

STATE OF NEVADA

Department of Employment, Training and Rehabilitation
Employment Security Division

Unemployment Insurance Tax Rate Schedule 2012 Small Business Impact Statement

Small Business Workshop

October 24, 2011



Employment Security Council

- ❑ ESD Administrator sets the tax rates each year by adopting a regulation. (NRS 612.550.5)
- ❑ The role of the Employment Security Council is to recommend a change in contribution rates whenever it becomes necessary to protect the solvency of the Unemployment Compensation Fund. (NRS 612.310)



FINANCING

The Unemployment Insurance Program is a joint Federal/State partnership.

FEDERAL UNEMPLOYMENT TAX = FUTA

- ❑ **FUTA currently (since 7/1/2011) imposes a federal payroll tax on all employers of 6.0% of each employee's wages, up to \$7,000 (\$420 per year)**
- ❑ **Offset credit of 5.4%, if the employer participates in a state unemployment program approved by the U.S. Secretary of Labor**
- ❑ **Net cost 0.6% X \$7,000 (\$42 per year)**
- ❑ **State UI programs perform a certification process with IRS to validate SUTA payments for FUTA credits**



STATE UNEMPLOYMENT TAX = SUTA

THE ONLY PURPOSE OF THE STATE TAX IS TO PAY UNEMPLOYMENT BENEFITS. ANY OTHER USE IS PROHIBITED.

- Paid entirely by employers.**
- Tax rates vary based on the employer's previous experience with unemployment.**
- Funds must be deposited with the U.S. Treasury.**



Experience Rating System

- ❑ **NEW EMPLOYER RATE**
2.95% of Taxable Wages

- ❑ **ANNUAL TAXABLE WAGE BASE**
2011 - \$26,600
2012 - \$26,400

- ❑ **EXPERIENCE RATING**
3½ to 4 YEARS



Eligible Employer Rates (Based on 2.00%)

Rate Class	Rate	2011 Maximum Cost Per Employee Taxable Limit \$26,600	2012 Maximum Cost Per Employee Taxable Limit \$26,400
18	5.40%	\$1,436.00	\$1,425.60
17	5.05%	\$1,343.30	\$1,333.20
16	4.75%	\$1,263.50	\$1,254.00
15	4.45%	\$1,183.70	\$1,174.80
14	4.15%	\$1,103.90	\$1,095.60
13	3.85%	\$1,024.10	\$1,016.40
12	3.55%	\$ 944.30	\$ 937.20
11	3.25%	\$ 864.50	\$ 858.00
10	2.95%	\$ 784.70	\$ 778.80
9	2.65%	\$ 704.90	\$ 699.60
8	2.35%	\$ 625.10	\$ 620.40
7	2.05%	\$ 545.30	\$ 541.20
6	1.75%	\$ 465.50	\$ 462.00
5	1.45%	\$ 385.70	\$ 382.80
4	1.15%	\$ 305.90	\$ 303.60
3	0.85%	\$ 226.10	\$ 224.40
2	0.55%	\$ 146.30	\$ 145.20
1	0.25%	\$ 66.50	\$ 66.00



RESERVE RATIO

CONTRIBUTIONS PAID (MINUS) BENEFITS CHARGED

(DIVIDED BY)

AVERAGE TAXABLE PAYROLL FOR PRIOR 3 YEARS

(2008, 2009, 2010)

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RESERVE RATIO

EXAMPLE

\$6,000 - \$2,000 = \$4,000/\$40,000 = .10 or 10% Reserve Ratio



ESTIMATED REVENUE And Employer Distribution

CALENDAR YEAR 2012

1.6 Increment 2.00% Rate

Class	RESERVE RATIO		TAX RATE	# OF EMPLOYERS	%	TAXABLE WAGES (\$MILL)	%	REVENUE (\$MILL)
	From	To						
18	<	-14.2	5.40%	3,682	10.3%	\$1,322.08	6.6%	\$71.39
17	-14.2	-12.6	5.05%	324	0.9%	\$112.68	0.6%	\$5.69
16	-12.6	-11.0	4.75%	370	1.0%	\$165.00	0.8%	\$7.84
15	-11.0	-9.4	4.45%	380	1.1%	\$150.92	0.7%	\$6.72
14	-9.4	-7.8	4.15%	438	1.2%	\$136.83	0.7%	\$5.68
13	-7.8	-6.2	3.85%	554	1.6%	\$338.06	1.7%	\$13.02
12	-6.2	-4.6	3.55%	574	1.6%	\$237.45	1.2%	\$8.43
11	-4.6	-3.0	3.25%	754	2.1%	\$348.12	1.7%	\$11.31
10	-3.0	-1.4	2.95%	897	2.5%	\$466.85	2.3%	\$13.77
9	-1.4	0.2	2.65%	1,035	2.9%	\$754.61	3.7%	\$20.00
8	0.2	1.8	2.35%	1,149	3.2%	\$967.91	4.8%	\$23.13
7	1.8	3.4	2.05%	1,577	4.4%	\$1,988.15	9.9%	\$40.76
6	3.4	5.0	1.75%	1,772	5.0%	\$3,076.80	15.3%	\$53.84
5	5.0	6.6	1.45%	2,003	5.6%	\$3,183.45	15.8%	\$46.16
4	6.6	8.2	1.15%	2,472	6.9%	\$3,165.34	15.7%	\$36.40
3	8.2	9.8	0.85%	2,568	7.2%	\$1,752.71	8.7%	\$14.90
2	9.8	11.4	0.55%	2,603	7.3%	\$889.43	4.4%	\$4.89
1	11.4	>	0.25%	12,559	35.2%	\$1,066.61	5.4%	\$2.57
Total Eligible Employers				35,711	100.0%	\$20,123.00	100.0%	\$386.50
New Employers				20,831	2.95%	\$1,750.00		\$51.62
TOTAL				56,542		\$21,873.00		\$438.13

AVERAGE UI RATE 2.00%

CEP 0.05%

TOTAL TAX RATE 2.05%



Recommended Rate

On October 4, 2011, the Nevada Employment Security Council recommended maintaining the average unemployment compensation tax rate at 2.00% for experience rated employers for calendar year 2012.



Estimated Economic Effect of the Proposed Regulation

Nevada Businesses

- ❑ Affects all Nevada employers subject to Nevada Unemployment Compensation Law that pay a rate subject to the experience rating system.
- ❑ This constitutes approximately 35,711 or 63% of total registered employers.



Beneficial Effects

- ❑ Relatively low and stable UI tax rate for 10 years
- ❑ Historic recession depleted trust fund
- ❑ Since July of 2008, UI benefit payments infused approximately \$5.2 billion into Nevada's economy as of October 1.
- ❑ Direct economic stabilizer for both Nevada workers and businesses



Adverse Effects

- Because the individual experiences of all employers statewide is constantly changing, despite keeping the average tax rate for 2012 constant at 2.00% we expect that there will be an increased number of employers at both the maximum and minimum tax rates (5.4% and 0.25%). Overall, however, the tax burden is not shifting, and the primary cause of a change in any employer's SUTA tax rate will be due to changes to their own reserve ratio.



**ESTIMATED REVENUE
And Employer Distribution
CALENDAR YEAR 2012**

1.6 Increments

Class	RESERVE RATIO		TAX RATE	# OF TOTAL ELIGIBLE EMPLOYERS	%	# OF ELIGIBLE SMALL EMPLOYERS AT 2.00%		TAXABLE WAGES (\$MILL)	%	REVENUE (\$MILL)
	From	To					%			
18	<	-14.2	5.40%	3,682	10.3%	3,592	10.3%	\$1,322.08	6.6%	\$71.39
17	-14.2	-12.6	5.05%	324	0.9%	319	0.9%	\$112.68	0.6%	\$5.69
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13	-7.8	-6.2	3.85%	554	1.6%	535	1.5%	\$338.06	1.7%	\$13.02
12	-6.2	-4.6	3.55%	574	1.6%	558	1.6%	\$237.45	1.2%	\$8.43
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9	-1.4	0.2	2.65%	1,035	2.9%	992	2.9%	\$754.61	3.7%	\$20.00
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7	1.8	3.4	2.05%	1,577	4.4%	1,489	4.3%	\$1,988.15	9.9%	\$40.76
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Total Eligible Employers				35,711	100%	34,739	100%	\$20,123.00	100.0%	\$386.50
New Employers			2.95%	20,831				\$1,750.00		\$51.63
TOTAL				56,542				\$21,873.00		\$438.13

Average UI Rate

2.00%

C.E.P

0.05%

Total Tax Rate

2.05%



Direct Effect

- ❑ The proposed 2.00% average tax rate is expected to generate approximately \$438 million for the Unemployment Compensation Trust Fund in calendar year 2012.
- ❑ Since small business taxable wages account for 44% of all taxable wages in the State, approximately \$193 million of the total revenue will be attributable to small businesses.
- ❑ The direct impact on each individual business will vary based on each employer's experience record with the Unemployment Compensation Program.



Indirect Effect

- ❑ Maintaining the average rate of 2.00% will help the State of Nevada control the current deficit spending and accrual of interest on outstanding loans.
- ❑ Proactive actions to improve Nevada's trust fund may also reduce mandatory federal tax increases under the Federal Unemployment Tax Act (FUTA).



Considerations Involved in Maintaining the Proposed Rate - Effect on Small Businesses

- ❑ The tax methodology used for the Nevada Unemployment Compensation Program is based on an experience rating system approved by the U.S. Department of Labor.
- ❑ This system is designed to ensure that employers are equally rated based on their unique experience with unemployment, regardless of size or industry type.
- ❑ Having a federally approved rate system allows employers an offset credit against the Federal Unemployment Tax. This is a savings of about \$400 million per year to Nevada employers.



Estimated Cost for Enforcement

- ❑ There is no additional cost for enforcement of this regulation.
- ❑ NAC 612.270 is adopted each year to set employer contribution rates and is required by NRS 612.550.
- ❑ Funds for the administration of the unemployment compensation program are provided by the U.S. Department of Labor.



Anticipated Revenue Increase and Use

- ❑ Maintaining the average tax rate at 2.00% is expected to maintain the integrity of the trust fund in calendar year 2012. Small businesses will account for approximately 44% of the revenues.
- ❑ Maintaining this rate is necessary to reduce the amount of federal borrowing required to fund unemployment insurance benefit payments to Nevada workers.



Duplication or More Stringent Standards of Federal, State or Local Governments

This regulation does not duplicate or provide a more stringent standard than any other regulation of federal, state, or local governments.

