JOBLESS CLAIMS TAX STATE, NOT YET EMPLOYERS

With hundreds of thousands of Wisconsin citizens out of work due to the COVID-19 crisis, the state's fund for jobless benefits has paid out hundreds of millions of dollars in a matter of months to cover historic unemployment claims. Nevertheless, the combination of higher fund reserves at the start of the pandemic and state action in response to it should push any broad payroll tax increases for employers into early 2022 – a benefit for both struggling businesses and workers.

After adding to its unemployment fund substantially in recent years, the state is once again seeing those critical reserves decline at an unprecedented pace. State and federal figures show the balance in the state unemployment fund has fallen from nearly $2 billion at the close of 2019 to $1.66 billion as of June 8, a drop of more than $300 million that occurred almost entirely since the beginning of May.

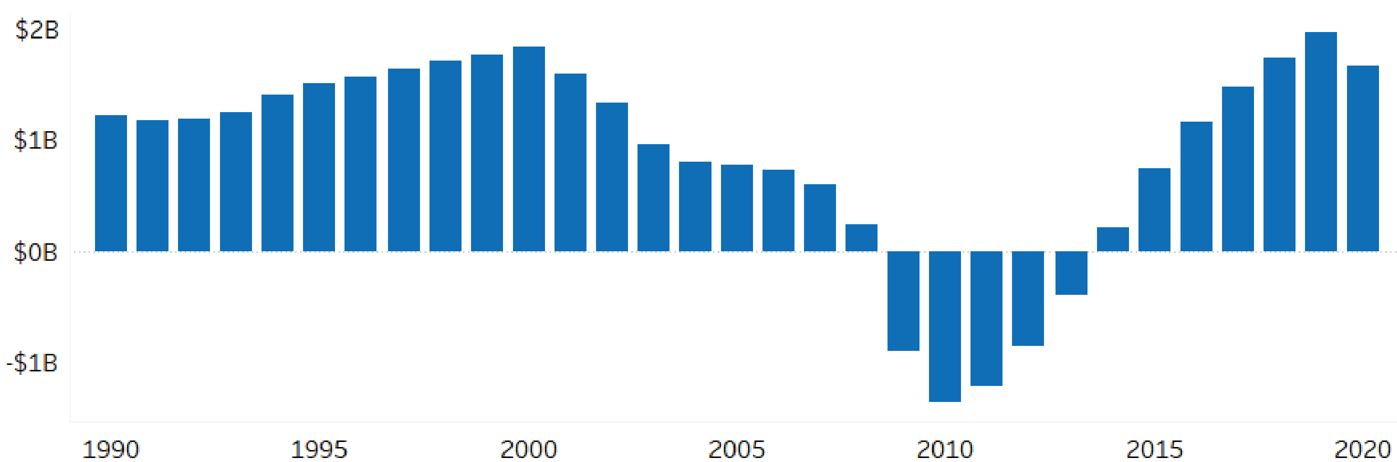
So far, public attention has justly focused more on the plight of unemployed workers. Yet it's also worth considering the impact of falling unemployment fund balances, since those can lead to tax increases on employers during an already brutal downturn. Fortunately, in part due to recent state actions, it appears taxes on businesses will not rise widely until the first quarter of 2022.

FUND AGAIN FACING CHALLENGES

From January 1 through June 8, U.S. Treasury Department and state Department of Workforce Development figures show Wisconsin's unemployment trust fund took in $352.8 million from taxes and other revenues such as interest but saw $665.1 million flow out in state benefit claims and other payments (not counting federally funded amounts) – more payments already than in any year since 2013. The state has already collected the majority of payroll taxes it will take in during 2020 while the pandemic-induced surge in claims payments has only recently begun.

Figure 1: Unemployment Fund Once Again Falling

Fund Balance in Billions at Year End (1990-2019) and on June 8, 2020



Sources: U.S. Department of Labor and U.S.Department of Treasury

Fortunately, Wisconsin's UI fund headed into the COVID-19 crisis in a stronger position compared to the last major economic collapse though it still lagged most other states (see Figure 1). After borrowing nearly $1.7 billion from the federal government during the Great Recession, the fund gradually repaid that debt and built up a balance of $1.97 billion as of December 2019. That allowed the state to lower the tax rates on employers that had risen to pay off the debt and rebuild the sagging balance.

Currently, the state is withdrawing money from its trust fund at a staggering pace – more than $300 million since May 1. If sustained, that would substantially outpace the last downturn in 2009 and by early 2021 exhaust the balance that is left in the trust fund, forcing a new round of federal borrowing.

That picture may be too gloomy for several reasons, however. First, as DWD works through a massive claims backlog, the state has been making back payments for unemployment claims from prior months, likely inflating recent payments. Second, U.S. Department of Labor figures show that after peaking at 321,063 for the week ended April 18, continuing unemployment claims by jobless workers fell 16% to 269,678 for the week ended May 23 (see Figure 2). Last, the state will still bring in some additional taxes in 2020.

However, the backlog also means that some back claims remain and others may still not be filed because of the challenges that jobless workers have faced in making claims. Permanent job losses and business closures also are eroding the taxable wage base that the state uses to fund benefits for workers who lose their jobs through no fault of their own.

WHAT'S NEXT FOR WORKERS AND BUSINESSES

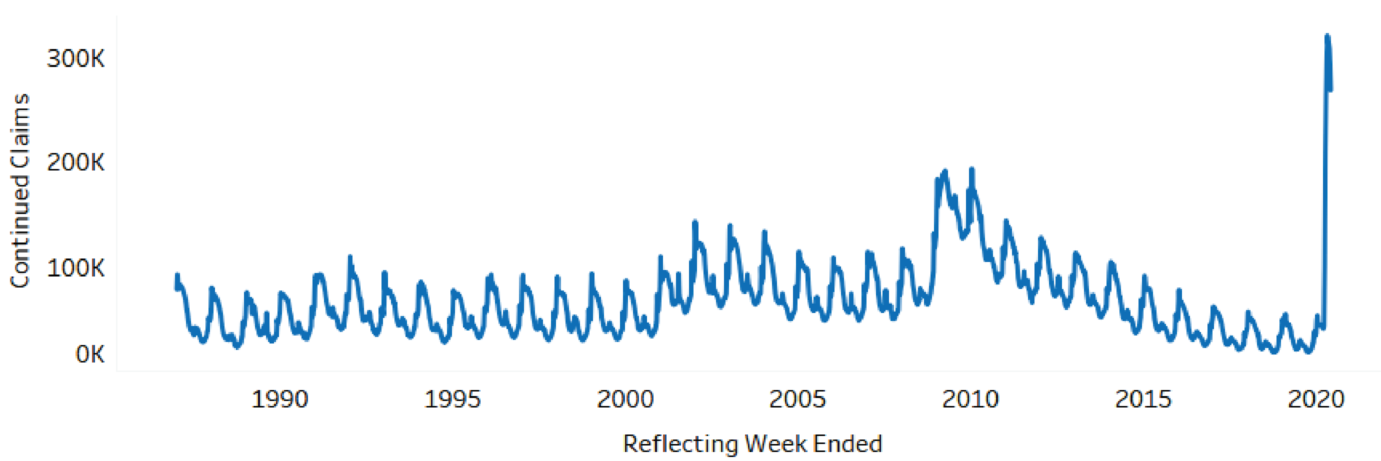
A key concern for the state is to stabilize and in time restore its unemployment fund while minimizing the near-term impact to struggling businesses and workers. Most for-profit Wisconsin employers pay taxes on a portion of their payroll to fund the unemployment system and jobless claims, with quarterly payments due on April 30, July 31 (the next payment), October 31, and January 31. The tax rates can go up or down based on: an employer's size; past claims by an employer's workers; the balance in the unemployment fund; and any state borrowing from the federal government to pay claims.

June 30 is key for setting the two tax rates that take effect on January 1 of the following year:

- Basic rates are based on a "reserve percentage" that typically results in lower rates for employers with little or no claims and higher rates for employers with a history of layoffs. The percentage compares the balance in an employer's account to the business's taxable payroll (the first $14,000 in wages paid to each worker covered by the program), and is calculated annually based on the twelve months ended on June 30. In the last three months, a

Figure 2: Unemployment Claims Skyrocketed, Now Modestly Fall

Continuing Unemployment Claims in Wisconsin by Week, 1987- 2020



Source: U.S. Department of Labor

historic 2.3 million weekly claims have been paid in Wisconsin, which would normally pressure employer accounts.

- "Solvency rates" fall when state unemployment fund reserves are high on June 30 but they rise when reserves diminish. Given the relatively strong fund balance in 2019, the state is currently in the lowest "D" tax schedule ("A" is the highest). A large drop in the fund balance would trigger higher schedules for both types of rates – basic and solvency. Employers make solvency payments to the unemployment fund's "balancing account," which in turn takes over benefit payments for defunct business and those with negative balances for their individual accounts.

STATE AND FEDERAL HELP

Though triggered on June 30, the changes to either tax rate take effect on Jan. 1 of the following year, with the first payments under new rates due on April 30. Tax rates would start to rise for employers if the trust fund balance dips below $1.2 billion by June 30 – a possibility that appears unlikely. In addition, the latest state relief measure (Wisconsin Act 185) authorizes Gov. Tony Evers' administration to seek and use available federal moneys to keep tax rates at their current lowest schedule through the end of 2021.

The basic rates for employers such as restaurants and bars, hotels, and entertainment venues typically would be about to rise at a time when they could ill afford it. Under the state's normal policy, employers who have paid more in unemployment taxes than claims could see a rate increase of up to 1 percentage point on taxable wages; those whose claims exceed taxes paid could see an increase of up to 2 points, though in both cases the next highest rate in the schedule is used if there is no rate exactly 1 or 2 points higher.

To prevent that, Act 185 provides that benefits resulting from the public health crisis and paid for the weeks between March 12 and Dec. 31 of 2020 will not count against an employer's claim history or reserve percentage, with the payments charged instead to the balancing account. In addition to federal loans, states may use funds from the Coronavirus Relief Fund within the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act to avoid insolvency in their unemployment funds, according to the U.S. Treasury Department.

CONCLUSION

The avalanche of unemployment claims filed in recent weeks is unlike anything seen in the modern era, inspiring both awe at its force and empathy for those affected. Unlike recent recessions, part of the impact on businesses and workers reflects state and local orders that curtailed economic activity in an attempt to protect public health.

That is one reason why it has made sense for state and federal officials to shield employers for the next year and a half from broad tax increases that could harm both their still vulnerable finances and their workers. Jobless workers are also in no position at the moment to forego any benefits – another tactic that has been used in past years to strengthen unemployment fund balances.

State officials should keep this issue at the forefront in the year to come. The economy will remain fragile for some time and, though the unemployment fund will have to be replenished eventually, it will be crucial to do so in a way and at a time that does not unduly burden both businesses and vulnerable workers.