

# Unemployment

**U**nemployment compensation is a federal system administered by each state. The system – on both the federal and state levels – is completely and fully funded by employers through federal and state unemployment taxes based on each company’s payroll. Fewer jobs, fewer people working and Florida employers paying higher rates on fewer people has resulted in lower net collections by the Unemployment Compensation Trust Fund.

The tax is paid on the first payroll dollars that an individual earns in a calendar year. So, naturally the state receives most of these tax dollars in the first half of each calendar year. Last year, Florida’s fund ran out of money in the summer, with no realistic hope of collecting additional dollars significant enough to cover that deficit prior to year’s end.

When the fund runs out of money, the only way to ensure individuals still receive their benefits is for the state to borrow money from the federal government. In the past several weeks, this is exactly what has had to happen in Florida. As of January 21, Florida had a loan balance from the federal government of \$1.1 billion.

- This borrowing is expected to continue at least through the end of 2010 and could be needed through mid-2011. The state has not yet determined how the interest on the loans will be paid back. Federal law prohibits states from using the unemployment taxes collected from employers to payback the interest. So the problem is two-fold – how to return the trust fund to a sustainable balance AND how to pay back the money received from the federal system.
- There is no simple solution to this problem. The problem is absolutely tied to the economic recovery of this state. Until jobs are added back to the economy, and more workers are earning incomes and payroll on which the taxes are remitted, the fund will not be replenished or restored. This is a “Catch 22” situation for Florida’s employers.

For the past several months, AIF has continued to demonstrate its commitment to responsible economic policy for Florida’s unemployment compensation system. AIF has worked diligently with our members, legislators and other Florida business groups to tackle



the significant and difficult challenges the Florida’s unemployment system continues to face in these unprecedented economic times.

- Maintaining the system is important to businesses because the benefits received by those who are unemployed are spent in the main stream economy. This is why AIF supported legislation in 2009 intended to help restore our state’s Unemployment Compensation Trust Fund to solvency using the least onerous approach available.

However, since that law passed Florida has experienced record-high unemployment rates not predicted by state economists. At the end of the year, the Florida Department of Revenue (DOR) delivered another unwelcome surprise to Florida employers when it announced that unemployment tax rates increased exponentially higher than the rates estimated in the spring.

- When AIF supported the 2009 law changes, it

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was based on estimates that a small employer at the minimum tax rate would see an increase from approximately \$8 per employee to about \$35 per employee. Now, DOR predicts their tax liability will be around \$100 per employee.

When DOR calculated each employer's rate, the result forced more than 45,000 additional companies to be classified as maximum rate. If current law stands, employers at the maximum rate will now be paying \$459 per employee up from \$378 per employee last year. Some of these companies were at the minimum rate last year so the problem is even more burdensome for them. Payment of these taxes is due April 30, 2010. This means the Legislature will need to quickly assess the impact of this tax hike on Florida businesses, evaluate all permanent and temporary solutions to minimize the impact and pass any needed legislation to achieve its objectives. It remains unknown if this higher tax rate reaches the tipping point that causes the system's reforms to be counterproductive to the economic recovery they were intended to foster.

**For the 2010 Session AIF will focus on the following unemployment compensation issues:**

### **Unemployment Compensation Tax Rates**

AIF joins with the entire business community and urges the Legislature to pass the following measures as



House Speaker Larry Cretul (R-Ocala) shares his thoughts regarding how to fix the unemployment tax crisis.

soon as the 2010 session opens:

- Establish a quarterly payment plan for 2010 and 2011 that lets employers spread out their unemployment compensation payments over the whole year without penalties or interest.
- Reduce the amount of each employee's wages upon which the employer pays unemployment compensation taxes — from \$8,500 back down to \$7,000 for 2010 and 2011.
- Eliminate all elements of the rate calculations in current law that enable replenishment of the Unemployment Compensation Trust Fund balance for 2010 and 2011.

**AIF will continue to fight hard for these measures to be passed in the opening days of the 2010 Legislative Session so Florida employers will have immediate relief from this crippling tax this year.**

### **Modernization Funds**

**AIF OPPOSES any attempt to accept federal modernization funds because of the significant and lasting increase it forces on the unemployment taxes paid by Florida employers.** The current unemployment compensation tax rates are exponentially greater than the estimates available in the spring of 2009 when the Legislature wisely passed reforms to the unemployment tax structure. Legislative leaders worked closely with AIF and our members to craft lasting solutions to the tax structure that would restore solvency in the manner least onerous to Florida employers. Some critics suggested then and will surely state again that Florida should accept more federal stimulus dollars to avoid this outcome. This is simply not the case. Accepting those funds is contingent upon expanding the payout of benefits, increases Florida's liability to the federal government and will likely force the tax rates to even higher levels.

**AIF Lobby Team Member Assigned to the Area Unemployment:**

Tamela Perdue