Bill Number:	H. 3992 Signed by Governor on May 13, 2024
Author:	Blackwell
Subject:	Delinquent unemployment compensation tax rates
Requestor:	House of Representatives
RFA Analyst(s):	Manic
Impact Date:	May 20, 2024

Fiscal Impact Summary

This bill specifies that an employer who has an installment agreement for paying delinquent unemployment compensation tax may pay at the normally calculated annual rate pursuant to Section 41-31-50 as opposed to tax class twenty, the maximum rate. If the employer fails to make a payment or submit a report, the normal rate reverts to the maximum tax rate.

The bill will not impact expenditures for the Department of Employment and Workforce (DEW) because it is already administering installment payment agreements for delinquent employers, and the change to the rate requirements can be managed with existing staff and resources.

Since employers will be allowed to pay their unemployment compensation tax in installments at normal rates, DEW estimates that this will marginally reduce unemployment compensation tax collections. However, because it is difficult to estimate how many employers will choose to enter into installment payment agreements and their costs per employee, the revenue impact on the State Unemployment Insurance Trust Fund and the interest deposited in the Department of Employment and Workforce Special Administration Fund are unknown. Therefore, the revenue impact of the bill on the Other Funds of DEW is undetermined.

Explanation of Fiscal Impact

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State Expenditure
This bill allows employers with a delinquency report from DEW to enter into an installment payment agreement with the department for their outstanding unemployment compensation tax at the normally calculated annual rate, determined pursuant to Section 41-31-50, as long as they are current with their installment payments and do not fail to submit succeeding wage reports and payments on time.

DEW indicates that it is already administering installment payment agreements for delinquent employers paying at tax class twenty, the maximum rate. DEW states it can also administer installment payment agreements at normal rates with existing staff and resources.

State Revenue

DEW currently administers installment payment plans for delinquent employers, but employers are forced to pay at the highest tax rate of 5.46 percent in tax class twenty. As a result, delinquent employers are penalized over the entire period their tax debt is outstanding, which may force them further into debt even if they are current on their payments. According to DEW, most employers are normally taxed at the significantly lower rates ranging from 0.06 percent in tax class one up to 1.576 percent in tax class nineteen. The bill is likely to incentivize employers with outstanding unemployment compensation tax debt to enter into installment payment agreements with payments set at their normally calculated tax rate. This, in turn, will prevent delinquent employers from incurring additional debt that would otherwise accrue if their payments stayed at the current highest rate of class twenty. Although the bill will induce lower tax payment amounts at the normal rates, DEW considers that such an incentive scheme will ultimately benefit collection efforts in the long term.

DEW indicates that the bill will not impact the State Unemployment Insurance Trust Fund solvency, but it may marginally lower revenue due to the avoidance of the class twenty tax rate penalty. However, DEW is unable to estimate the number of employers who may choose to enter into such a payment plan. In addition, because employers are assigned different tax rates (based on their computed benefit ratio), have different employee counts, have different amounts of taxable wages, and other varying financial characteristics, the estimation of the employer's cost per employee for the unemployment compensation tax is further complicated. As a result, the revenue impact of the bill on the State Unemployment Insurance Trust Fund and the Department of Employment and Workforce Special Administration Fund is undetermined.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director