CS/HB 7033 — Unemployment Compensation

by Finance & Tax Council; Economic Development & Community Affairs Policy Council; and Reps. Murzin, Carroll, and others (CS/CS/SB 1666 by Policy and Steering Committee on Ways and Means; Commerce Committee; and Senators Garcia; Atwater; Alexander; Altman; Aronberg; Baker; Bennett; Bullard; Constantine; Crist; Detert; Deutch; Diaz de la Portilla; Dockery; Fasano; Gaetz; Gardiner; Gelber; Haridopolos; Hill; Jones; Joyner; Justice; Lawson; Lynn; Negron; Oelrich; Peaden; Rich; Richter; Ring; Siplin; Smith; Sobel; Storms; Thrasher; Villalobos; Wilson; Wise; and Dean)

Unemployment compensation (UC) benefits are financed by a tax on employers' payrolls. Tax rates are set by a formula that considers the balance of the trust fund in the previous year, the "experience rate" of individual employers, and the "socialized" costs distributed among all employers.

In short, the state's sustained high level of unemployment has depleted the trust fund, requiring tax rates to be increased to meet the current and projected obligations to Florida's unemployed. In addition, the "costs" of borrowing from the federal government to meet current obligations also impact the tax rate (state and federal).

Chapter 2010-1, L.O.F., provides short-term relief to businesses by reducing the UC tax in 2010 and 2011 below current law requirements. The unemployment compensation statutes related to calculation of the employer's tax rates and Unemployment Compensation Trust Fund solvency are amended to:

- Reduce the taxable wage base from $8,500 to $7,000 for 2 years and return it to $8,500 in 2012. The wage base sunsets back to $7,000 in 2015 (consistent with current law), unless federal advances are still due for repayment to the federal government. Until all federal advances are repaid, the wage base remains at $8,500.
- Suspend the positive adjustment factor for the next 2 years. Regardless of the balance in the Unemployment Compensation Trust Fund, no rate increase will be "triggered" since the positive adjustment factor will not be applied. The positive adjustment factor is effective again beginning January 1, 2012, with a 3-year recoupment period and then returns to a 4-year recoupment period under current law provisions on January 1, 2015.
- Allow employers, for an administrative fee of up to $5, to spread payments for quarterly UC taxes due in 2010 and 2011 across the remaining quarters in the respective year without interest or penalties as long as the employer makes the quarterly filing and payment according to the new schedule ("installment payments").
- Provide for payment of interest on federal advances through an additional employer assessment.

The law also provides for an extension of the temporary state extended benefits program, effective January 2, 2010, through February 27, 2010. The extension will cover up to 8 additional weeks of temporary state extended benefits for claimants. The temporary state extended benefits for former private sector employees are 100 percent federally funded (approximately $28 million). About 20,000 Floridians will be eligible to receive additional weeks through this extension. Extended benefits for former state and local government employees do not qualify for federal funding, and must be paid by the governmental entity. The cost is estimated to total $612,633; approximately $180,000 from state funds and $433,000 from local government funds.

Businesses are provided with short-term tax relief in 2010 and 2011 due to the provisions in this law that reduce tax rates. However, assuming the current economic and revenue forecasts are correct, the unemployment compensation tax will revert back to the projected high rates in 2012 through 2014, and higher than projected rates in 2015 and beyond (compared to current law). According to data from EDR (February 19, 2010), assuming that 80 percent of the employers will elect to pay their taxes in quarterly installments, total taxes collected and deposited into the Unemployment Compensation Trust Fund will be reduced $941.6 million in FY 2009-2010 and $934.4 million in FY 2010-2011.

Further, this law will result in greater borrowing from the federal government to pay benefits, and more interest due to the federal government on that borrowing than under current law. The interest costs forecasted by EDR (February 19, 2010) totals $657.2 million over 5 years from FY 2011-2012 through FY 2015-2016. The provision in the law for payment of interest on federal advances through an additional employer assessment eliminates any impact on general revenue forecasted in the *State of Florida Long-Range Financial Outlook Fiscal Year 2010-2011 through 2012-2013* to pay interest accrued.

This law substantially amends the following sections of the Florida Statutes: 443.1117, 443.1217, 443.131, and 443.141.

These provisions take effect at different times. The temporary state extended benefits program is effective upon becoming a law, but is retroactively effective dating back to January 2, 2010, and expires February 27, 2010. The provisions related to installment payments take effect upon becoming a law, but are retroactively effective to January 1, 2010. All other provisions take effect upon becoming a law, and operate retroactively to June 29, 2009.
Vote: Senate 39-0; House 117-0