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## January 31<sup>st</sup> Deadline Nears for Employers to Begin Paying Back Borrowed Unemployment Insurance Funds

Washington, DC—Employers in 20 states and the Virgin Islands have until January 31<sup>st</sup> to begin repaying \$35 billion borrowed from the federal government to cover the increase in unemployment insurance claims made during the Great Recession and its aftermath. The borrowing was necessary because, as experts had long cautioned, these states' rainy-day funds were inadequately financed—the consequence of numerous employer tax breaks granted during the boom years that left the states ill-equipped to deal with rising unemployment, the National Employment Law Project said today.

“Corporate lobbyists complain about paying back these federal loans, but they conveniently ignore their own central role in causing the crisis. Years of incessant lobbying for ever-lower tax rates left their states' rainy-day funds completely unprepared for the recession,” said **Christine Owens, executive director of the National Employment Law Project**. “Now that the inevitable bill has come due, the corporate lobby is trying to avoid responsibility and pin the blame on unemployed Americans and the federal government.”

Ignoring the warnings of unemployment insurance financing experts that irresponsible policies in many states would lead to massive borrowing during a severe recession, states moved aggressively to cut employer unemployment taxes: more than 30 states passed legislation to slash tax rates by one-fifth or more between 1995 and 2005, leaving pre-recession funding levels lower in 2007 than in the years leading up to the previous three recessions. Recently, many borrowing states passed legislation to roll back unemployment coverage, including cuts to the amount or duration of benefits, and tighten eligibility requirements.

“This is a question of fairness. Who should pay for the irresponsibility that created this problem—jobless workers who played no role in the decision to under-fund state programs, or corporations and politicians who made a conscious decision to be irresponsible?” said **Owens**. “It's shameful that the hired guns and state lawmakers who now trumpet the need for fiscal responsibility and living within our means were the ones whose irresponsibility created the problem we're facing.”

Federal Unemployment Tax Act (FUTA) taxes paid by employers will increase by \$21 per employee in states that did not pay back the federal loan by November 2011 and have had outstanding loan balances for more than two years. The tax penalty increases by \$21 per employee each year until the debt is repaid. For example, Indiana and Michigan employers owe an additional \$42 and \$63 per employee respectively because these two states are in the second and third years of their tax increases.

The additional tax raised by this automatic repayment mechanism goes toward loan principal, allowing the federal government to recoup borrowed funds over a number of years. The U.S. Department of Labor estimates that employers in long-term borrowing states will pay \$1.9 billion toward federal loans this January as a result of the additional FUTA tax. An interest payment of \$1.2 billion came due in September 2011.

Federal legislation introduced last year by Senator Richard Durbin of Illinois sought to waive the federal-loan interest payments, postpone the FUTA tax increases for two years, and forgive up to 60 percent of borrowing, if states took steps to address the chronic underfunding of their unemployment insurance programs. Unfortunately, **Owens** notes, “The effort was opposed by business groups and stalled in Congress. The fact that corporate interests walked away from a deal that would have saved employers and states billions is a clear indication that not everyone is interested in the long-term stability of the nation’s unemployment insurance system.”

FUTA taxes primarily support the administrative costs of state unemployment insurance programs. Employers normally owe 0.6 percent on the first \$7,000 in wages paid annually to each employee, or \$42 per employee in most cases. This percentage is derived from a base tax rate of 6.0 percent that is offset by a 5.4 percent tax credit earned when an employer’s state complies with federal law. The additional \$21-per-employee federal tax penalty comes from a 0.3-percentage-point reduction of the tax credit. (Note that employers received a \$14-per-employee tax break in 2011, when Congress allowed a 0.2 percent surtax that had been in place since the 1970s to expire, lowering the effective tax rate from 0.8 to 0.6 percent on wages paid after June 30, 2011.)

Overall, 27 states and the Virgin Islands have outstanding unemployment insurance loans from the federal government. However, the FUTA-tax-credit reduction will only affect employers in those states that have been borrowing the longest, including Arkansas, California, Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, North Carolina, New Jersey, Nevada, New York, Ohio, Pennsylvania, Rhode Island, Virginia, Virgin Islands, and Wisconsin. The additional tax is calculated on IRS Form 940 for the fourth quarter of 2011 and is payable by January 31, 2012.

*The National Employment Law Project is a non-partisan, not-for-profit organization that conducts research and advocates on issues affecting low-wage and unemployed workers. For more about NELP, visit [www.nelp.org](http://www.nelp.org).*

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