Unemployment Insurance Tax Stabilization Initiative

Overview

LC 684 is a legislative proposal that will reduce the amount of employer payroll taxes collected while maintaining the solvency of the Unemployment Insurance (UI) Trust Fund and provide stable funding for services to Oregon business.

What It Does in a Nutshell

The Unemployment Insurance Tax Stabilization Initiative readjusts the State UI tax system based on recent recession history, brings equity to new employers, and smoothes the increments employers pay on their taxable wage base. At the same time the initiative removes an outdated funding mechanism for services to business provided by the Employment Department and puts in its place a system that self corrects for inflation while maintaining a steady but capped source of business and employment services funding.

What Are The Parts?

1. *Adjust Base Solvency Equation*
   Current law requires the Employment Department to keep enough money in the UI Trust fund to pay benefits for 18 months during a moderate recession. Each September the Department calculates the tax rate used by employers for the next calendar year using a formula that ensures an adequate fund balance. Currently the formula uses the 1981-83 recession as its "model" for a moderate recession. Using the last two recessions (1992-93 and 2001-03) instead, allows a change to the formula – lowering payroll taxes.

2. *Reduce Base Year Tax Rates for New Employers*
   Employer's tax rates are based on the amount of UI benefits an employer pays in a year. The tax rates in all the Tax Rate Schedules have been reduced over time – except for the rates used for new employers (those with less than 12 consecutive months of experience). This initiative would bring the same reductions to new employers previously given to other employers.

3. *Smooth Taxable Wage Base Increments*
   Employers pay taxes on wages paid to each employee up to the taxable wage base for each calendar year. Even though the state's wage base might increase by only a few hundred dollars – current law requires adjustments to be made in increments of $1,000. This proposal allows the adjustments made each year to be made in $100 increments. This would smooth the jumps experienced each year; increases or decreases. Over time the collection of taxes would break even.

4. *Provide a permanent funding source for services to Oregon businesses*
   To fund recruiting and job finding assistance to Oregon businesses and job seekers, the state over a three year period (beginning in 1991) redirected some employer payroll taxes into a separate fund. The Department uses the interest earned by that fund to pay for business and employment service activities. The fund is not stable and could be depleted in very tough economic times and is not indexed to inflation. Currently the income generated by the fund is not sufficient to fully fund these activities and one-time revenues are being used to cover the shortfall. This proposal would deplete the fund by using it to pay UI benefits, and permanently redirect a very small portion of UI Taxes (0.09% of taxable payroll) to fund these activities, without an increase in taxes. The ongoing redirection of employer tax would be indexed to inflation, but capped, providing a stable and adequate funding source fully funding the existing level of business and employment services.

What's The Bottom Line?

In the 2005-07 biennium, Oregon employers would pay $34 million less in taxes. In the 2007-09 biennium they would pay $177 million less, a decrease of 12 percent – all without adversely affecting the Unemployment Insurance Trust Fund.