is known as the computation date. So while most of the employer-specific information used by state workforce agencies in calculating SUI tax rates has been established, states will wait until as late as March to issue rate notices. The time gap between when rates can be determined and when rates are actually issued presents a challenge for employers.

Solution

Forecast your 2018 SUI tax rates during the third quarter of 2017 to adequately prepare and formulate next year's SUI tax rates and associated costs.

SUI Tax Rating Computations

The forecasting process takes into consideration historical employer-specific factors such as taxable payroll, benefit charges, contributions/tax paid in, and reserve account balances (collectively referred to as an employer's SUI rating experience). Since most of this information is already known, forecasts can be prepared with relative accuracy. However, there are certain state factors that can potentially impact that accuracy, including changes in rating formulas & methodologies, rate tables, and surcharges. Because most state workforce agencies use a June 30th computation date, changes in an employer's SUI rating experience or actions taken after the computation date will have an impact on future SUI tax rates (e.g., the 2019 rate versus the 2018 rate).

Mergers & Acquisitions ("M&A")

When an employer undergoes M&A activity resulting in the movement of employees between legal entities, it will often require a transfer of an employer's SUI rating experience from the predecessor employer to the successor employer. M&A activity can have significant implications on an employer's current and future SUI tax rates and the taxable payrolls to which those rates are applied. State agencies mandate the reporting of the movement of workforce between legal entities to accurately compute an employer's SUI rating experience. If not reported, employers are potentially subject to the underpayment of SUI tax, the assessment of interest & penalties, and the assignment of penalty tax rates (often the maximum allowable rate). Knowing the quarter an SUI tax rate will be revised and the financial impacts of such a revision is important to employers in managing risk.

Emerging from a New Employer Rate to a Merit Rated Employer

When an employer first begins operations in a state, a new employer rate ("NER") is assigned, which will typically apply for a period of one to three years. Depending on an employer's experience during this "qualification period," transitioning from a NER can have a significant impact on future SUI tax liabilities. To avoid unexpected tax liability increases when coming off a NER, which can occur in the middle of a rate year (e.g., FL and TX), it is prudent for employers to forecast SUI tax rates and determine the quarter/year the merit rate will be assigned.

Taxable Wage Bases

Most states increase their annual taxable wage base each year, 2.00% on average. This can happen automatically due to indexing, as a result of legislative changes, or be based on other state-specific measures (e.g., trust fund balances or average annual wage). Although an employer may experience a reduction in an SUI tax rate, an increase in a state's wage base might mitigate any expected reduction in SUI tax cost.

California Federal Unemployment Tax Act (FUTA) Credit Reduction Watch

If California repays its outstanding federal "Title XII" advances by November 10, 2017, employers with operations in California will pay FUTA tax at a rate of 0.60% instead of 2.70% on the first $7,000 of wages paid to each employee during calendar year <u>2017</u> (i.e., retroactive to January 1, 2017). That translates into a maximum FUTA tax of $42 per employee versus $189 if the state does not repay its advances. The likelihood of repayment by November 10th has improved, as California repaid all of its advances in May of 2017, but immediately began to borrow shortly thereafter.

Value

Each state uses its own, unique rating computation. With 53 U.S. jurisdictions (including D.C., VI, and PR), this can make forecasting SUI tax rates an onerous undertaking. In the states where employers have sizeable taxable payrolls, forecasting SUI tax rates allows them the ability to reduce exposure to risks associated with SUI rate changes year-over-year. For more information, please contact Pete Krieshok at (314) 214-7325 or via e-mail at pete.krieshok@equifax.com. You can also visit our blog at http://insight.equifax.com/ for information on other employment tax matters that might impact your organization.