STORAGE NAME: h0001.bdt
DATE: September 2, 1999

HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
ANALYSIS

BILL #: HB 1

RELATING TO: Unemployment/Employers' Tax Rates

SPONSOR(S): Representative Bitner

COMPANION BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
(2) FINANCE & TAXATION
(3) TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS
(4)
(5)

I. SUMMARY:

The bill would provide an unemployment compensation tax reduction during the calendar year 2001. New employer tax rates would be reduced from 2.7 percent to 2.0 percent and rated employer tax rates would be reduced by 0.5 percent, except those employers who have been assigned a tax rate of 5.4 percent or higher for more than 36 months.

The projected fiscal impact for fiscal year 2000-01 is ($105 million). The projected fiscal impact for fiscal year 2001-02 is ($187 million). (See fiscal analysis sections III. A.&D.)

The effective date of the bill is July 1, 2000.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Unemployment Contributions (Taxes)

Chapter 443, Florida Statutes, the Unemployment Compensation Law, is administered by the Florida Department of Labor and Employment Security, Division of Unemployment Compensation. One of the division's primary responsibilities is collecting state unemployment compensation taxes which are immediately deposited into the U.S. Treasury where they are held in trust solely for the payment of unemployment benefits.

The standard tax rate is set at 5.4 percent for the first $7,000 in wages paid to each employee. New employers, however, are taxed at the initial rate of 2.7 percent until they have been in existence for a sufficient time period and have met the other requirements for experience rating. Tax rates for experience-rated employers may be reduced from the standard rate based on their experience with unemployment. Generally, the more benefits paid to an employer's former workers, the higher the employer's tax rates, and vice versa. The minimum tax rate is statutorily set at 0.1 percent.

Employers pay taxes 30 days after the end of a calendar quarter. Therefore, taxes for the fourth quarter of a year are not due until January 30 of the following year. Because taxes are due only on the first $7,000 of an insured worker's wages, tax collections are greatest for the first and second calendar quarters which are received by the division during the second and third quarters of the calendar year.

The 1997 Legislature enacted a one-year tax reduction (Chapter 97-29, Laws of Florida) to be applied during the 1998 calendar year. The legislation called for a 0.5 percent reduction for experience-rated employers, except those having an assigned rate of 5.4 percent or greater for more than 36 months. New employer tax rates were also reduced from 2.7 percent to 2.0 percent. The tax cut was projected to reduce state unemployment tax collections by roughly $162 million for the 1998 calendar year. The actual impact of the tax cut resulted in reduced collections of $171,433,734 from the receipts for 1997.

The 1999 Legislature implemented the same tax reduction for the 2000 calendar year. The tax cut for 2000 is projected to result in reduced tax collections of $187 million, $103 million in fiscal year 1999-00 and $84 million in fiscal year 2000-01.

B. EFFECT OF PROPOSED CHANGES:

The bill would reduce employers' unemployment contributions during calendar year 2001. New employer tax rates would be reduced from the initial rate of 2.7 percent to 2.0 percent. Experience-rated employer tax rates would be reduced by 0.5 percent, with the exception of those employers who have been assigned a tax rate of 5.4 percent or higher for more than 36 months.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. <u>Lower Taxes:</u>

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

It reduces the unemployment compensation taxes collected by the Department of Labor and Employment Security from employers in Florida.

d. Does the bill reduce total fees, both rates and revenues?

N/A

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. <u>Personal Responsibility:</u>

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. <u>Individual Freedom:</u>

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

N/A

E. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

   The division estimates that the one year tax reduction contained in this bill would have a nonrecurring impact of approximately $192 million, $103 million in FY 00-01 and $87 million in FY 01-02.

2. Recurring Effects:

   N/A

3. Long Run Effects Other Than Normal Growth:

   N/A

4. Total Revenues and Expenditures:

   The division estimates that the one year tax reduction contained in this bill would have a nonrecurring impact of approximately $192 million, $103 million in FY 00-01 and $87 million in FY 01-02.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   N/A

2. Recurring Effects:

   N/A

3. Long Run Effects Other Than Normal Growth:

   N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   N/A

2. Direct Private Sector Benefits:

   Employers would benefit by a reduction in the Unemployment Compensation contribution rate.

3. Effects on Competition, Private Enterprise and Employment Markets:

   N/A

D. FISCAL COMMENTS:

According to the division, repeating the tax reduction in calendar year 2001 could adversely affect the benefit trust fund's ability to pay benefits during an economic downturn.

The division also points out that the tax reduction may also negatively impact the trust fund's balance trigger, which would result in higher tax rates. Section 443.131(3)(e)1.c., F.S., provides that when the balance of the Unemployment Compensation Trust Fund is less than four percent of the state's taxable payrolls, a positive adjustment factor will be computed and included in the variable adjustment factor used in computing the tax rates for all experience rated employer accounts. The adjustment remains in effect for every year that the fund balance is below four percent. The effect of this adjustment is to raise the tax rates for all rated employers who are below the maximum rate until such year as the fund balance is again equal to or greater than four percent of the state's taxable payrolls.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

V. COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT & INTERNATIONAL TRADE:

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