

# Unemployment Insurance Tax in Oregon

HOUSE INTERIM COMMITTEE ON REVENUE

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LEGISLATIVE REVENUE OFFICE



# State Unemployment Insurance

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- Federal-State Unemployment Insurance (UI) Program provides unemployment benefits to eligible workers who are unemployed through no fault of their own, as determined under State law, and meet other eligibility requirements of state law
- UI benefits (payments) are intended to provide temporary financial assistance to unemployed workers
- In the majority of states, benefit funding is based solely on a tax imposed on employers
- Oregon, as any other state, administers a separate UI program within guidelines established by federal law

# Introduction to Oregon UI Tax

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- Financing Oregon's Unemployment Insurance Program
  - Employer Contributions – Taxpaying, Reimbursing
  - UI tax rates on individual employers
- Current UI tax rates and collections history CY 2017 2Q – 2020 1Q
- Some characteristics of initial UI benefit claimants during March 15 – May 16, 2020
- UI benefits flow chart

# Financing the Unemployment Insurance Program

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- Private, for-profit employers pay a quarterly tax directly to the State of Oregon (Taxpaying Employers)
- State and federal agencies must pay back/reimburse the state for benefits paid to former/laid-off employees (Reimbursing Employers)
- Local governments, Indian tribes, and nonprofit employers exempt under Internal Revenue Code 501(c)(3) may choose either to pay the tax or reimburse the state for benefits paid
- The federal unemployment tax is assessed on all for-profit employers and is paid to the Internal Revenue Service (6.0% on the first \$7,000); Many businesses qualify for a maximum credit of 5.4% (more on this)

# Employer Contributions

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## **Taxpaying Employer**

- Pays payroll tax based on funding adequacy of the Unemployment Insurance (UI) Trust Fund and experience rating
- Experience rating depends on size of payroll and charges to employer accounts

## **Reimbursing Employer**

- Directly reimburses for benefits paid
- Only available for governments (state, local and Tribal) and non-profits

# UI Tax Rates on Individual Employers

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- Benefit Ratio = total benefit charges/total taxable payroll (past 3 years)
- Benefit Ratio, calculated once a year, is then compared to current year's Experience Rating Schedule (Schedule II in 2020)
- Experience Rating Schedule depends on UI Trust Fund Adequacy; there are eight schedules, I through VIII
- Currently Oregon conforms to federal requirements and Oregon employers enjoy reduced federal unemployment taxes (FUTA taxes)
- Timely Oregon unemployment tax filing and payments reduce FUTA tax (maximum credit of 5.4%, making effective FUTA rate 0.6%)

# Current Unemployment Insurance Tax in 2020

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- Imposed on taxable wage of subject employer
- Minimum rate 0.7%, Maximum rate 5.4% (Schedule II in 2020)
- Tax base rate 2.1% (new employer rate)
- Taxable wage base in 2020 is \$42,100 (adjusted every year)
- Statutorily listed deadline for filing quarterly tax report and payment
- Late filing penalties and interest charge on past due payment
- Currently the Governor's Executive Order waives interest and penalties on past due 1Q 2020 payment – Covid-19 related factors

# UI Tax Collections (CY 2017 2Q – 2020 1Q)

<b>17 Q2</b>	<b>\$319,597,977</b>		Mostly from 1Q 17 UI Tax Assessment (Schedule III)
17 Q3	\$258,269,332		CY 2017 Base Rate = 2.4%, Taxable Base = \$39,390
17 Q4	\$200,221,264		
18 Q1	\$149,354,585		
<b>18 Q2</b>	<b>\$305,159,729</b>		Mostly 1Q 18 UI Tax Assessment (Schedule III)
18 Q3	\$236,569,816		CY 2018 Base Rate = 2.4%, Taxable Base = \$40,600
18 Q4	\$181,981,162		
19 Q1	\$135,930,188		
<b>19 Q2</b>	<b>\$316,972,119</b>		Mostly 1Q 19 UI Tax Assessment (Schedule II)
19 Q3	\$251,044,382		CY 2019 Base Rate = 2.1%, Taxable Base = \$42,100
19 Q4	\$190,971,674		
20 Q1	\$141,861,263		



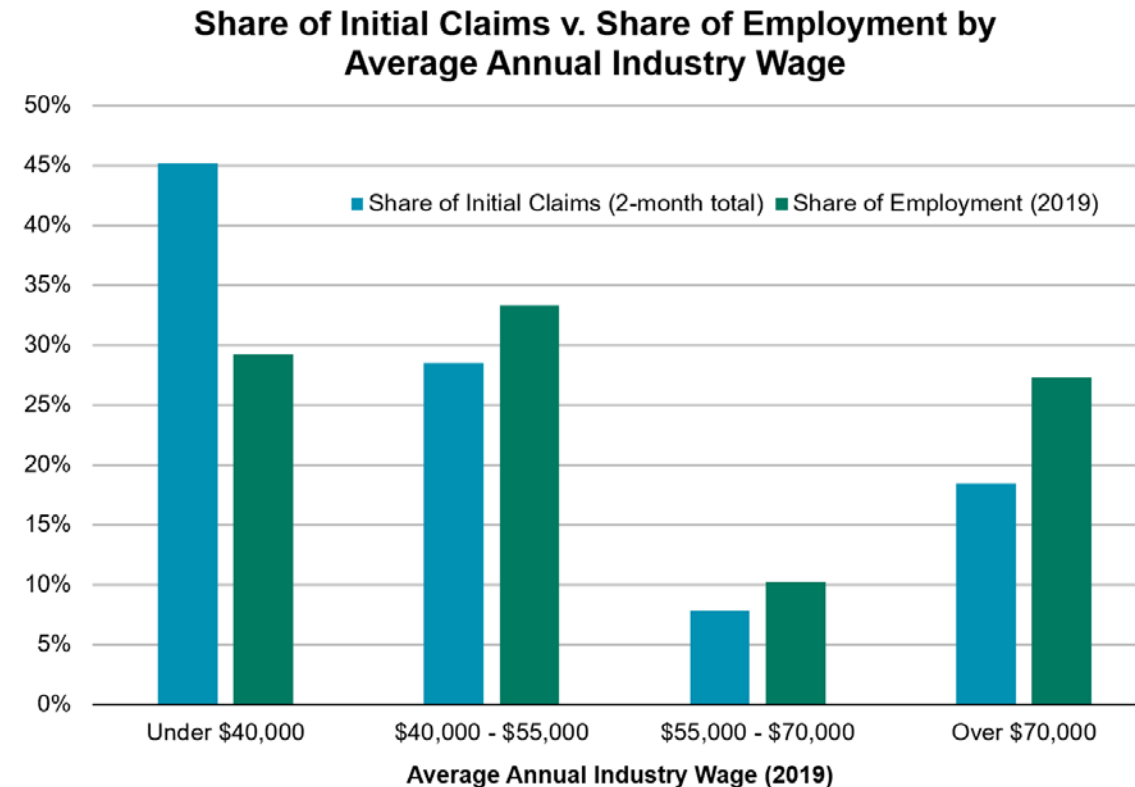
# Some Analysis on Oregon UI Initial Claims (I)

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Source: <https://www.qualityinfo.org/-/oregon-s-initial-claims-for-unemployment-insurance>

- 412,000 Initial claims filed from March 15 through May 16, 2020
- Analysis based on processed claims of 303,207
- Does not include claims for the newly implemented Pandemic Unemployment Assistance (PUA) program, which covers the self-employed, contract workers, and gig workers
- About half (50.8%) of all the processed initial claims from the past two months came from three industries – (1) Accommodation and food services: 23.3% (2) Health care and social assistance: 14.9% (3) Retail trade: 12.6%

# Some Analysis on Oregon UI Initial Claims (II)



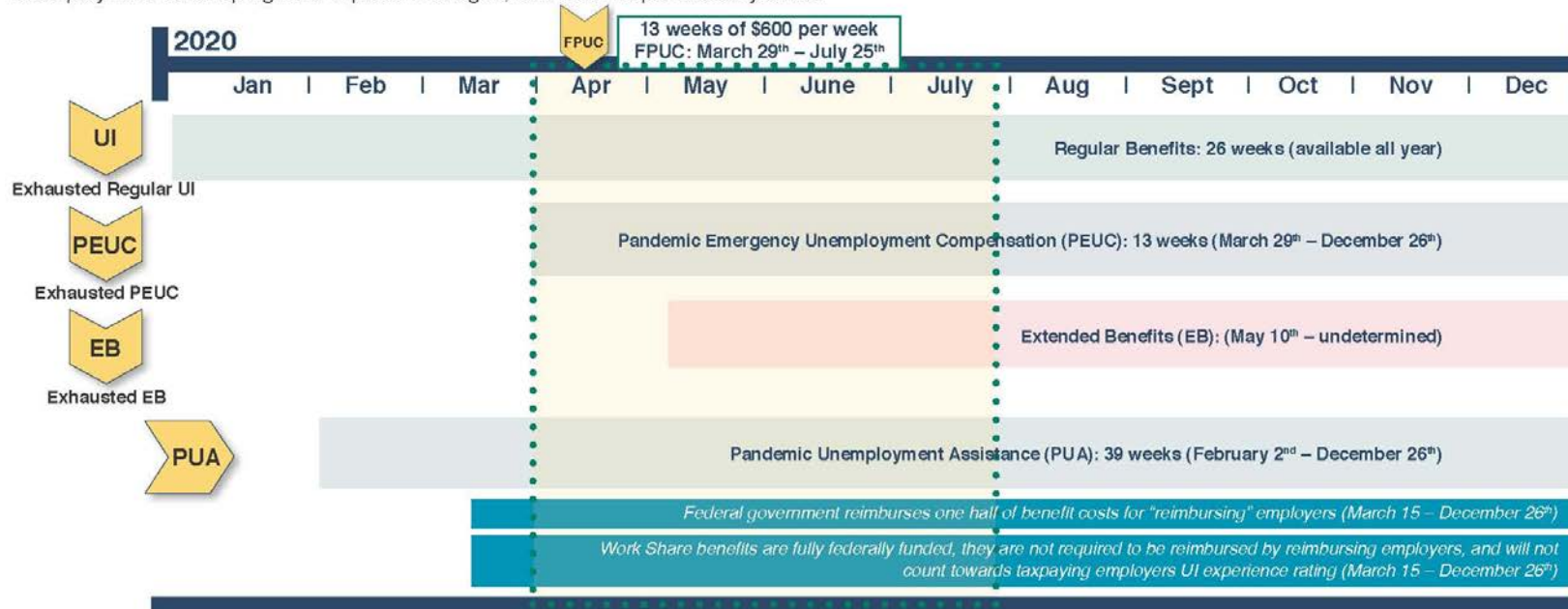
*Source: Oregon Employment Department, initial Unemployment Insurance claims processed in the nine weeks ending May 16, 2020*

# Flow of Benefits

## Unemployment Insurance - COVID-19

May 21<sup>st</sup>, 2020

Our nation's Unemployment Insurance system was established on the heels of the Great Depression. Unemployment benefits serve as a necessary support for workers who've lost employment through no fault of their own by providing partial wage replacement as they search for their next job. Unemployment programs in Oregon and nationwide have been suddenly and dramatically altered in the wake of the CARES Act. In addition to regular unemployment benefits, workers who have never been eligible are now receiving benefits too. Additional temporary payments are also in place, along with retroactive and extended benefits. Here's an overview of the unemployment benefit programs in place in Oregon, and the time periods they cover.



- UI:** Regular benefits: This program is for workers covered by employers paying UI taxes. The minimum weekly benefit is \$151 and the maximum is \$648.
- FPUC:** FPUC: This program pays \$600 each eligible week to anyone receiving benefits through regular UI, PEUC, PUA or EB. Benefits are available from March 29 through July 25, 2020.
- PEUC:** PEUC: This program is for claimants whose benefits run out after March 29<sup>th</sup>, 2019 through December 26, 2020. The benefit amount is equal to the regular UI weekly amount.

- PUA:** PUA: This program is for people who cannot receive regular UI benefits, including independent contractors, the self-employed and those who do not have enough earnings to qualify for regular UI benefits.
- EB:** EB: Extended benefits are for claimants whose regular UI and PEUC benefits extension have expired. The benefit amount is equal to regular UI benefits weekly amount. The program starts on May 10, 2020. The state must pay any PEUC for which an individual is eligible before paying EB to the individual.

<https://govstatus.egov.com/ui-benefits/CARES>

