

Facts on Pa. Unemployment Compensation Financing

The Cost of UC to Employers is Small and Has Risen as a Result of this Recession Only After Almost a Decade of Tax Cuts.

- In 2008, the “average tax rate” in Pennsylvania was 4.68%. Given that employers pay UC taxes on only the first \$8,000 of wages, Pennsylvania employers paid an average of only \$374.40 per worker in 2008.¹
- This cost is a very small part of the total compensation paid per employee in Pennsylvania. *In 2008, state UC taxes cost only 18 cents of \$21.38 hourly compensation total, or 0.84%.*²
- However, a majority of Pennsylvania employers do not pay even the average tax rate, but rather are clustered at the bottom of the tax scale. In 2008, 58% of employers paid the minimum tax rate of 1.86% (\$148.80 per employee). Only 6% of employers paid the maximum tax rate of 9.2%³
- Because we are in the second recession of this decade, UC taxes are significantly higher than they were in the 1990s, when low unemployment rates resulted in hefty tax cuts under Pennsylvania’s financing system. *According to the Pennsylvania Department of Labor and Industry, Pennsylvania employers received a \$3.5 billion tax cut from 1995 to 2001.*⁴

The Taxable Wage Base Is Too Low

- In Pennsylvania, UC taxes are paid only on the first \$8,000 of wages – one of the lowest wage bases in the country and only \$1,000 higher than the minimum permitted by federal law.

1 Information from Pa. Dept. of Labor and Industry, Center for Workforce Information and Analysis (March 6, 2009) (presented to the UC Advisory Council).

2 Id.

3 U.S. Department of Labor, Office of Workforce Security, Division of Fiscal and Actuarial Services, 2008 Significant Measures of State UI Tax Systems, at 48.

4 Pa. Dept. of Labor and Industry, Ridge Announces UC Taxes Go Down Additional \$20 Million: Total UC Tax Cut by \$3.5 Billion Since 1995, UC Issues Update, Vol. 3, No. 4 (Winter 2000).

- Pennsylvania ranks 35th in its taxable wage base.⁵ Only 8 states have taxable wage bases of \$7,000 (the minimum allowed) and only 8 states have taxable wage bases of \$8,000 (including) Pennsylvania; the remaining states have higher taxable wage bases.
- Our taxable wage base has not been raised since 1984. If it had been indexed for to the percentage of the average annual wage since 1984, it would be \$19,360⁶

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5 Pa. Dept. of Labor and Industry, Center for Workforce Information and Analysis, PA Unemployment Compensation Trust Fund Informational Handout (Dec. 11, 2008), at 13 (presentation to the UC Advisory Council).

6 Pa. Dept. of Labor and Industry, Center for Workforce Information and Analysis, PA Unemployment Compensation Trust Fund Summary, 1984-2015 (Dec. 11, 2008), at 6 (presentation to the UC Advisory Council).