

National Employment Law Project



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NELP Publications:

Unemployment Insurance Tax Cuts on the Rise: A Summary of Recent State Experiences

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At a time when U.S. businesses are experiencing record profits, they have also been lobbying aggressively for cuts in state taxes, including unemployment insurance (UI) taxes. This fact sheet summarizes some of the most extreme examples of UI tax cuts over the past several years and their negative impact on state UI trust funds.

Arizona

In 1996, the Legislature passed an 11% reduction in UI taxes which resulted in a \$23.4 million decrease in the trust fund. At the time of enactment, Arizona ranked 38th in the nation in the per worker size of its tax with a trust fund that totaled \$512 million. In 1998, the Legislature reduced UI tax rates for employers with positive reserves by 0.1% and for employers with negative reserves by 0.05%. The 1998 tax cut will cost the trust fund another \$45 million over the next four years.

Georgia

In 1994, the state reduced the UI tax rate by 6.25%, which cost the trust fund \$45 million. In 1998, the Legislature passed a bill that cut the UI payroll tax again by \$122 million. This bill provides for a tax cut of \$92.2 million in 1999, and a tax cut of \$30.6 million in 2000. In February 1999, the Governor announced plans to further cut UI taxes by \$1 billion over the next four years.

Idaho

In February 1998, the Governor signed a bill that cut taxes for employers by \$31 million in 1998 and will reduce taxes by \$112 million over the next four years. It will also reduce the rate new employers pay by approximately 30%. This is the fifth cut in the UI tax rate since 1983, including a \$24 million tax cut that was enacted in 1997. State officials reported that at the end of 1997 the trust fund balance was \$330 million.

Illinois

In 1996, the state's UI tax was cut by \$147 million.

Kansas	In 1995, the Legislature provided a two-year exemption from UI taxes for businesses with positive UI fund balances. The Governor signed into law a two-year extension of the moratorium on UI taxes.
Massachusetts	The Governor is sponsoring a bill that will cost the trust fund \$566 million over the next three years, out of a trust fund balance that was \$1.7 billion at the beginning of the year. If enacted into law, the average cost per employee will have dropped from \$396 in 1998 to \$271 in the year 2000, a reduction of 32% per employee in UI taxes.
Michigan	In 1996, the state enacted a 10% cut in its UI tax rate and other financing reforms. These changes in state UI law have realized more than a half billion dollar cost to the trust fund over a three-year period, out of a total trust fund of \$2.5 billion. Another \$200 million tax cut went into effect in 1999. This is the 4th straight year that Michigan businesses have received a 10% across the board cut. Overall, UI costs for Michigan businesses have been slashed by \$750 million over the past five years.
N. Carolina	In 1995, the state cut the UI tax by 23% which resulted in an estimated trust fund drain of \$73 million. In 1996, the Legislature approved a one-year moratorium on UI taxes. In May 1999, the state Senate passed a plan that provided for a 20% reduction in the UI tax rate. The plan is now under consideration in the state House.
New York	In 1998, employers received a \$420 million tax break from a 27% reduction in the average tax rate. This latest reduction means UI rates will have fallen 33% from 1995 through 1998.
Oklahoma	In 1997, employer's UI taxes were reduced by 25%. This reduction will cost the trust fund over \$63 million over a three-year period, and it is projected to leave the UI trust fund with a surplus of \$500 million.
Rhode Island	A bill passed in 1998 cut state UI taxes and resulted in a \$42 million reduction in the trust fund. In 1997, the State Legislature reduced the UI tax rate from 4.2 to 2.3 % of base payroll for new businesses.
S. Carolina	In 1998, the state cut UI tax rates by 50%, costing the trust fund an estimated \$50 million. The trust fund had a balance of \$600 million in 1997 according to state officials.
Utah	In 1997, the average UI tax rate for employers was at a sixty-two year low of .7 percent.
Virginia	In 1997, the Virginia Legislature passed a six-year UI tax rate reduction which cost the trust fund \$7 million last year. During that time, the trust fund balance was nearly \$900 million. The state currently has the 3rd lowest UI tax rate in the country.
Washington	There is a bill under consideration that would reduce the UI tax rate by about 10% and cost the trust fund \$513 million over the next six years in exchange for \$90 million in retraining money.

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