
Labor & Workforce Development Committee

SJM 8008

Brief Description: Requesting that the United States Department of Labor provide Washington with unemployment tax relief equal to any benefit provided to other states.

Sponsors: Senators Brown, Hewitt, Kohl-Welles, Holmquist Newbry, Conway, Parlette, Fraser, Kilmer, White and Hatfield.

Brief Summary of Bill

- Requests that the U.S. Department of Labor provide Washington and taxpaying employers with federal unemployment tax relief or a financial benefit equal to any benefit provided to employers in states that borrowed from the federal Unemployment Account.

Hearing Date: 3/30/11

Staff: Jill Reinmuth (786-7134).

Background:

The unemployment insurance system is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under state unemployment tax acts (SUTA). If a state maintains an unemployment insurance system in conformity with federal law, the state's employers receive certain FUTA tax credits. In addition, the state receives a share of FUTA revenues for administration of its unemployment insurance system.

When a state depletes its unemployment trust fund and has insufficient revenue to pay benefits, the state may receive a loan (also known as an "advance") from the federal Unemployment Account. The loan may be used only to pay benefits.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Certain conditions are placed on the loan and its repayment. The state must repay the loan, with interest, within two years. (There are a few exceptions, such as one for a "cash flow" loan received and repaid within the same year.) The state may not pay interest from existing unemployment taxes.

Certain sanctions may be imposed if the state does not repay the loan within two years, or interest due on a loan is not paid in a timely manner. Taxpaying employers may be required to pay increased FUTA taxes due to reduced FUTA tax credits. (There are a few ways in which a state may avoid the credit reduction.) The state also may not receive FUTA revenues for its administrative costs.

According to the U.S. Department of Labor, borrowing from the federal Unemployment Account is projected to continue over the next few years. The aggregate loan balance is projected to increase to more than \$65 million in 2013. Up to 40 states are projected to borrow. (Thirty states and one territory had outstanding loan balances totaling over \$42 billion as of February 14, 2011.) The federal American Recovery and Reinvestment Act of 2009 provided a waiver of interest due on from states on new or existing loans from February 17, 2009, through December 31, 2010. Various proposals would extend interest-free borrowing for two years, or delay imposition of the credit reduction for one year.

Summary of Bill:

The Legislature represents that:

- throughout the current economic downturn, Washington has provided benefits to unemployed workers without sacrificing the solvency of the state's unemployment trust fund;
- Washington has managed the trust fund in a prudent and responsible manner, allowing the state to pay benefits without seeking a federal loan;
- thirty other states and one territory have outstanding federal loans totaling over \$42 billion;
- federal and state unemployment taxes in states with outstanding loans must be raised significantly to pay federal loans and interest due on the loans;
- current proposals seek changes to repayment provisions, including allowing states with outstanding federal loans to forego or delay interest payments; and
- providing relief in states that failed to fund their trust funds and borrowed from the federal Unemployment Account penalizes Washington and taxpaying employers.

The Legislature requests that the U.S. Department of Labor provide Washington and taxpaying employers with federal unemployment tax relief or a financial benefit equal to any benefit provided to employers in states that borrowed from the federal Unemployment Account.

Appropriation: None.

Fiscal Note: Not requested.