SENATE BILL REPORT

SB 5917

As of February 14, 1995

Title: An act relating to determining unemployment insurance contribution rates.

Brief Description: Determining unemployment insurance contribution rates.

Sponsors: Senators Gaspard, Quigley and Newhouse.

Brief History:
Committee Activity: Labor, Commerce & Trade: 2/15/95.

SENATE COMMITTEE ON LABOR, COMMERCE & TRADE

Staff: Patrick Woods (786-7430)

Background: Washington State employers pay unemployment insurance (UI) taxes on each employee in order to fund the payment of unemployment benefits. The current system of taxation was established by the Legislature in 1984, and provides for the adjustment of employer rates as follows:

Tax Schedules/Trust Fund: There are seven distinct tax schedules: AA, A, B, C, D, E, and F, with AA containing the lowest, and F the highest average tax rates. The schedule is determined by the level of monies in the UI trust fund as compared to the state's total wages (trust fund balance divided by total wages expressed as percentage) with the lowest tax schedule AA in effect when the fund balance ratio is at 3.9 percent or higher. The highest tax schedule, schedule F, is in effect when the fund balance ratio is less than 1.4 percent.

Interval of Fund Balance Ratio	Effective Tax Schedule
3.9% and above	AA
3.4% to 3.89%	A
2.9% to 3.39%	B
2.4% to 2.89%	C
1.9% to 2.39%	D
1.4% to 1.89%	E
Less than 1.4%	F

On June 30 of each year the Employment Security Department is statutorily required to determine which of the seven tax rates schedules will be in effect for the following year. Based on this process, the unemployment insurance tax schedule is set to transition from the existing AA to A schedule on January 1, 1995.

Rate Class/Experience Rating: Within each tax schedule there are 20 rate classes ranging from .36 percent to 5.4 percent of taxable payroll ($19.9 K, 1994). Employers are placed in each of the 20 rate classes based on their history of reducing their work force. This is termed "experienced rating." Employers with a high experience rating pay a higher UI tax rate.

Noncharging Benefits: Currently, a business that lays off employees for certain specific reasons, primarily when the layoff is beyond its control, does not have its account directly charged for the unemployment insurance (UI) benefits paid out. These costs are pooled among existing employers. This practice is termed "noncharging."

The Legislative Task Force on Unemployment Insurance recommended that noncharging be eliminated when: benefits are paid under a combined wage claim with another state; claimants are participating in certain training programs; claimants fail to successfully complete an on-the-job training program; or claimants receive UI benefits after a period of temporary disability resulting form a workplace injury or illness.

Successor Employer: For unemployment insurance (UI) purposes, a "successor employer" is a legal entity that acquires another business. If the "successor employer" had employees at the time of transfer, the new entity's UI tax rate class for the remainder of the year is that of the "successor employer." However, tax rates for subsequent tax years will include the wage and benefit cost experience of the combined operation. For example, company A, which has employees, acquires company B. The UI tax class rate for the first year will be company A's. If the "successor employer" did not have employees at the time of transfer, it retains the acquired business' (predecessor's) tax rate class until it qualifies in its own right for a UI tax rate. For example, if company C, which does not have employees, acquires company D, the UI tax rate class for the first year will be that of company D's.

The Legislative Task Force on Unemployment Insurance in its 1995 report to the Legislature recommended that successor employers be assigned the lower of two rates: (1) the old business (predecessor) tax rate class, or (2) the average industry rate class.

Summary of Bill: The method of determining the state's unemployment insurance tax schedule is modified as follows:

AA Schedule: The tax schedule AA is maintained in effect for calendar year 1995.

Trigger Mechanism: After 1995, the tax schedule trigger mechanism is modified as follows:

Interval of Fund Balance Ratio	**Effective Tax Schedule**
2.90% and above	AA
2.50% to 2.89%	A
2.10% to 2.49%	B
1.60% to 2.09%	C
1.10% to 1.59%	D
0.60% to 1.09%	E
Less than 0.60%	F

Noncharging Benefits: Benefits paid to employees of businesses under the following circumstances are now directly charged to the employer's account, and may no longer be considered as nonchargeable costs: (1) UI beneficiaries participating in commissionerapproved training; (2) UI beneficiaries participating in timber retraining programs; (3) beneficiaries whom an employer paid under a combined wage claim with another state; (4) beneficiaries who do not successfully complete an approved on-the-job training program; and (5) beneficiaries who are unemployed due to an on-the-job temporary total disability.

Successor Employer: A successor employer that prior to the acquisition of a firm does not have employees of its own is assigned the lower of two unemployment insurance tax rates: (1) the old firm's (predecessor's) rate class, or (2) the average industry rate class.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.