

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1027

2005 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1027

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1027

HOUSE INDUSTRY, BUSINESS AND LABOR

Conference Committee

Hearing Date 1-5-05

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|---------|
| 1 | x | | 0.0-end |
| 1 | | x | 0.0-8.9 |

Committee Clerk Signature



Minutes:

Rep. Keiser: Called the meeting to order on HB 1027. All committee members were present.

John Bjornson, LC, (Commerce Committee): Appeared in support of the bill. The interim committee did an overall review of the system, the committee heard some testimony that there was some concern with the rates, as a result of the legislation in 1999 to establish a solvency goal for the unemployment compensation fund. As a result of that legislation there has been movement towards that solvency target over the last few years. This bill would propose an attempt to shift some of the burden to the negative balance employers, for that portion of the rates that would make up the difference going towards the solvency fund.

John Graham (Job Service, ND): Appeared in support of HB 1027. (See attached written testimony.)

Marv Skar: Appeared in opposition of HB 1027. (see attached testimony.)

Page 2

House Industry, Business and Labor Committee

Bill/Resolution Number HB 1027

Hearing Date 1-5-05

Our experience rate plan hurts long term positive balance employers, and shifts tax burdens on the users. The negative rate isn't high enough. I'm paying 15 times my usage, I have to end of this thing in sight.

Rep. Keiser: Is this an insurance product, or not?

Marv Skar: I don't think it is, its a tax.

End of discussion.

Meeting adjourned on HB 1027.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1027

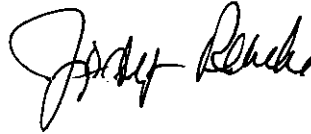
House Industry, Business and Labor Committee

Conference Committee

Hearing Date 1-10-05

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|----------|
| 1 | x | | 37.9-end |
| 1 | | x | 0-4.2 |

Committee Clerk Signature



Minutes:

Chairman Keiser: Reconvened on HB 1027.

Representative Ruby: I think this bill addresses some of Marv Skar's concerns on the burden on the positive balanced employers, with this bill of course we lower the rates, for the positive balance employers, and set a higher limit for the negative balanced employers.

Once we reach our target the rates will drop, and this bill gives them the ability to drop them lower then we could right now.

Representative Keiser: If you utilize the fund to much, you go negative, if you use the fund a lot but your premiums remain greater then your utilization, you will be in the positive tier, but you'll be in the 10th or 9th step, companies are constantly moving within steps and between tiers.

Meeting adjourned.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1027

HOUSE INDUSTRY, BUSINESS AND LABOR

Conference Committee

Hearing Date 1-24-05

Tape Number
3

Side A
x

Side B

Meter #
0-10.9

Committee Clerk Signature



Minutes:

Rep. Keiser: Reconvened the meeting on HB 1027. All committee members were present.

Representative Froseth: I move the amendments on HB 1027.

Representative Ruby: I **SECOND** the motion to adopt amendments.

All in favor.

Representative Froseth: I MOVE A DO PASS AS AMENDED.

Representative Ruby: I SECOND the motion on a DO PASS AS AMENDED.

Motion carried. VOTE: 11-YES 2-NO 1-Absent (BOE).

Meeting adjourned.

Representative Ruby will carry the bill on the floor.

FISCAL NOTE
Requested by Legislative Council
12/17/2004

Bill/Resolution No.: HB 1027

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

| | 2003-2005 Biennium | | 2005-2007 Biennium | | 2007-2009 Biennium | |
|-----------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Expenditures | \$0 | \$0 | \$0 | \$23,200 | \$0 | \$0 |
| Appropriations | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

| 2003-2005 Biennium | | | 2005-2007 Biennium | | | 2007-2009 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

If this measure is enacted, it will be necessary for Job Service to incur expenditures for programming to our mainframe computer system to change our Unemployment Insurance (UI) base program to allow for the different method of calculating UI taxes for each taxable employer. Those expenditures are estimated at \$23,200. Our appropriation request for the 2005-2007 biennium includes all the anticipated Federal resources we will receive during that biennium. Thus, Job Service does not include any entries in the "Appropriations" line of Question 1A, as an increase in appropriation would not increase our resources.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

There is no additional revenue source from our Federal funding agency to cover this expenditure.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The expenditure would be to enter into a contract with external programmers to program our mainframe UI system to handle the different method of calculating UI tax rates. The number of agency FTEs would not be changed. The projected expenditure would affect the operating expense line item and would be charged to the agency's federal funds. The expenditure, if any, would be offset against another planned expenditure in order to stay within the available federal resources.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Our appropriation request for the 2005-2007 biennium includes all the Federal resources we anticipate receiving during that biennium. Job Service does not include any entries in the "Appropriations" line of Question 1A, as an

increase in appropriation would not increase our resources. Thus, we enter "0" in this line.

Name: John Graham
Phone Number: 701-328-2843

Agency: Job Service
Date Prepared: 01/04/2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1027

Page 3, line 6, overstrike "When the trust fund reserve is"

Page 3, line 7, remove "below the solvency target", overstrike ", rates", remove "may", and overstrike "not be lowered until the"

Page 3, line 8, remove "solvency" and overstrike "target level is reached."

Renumber accordingly

January 24, 2005

VK
1/24/05

HOUSE AMENDMENTS TO HOUSE BILL NO. 1027 IBL 1-25-05

Page 3, line 6, overstrike "When the trust fund reserve is"

Page 3, line 7, remove "below the solvency target", overstrike ", rates", remove "may", and overstrike "not be lowered until the"

Page 3, line 8, remove "solvency" and overstrike "target level is reached."

HOUSE AMENDMENTS TO HB 1027 IBL 1-25-05

Page 4, line 27, replace "b" with "d"

Renumber accordingly

Date: 1-24-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1027

House **INDUSTRY, BUSINESS AND LABOR** Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken *Move Amendments*

Motion Made By *Rep. Froseth* Seconded By *Rep. Ruby*

| Representatives | Yes | No | Representatives | Yes | No |
|--------------------------|-----|----|-----------------|--------------|----|
| G. Keiser-Chairman | X | | Rep. B. Amerman | X | |
| N. Johnson-Vice Chairman | X | | Rep. T. Boe | X | A |
| Rep. D. Clark | X | | Rep. M. Ekstrom | X | |
| Rep. D. Dietrich | X | | Rep. E. Thorpe | X | |
| Rep. M. Dosch | X | | | | |
| Rep. G. Froseth | X | | | | |
| Rep. J. Kasper | X | | | | |
| Rep. D. Nottestad | X | | | | |
| Rep. D. Ruby | X | | | | |
| Rep. D. Vigesaa | X | | | | |

Total (Yes) 13 No 0

Absent (1) Rep. Boe

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Roll Call Vote #: 2 Date: 1-24-05

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1027

House **INDUSTRY, BUSINESS AND LABOR** Committee

Check here for Conference Committee

Legislative Council Amendment Number 50040.0202 -6300

Action Taken Do Pass As Amended

Motion Made By Rep. Froseth Seconded By Rep Ruby

| Representatives | Yes | No | Representatives | Yes | No |
|--------------------------|-----|----|-----------------|-----|----|
| G. Keiser-Chairman | X | | Rep. B. Amerman | X | |
| N. Johnson-Vice Chairman | X | | Rep. T. Boe | A | |
| Rep. D. Clark | X | | Rep. M. Ekstrom | | X |
| Rep. D. Dietrich | X | | Rep. E. Thorpe | | X |
| Rep. M. Dosch | X | | | | |
| Rep. G. Froseth | X | | | | |
| Rep. J. Kasper | X | | | | |
| Rep. D. Nottestad | X | | | | |
| Rep. D. Ruby | X | | | | |
| Rep. D. Vigasaa | X | | | | |

Total (Yes) 11 No 2

Absent (1) Boe

Floor Assignment Rep. Ruby

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1027: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1027 was placed
on the Sixth order on the calendar.

Page 3, line 6, overstrike "When the trust fund reserve is"

Page 3, line 7, remove "below the solvency target", overstrike ", rates", remove "may", and
overstrike "not be lowered until the"

Page 3, line 8, remove "solvency" and overstrike "target level is reached."

Page 4, line 27, replace "b" with "d"

Renumber accordingly

2005 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1027

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1027

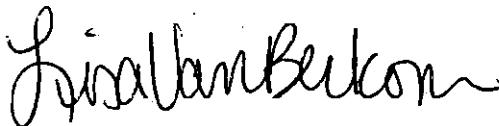
Senate Industry, Business and Labor Committee

Conference Committee

Hearing Date February 15, 2005

| Tape Number | Side A | Side B | Meter # |
|-------------|--------|--------|---------|
| 1 | X | | 1-3310 |

Committee Clerk Signature



Minutes: **Chairman Mutch called the hearing on HB 1027 to order. All Senators were present. The bill relates to the determination of unemployment insurance tax rates.**

John Bjornson of Legislative Council introduced the bill. A couple comprehensive studies have been conducted on Job Service on this issue. There has been an unfair burden on some of the employers when it comes to the benefit structure. The interim committee was attempting to do something to shift a part of the burden to the employers and equalize that burden.

Senator Krebsbach- What changes did the house make on this bill?

John- The changes dealt with reaching the solvency level, and were more along the lines of clean up matters for the bill.

John Graham, representing Job Service North Dakota appeared in support of the bill. See written testimony.

Senator Krebsbach- Can you give us the numbers for each category of payers?

John- There are approximately 18,500 experience rated employers in the state, about 1,700 are negative balance. The rate structure works when you take the entire amount of taxable wages applicable to the positive or negative balance, you divide those up in 10% increments based on the ratio that fits into one of the rate structures.

Chairman Mutch- Is each employer treated differently?

John- Yes, it is federally required that all employers have an experience rate based on their entities experience.

Senator Nething- Is there an assumption that the rates set today are appropriate?

John- Yes, that is the case. We are moving towards on where we want to be at in terms of solvency. The bill takes the increment from one point to another. This rate will give an employer the amount of money they need to pay benefits and reach the solvency target. If this bill passes, the employer won't get any more money, the main thing is the burden would be shifted.

Senator Espegaard- Why are we doing this?

John- The reason is it depends on who is the paying the amount of money necessary.

Chairman Mutch- What is the solvency target?

John- The solvency target is calculated by looking at the worst pay-out year in the last 20 years, and the 2 worst pay-out years in the last 10 years. The three are averaged into our equation on the amount needed to be paid out.

Chairman Mutch- What balance do you expect to attain with the solvency target?

John- The solvency target is calculated depending on the bad years, it shifts every year. North Dakota is one of two states in the union last year that are moving towards solvency. The legislature did a wise move by passing HB 1135.

Senator Nething- Is this formula used by other states?

John- This has nothing to do with the formula, other than having to reach the solvency target. The main thing is getting the funds to pay benefits and move towards solvency.

Marin Daily, Executive Director of Job Service appeared to answer questions. In 1999, the legislature modified the risk based formula. The modification made it more affordable for employers to make that march towards solvency. It is not federally required to use the formula that our state uses, although it is strongly recommended.

Dave Mac Iver of the Greater North Dakota Chamber of Commerce appeared before the committee in favor of the bill. See written testimony.

Curt Peterson, representing the Association of General Contractors appeared with a neutral position on the bill. This is the time of year where the amount of construction is down in our state, and the rate of un-employment in our profession is quite high.

Senator Nething- In order to have a plan that will bring about the solvency, and treat everyone fair as possible, the proposal before us is the best we can get, right?

Curt- Yes.

Senator Heitkamp- If your company is doing a job in South Dakota, are you under their rules? Would North Dakota contractors be hindered by this when they compete for jobs?

Curt- The rates in South Dakota are lower than in North Dakota. However, in their state they have an extra 6 weeks to work since the weather is generally nicer.

Page 4

Senate Industry, Business and Labor Committee

Bill/Resolution Number HB 1027

Hearing Date February 15, 2005

Chairman Mutch- The way the rates are now, would the contractor take into account the time of year and weather conditions?

Curt- Our company has a history of weather patterns, our contractors have spent a lot of time working on this issue.

Chuck Peterson, representing United Vanlines appeared in support of the bill. We are unfairly distributing the burden from a negative balanced employer to a positive balanced employer. Positive balanced employers are in favor of this bill, since it would help close the gap between the two.

No one appeared in opposition to the bill. The hearing was declared closed by Chairman Mutch.

Action taken:

Senator Espegaard moved for a Do Pass recommendation for HB 1027. Seconded by Senator Nething. The bill passed unanimously, 6-0-1. Senator Klein will be the carrier of the bill.

Date: 2-15-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. ~~1027~~ 1027

Senate Industry, Business, and Labor

Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken ~~1027~~ DO PASS

Motion Made By Espegard

Seconded By Nothing

| Senators | Yes | No | Senators | Yes | No |
|-------------------|-----|----|-------------------|-----|----|
| Chairman Mutch | X | | Senator Fairfield | X | |
| Senator Klein | X | | Senator Heitkamp | X | |
| Senator Krebsbach | X | | | | |
| Senator Espegard | X | | | | |
| Senator Nothing | X | | | | |

Total (Yes) 6 No 0

Absent 1

Floor Assignment Mutch Klein

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 23, 2005 2:56 p.m.

Module No: SR-33-3516
Carrier: Klein
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1027, as engrossed: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends DO PASS (6 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1027 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1027

House Bill No. 1027

House Industry, Business, and Labor Committee

Representative George Keiser, Chairman

Testimony of John Graham, for Job Service North Dakota

Wednesday, January 5, 2005

Chairman Keiser, members of the Committee, I am John Graham, and I represent Job Service North Dakota and the Unemployment Insurance (UI) program. I am here to explain House Bill No. 1027, and to answer the Committee's questions concerning the bill.

This Bill would create a proportionately greater responsibility on the part of negative balance employers for that portion of the UI tax burden which represents the amount of revenue necessary to make due progress towards the solvency target as required by House Bill No. 1135 (1999).

The graphic chart I have brought with me displays the principal outcome of the bill as contrasted with how UI tax rates are currently structured. Basically, the current tax structure is calculated by determining the amount necessary to reach a calculated solvency target taking into account the amount necessary to pay estimated benefits, (the first line on the graphic), and an **added** percentage (the second, and parallel, line on the graphic) necessary to progress towards the required solvency target. Thus, the impact of the move towards a solvency target falls equally on all UI taxpayers (in 2005 in the amount of 0.27 percent).

House Bill No. 1027 – Testimony of John Graham, page 2:

The proposed bill draft would require the first calculation (e.g. the amount necessary to pay estimated benefits); but would then not add the same rate to each calculated rate to reach the solvency amount. Instead, the bill draft (see page 5, lines 22-27, page 3) would create a ratio between the income estimated as needed to pay benefits and the solvency amount, and then **multiply** that ratio (in the example based on this year's rates, the ratio is 18.61%) against each rate in the rate array (see the third line on the graphic).

Thus, using the 2005 tax rate schedule and the current solvency targets as the example, this bill would have the following impact on the minimum and maximum rates in each tax rate array:

| | Current rate: | Rate under H.B 1027: |
|--------------------------|----------------------|-----------------------------|
| Positive Balance Minimum | 0.49% | 0.30% |
| Positive Balance Maximum | 1.39% | 1.36% |
| Negative Balance Minimum | 6.49% | 7.41% |
| Negative Balance Maximum | 10.09% | 11.68% |

When the UI Trust Fund solvency is reached (see lines 17-22, page 2), the calculation of the solvency target must be continued on an annual basis, and if the trust fund reserve is below the target, tax rates must be adjusted to bring the reserve up to the targeted amount within a five-year period.

I apologize that there are a couple of oversights I committed in the drafting of the bill, so I would like the Committee to favorably consider the amendments I have distributed. The amendments on page 3 of the Bill are necessary to make the provisions of subsection 3 of section 52-04-05 (see lines 16-22 of page 2) operative. It may be necessary in responding

House Bill No. 1027 – Testimony of John Graham, page 3:

to the annual calculation of the necessary rate adjustment relating to the solvency target to reduce the rates even though the solvency target is higher than the current trust fund reserve.

The amendment on page 4 is to remove a typographical error.

I would be happy to answer the Committee's questions.

| S Description | Employers | FY 2004 | | Contributions /Benefits | FY 2004 Taxable Wages |
|------------------------------------------------------|---------------------|---------------|---------------|-------------------------|-----------------------|
| | | Contributions | Benefits | | |
| 11 Agriculture, forestry, fishing and hunting | 147 | 948,158.84 | 1,171,321.43 | 80.95% | 15,685,932.20 |
| 21-22 Mining/Utilities | 33 | 1,531,921.41 | 1,580,041.16 | 96.95% | 23,108,294.25 |
| 236 Construction of buildings | 165 | 2,807,792.42 | 2,495,940.42 | 112.49% | 36,897,204.58 |
| 237 Heavy and civil engineering construction | 163 | 4,354,666.56 | 6,004,018.83 | 72.53% | 51,739,226.92 |
| 238 Specialty trade contractors | 361 | 3,517,534.21 | 4,224,895.86 | 83.26% | 52,173,451.59 |
| 31-33 Manufacturing | 75 | 2,247,372.04 | 3,626,594.59 | 61.97% | 41,408,698.35 |
| 42 Wholesale trade | 114 | 330,271.84 | 569,242.83 | 58.02% | 8,795,921.53 |
| 44-45 Retail trade | 73 | 88,463.24 | 264,699.32 | 33.42% | 2,916,610.64 |
| 48-49 Transportation and warehousing | 118 | 406,303.05 | 564,606.28 | 71.96% | 6,823,613.54 |
| 51 Information | 23 | 140,970.85 | 120,401.15 | 117.08% | 1,374,862.41 |
| 52 Finance and insurance | 26 | 10,760.71 | 156,917.94 | 6.86% | 908,451.75 |
| 53 Real estate and rental and leasing | 14 | 96,599.59 | 119,655.87 | 80.73% | 1,443,773.67 |
| 54-55 Professional and technical services/Management | 95 | 149,168.67 | 271,354.49 | 54.97% | 3,690,038.40 |
| 56 Administrative and waste services | 120 | 219,098.18 | 602,128.07 | 36.39% | 8,683,849.88 |
| 61 Educational services | 4 | 1,327.19 | 8,251.77 | 16.08% | 56,606.17 |
| 62 Health care and social assistance | 16 | 12,991.20 | 56,815.97 | 22.87% | 731,190.23 |
| 71 Arts, entertainment and recreation | 41 | 93,567.96 | 129,941.18 | 72.01% | 1,971,992.78 |
| 72 Accommodation and food services | 75 | 93,835.59 | 150,586.16 | 62.31% | 1,700,039.49 |
| 81 Other services, except public administration | 107 | 104,214.22 | 297,625.76 | 35.02% | 2,348,423.44 |
| 92 Public administration | 9 | 365,884.16 | 352,843.79 | 103.70% | 14,738,528.84 |
| Negative Balance Employers | 1,779 | 17,520,901.93 | 22,767,882.87 | 76.95% | 277,196,710.66 |
| | Percentage of Total | 9.39% | 32.36% | 65.92% | 8.17% |
| Negative Balance Employers | 17,172 | 36,625,455.43 | 11,769,579.34 | 311.19% | 3,115,839,555.80 |
| | Percentage of Total | 90.61% | 67.64% | 34.08% | 91.83% |
| Total | 18,951 | 54,146,357.36 | 34,537,462.21 | 156.78% | 3,393,036,266.46 |

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1027

[Prepared by Job Service North Dakota – January 5, 2005]

Page 3, line 6, overstrike the words “When the trust fund reserve is”

Page 3, line 7, delete “below the solvency target;” overstrike the word “rates;” delete the word “may,” and overstrike the words “not be lowered until the”

Page 3, line 8, delete the word “solvency,” and overstrike the words “target level is reached”

Page 4, line 27, replace “b” with “d”

Renumber accordingly

BACKGROUND PAPER

October 2004, Number 45

State Business Tax Climate Index

By

Scott A. Hodge

J. Scott Moody, M.A.

Wendy P. Warcholik, Ph.D.

Executive Summary

With this study, the Tax Foundation presents its second annual estimate of each state's "business tax friendliness," the 2004 State Business Tax Climate Index.

Most stories about how states compete for business revolve around the deliberately hyped efforts of politicians and economic development offices to lure high-profile companies to locate there. Usually, the object of their affection is a sports franchise or a famous international company, and the recent competition for the Montreal Expos is a case in point. States and cities routinely assemble generous packages of tax abatements and public spending to lure such firms. But under the media radar, each state's tax system is constantly competing with its neighbors for start-ups and business expansion. In fact, politicians who have to aggressively market their state with huge tax giveaways are often trying to make up for a generally bad business tax climate.

One major element of that competition is the size of each state's tax burden—the

percentage of a state's income taken in taxes. For many years the Tax Foundation has published estimates of each state's combined state-local tax burden as part of its well-known Tax Freedom Day report. The nationwide average in 2004 is 10.0 percent, and state-specific estimates range around that average from 6.3 percent in Alaska to 12.9 percent in New York.

While businesses have always taken note of these tax burden estimates, the structure and complexity of a state's tax system can be as important to businesses as the amount collected. Domestic and even international competition forces businesses to constantly search for more tax-friendly environments. Therefore, the state-local tax burden estimates and the State Business Tax Climate Index are complementary, answering the questions: How much are we paying? and Are we paying it in an economically efficient way?

Business leaders and government policymakers can use the State Business Tax Climate Index as a comparative gauge of state tax systems. Each score that a state

This year's study benefited greatly from reactions by government officials and business leaders to the first edition published in mid-2003. New sub-indexes capture important tax base issues, and the Unemployment Insurance Tax Index has replaced last year's tax conformity index. All of the 2003 and 2004 scores in this report use the new criteria and are not comparable to last year's.

At the Tax Foundation, Scott Hodge is President, Scott Moody is Senior Economist and Wendy Warcholik is Adjunct Scholar. The authors would like to acknowledge the valuable assistance of Thomas Armstrong, Ph.D., Associate Director for Strategic Data Analysis & Reporting at the Pennsylvania State System of Higher Education.

income tax and a sales tax—but ranks highly by keeping all of its taxes simple with low, flat rates.

The common characteristics of states that rank poorly are: multiple-rate corporate and individual tax codes that impose above-average tax rates; above-average sales tax rates that exempt few business-to-business transactions; complex unemployment tax systems; and high overall state tax collections with few if any constitutional or statutory restraints on taxing or spending.

The 2004 State Business Tax Climate Index is determined by the tax laws in place at the beginning of the year. Therefore, such tax changes as the higher sales and corporate income taxes that Virginia enacted during 2004 are not included.

Introduction

In July 2004, Florida lawmakers cried foul when a major credit card company announced it would close its Tampa call center, lay off 1,110 workers, and outsource those jobs to another company. The reason for the lawmakers' ire was that the company had been lured to Florida with a generous tax incentive package and had enjoyed nearly \$3 million worth of tax breaks during the past nine years. The company refused to say whether the jobs would be relocated overseas.¹

As the finances of U.S. states begin to stabilize after the last recession, another issue has grabbed the attention of lawmakers—outsourcing. The outsourcing of jobs to lower-cost nations such as India has made headlines nationwide. But while India's low wages are attracting call centers and back office operations, the types of investment most coveted by American states—manufacturing and production facilities—are being lured away by low-tax countries such as Ireland, Poland, Singapore, and Slovakia. In recent years, these small, emerging countries have aggressively slashed their corporate tax rates in order to attract foreign investment—often from U.S. multinational firms.

While state lawmakers are right to be concerned about how their states rank in the global competition for jobs and capital, the Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to an overseas location.² These means that state lawmakers must be aware of how their state's business climate matches up to their immediate neighbors and to other states within their region.

Table 1
State Business Tax Climate Index, 2003 and 2004

| State | 2004 State Business Tax Climate Index | | 2003 State Business Tax Climate Index | | Change from 2003 to 2004 | |
|----------------------|---------------------------------------|------|---------------------------------------|------|--------------------------|------|
| | Score | Rank | Score | Rank | Score | Rank |
| U.S. | 5.000 | - | 5.000 | - | - | - |
| Alabama | 5.664 | 16 | 5.667 | 16 | -0.004 | 0 |
| Alaska | 6.846 | 3 | 6.750 | 5 | 0.096 | 2 |
| Arizona | 5.491 | 19 | 5.503 | 18 | -0.012 | -1 |
| Arkansas | 4.441 | 43 | 4.576 | 39 | -0.135 | -4 |
| California | 4.607 | 38 | 4.621 | 38 | -0.014 | 0 |
| Colorado | 6.352 | 8 | 6.294 | 10 | 0.058 | 2 |
| Connecticut | 4.699 | 37 | 4.748 | 36 | -0.049 | -1 |
| Delaware | 5.570 | 18 | 5.405 | 19 | 0.165 | 1 |
| Florida | 6.925 | 2 | 7.003 | 3 | -0.078 | 1 |
| Georgia | 5.443 | 20 | 5.326 | 20 | 0.117 | 0 |
| Hawaii | 3.742 | 50 | 3.694 | 50 | 0.048 | 0 |
| Idaho | 4.851 | 31 | 4.872 | 34 | -0.021 | 3 |
| Illinois | 5.211 | 23 | 5.285 | 23 | -0.074 | 0 |
| Indiana | 5.737 | 12 | 5.904 | 11 | -0.167 | -1 |
| Iowa | 5.032 | 28 | 4.941 | 30 | 0.090 | 2 |
| Kansas | 4.822 | 32 | 4.874 | 33 | -0.052 | 1 |
| Kentucky | 4.345 | 44 | 4.262 | 45 | 0.083 | 1 |
| Louisiana | 5.062 | 27 | 5.176 | 24 | -0.115 | -3 |
| Maine | 4.444 | 42 | 4.386 | 42 | 0.058 | 0 |
| Maryland | 5.422 | 21 | 5.312 | 21 | 0.111 | 0 |
| Massachusetts | 4.803 | 33 | 4.991 | 28 | -0.188 | -5 |
| Michigan | 4.703 | 36 | 4.713 | 37 | -0.009 | 1 |
| Minnesota | 4.063 | 48 | 4.050 | 48 | 0.013 | 0 |
| Mississippi | 5.146 | 25 | 5.153 | 25 | -0.007 | 0 |
| Missouri | 5.840 | 11 | 5.703 | 14 | 0.137 | 3 |
| Montana | 5.633 | 17 | 5.647 | 17 | -0.014 | 0 |
| Nebraska | 4.767 | 35 | 4.936 | 31 | -0.169 | -4 |
| Nevada | 6.494 | 6 | 7.091 | 2 | -0.597 | -4 |
| New Hampshire | 6.629 | 5 | 6.635 | 6 | -0.007 | 1 |
| New Jersey | 4.782 | 34 | 4.866 | 35 | -0.084 | 1 |
| New Mexico | 4.502 | 40 | 4.358 | 43 | 0.144 | 3 |
| New York | 4.043 | 49 | 3.948 | 49 | 0.095 | 0 |
| North Carolina | 4.861 | 30 | 4.881 | 32 | -0.020 | 2 |
| North Dakota | 4.504 | 39 | 4.528 | 40 | -0.023 | 1 |
| Ohio | 4.866 | 29 | 4.990 | 29 | -0.124 | 0 |
| Oklahoma | 5.682 | 14 | 5.682 | 15 | 0.000 | 1 |
| Oregon | 6.150 | 10 | 6.298 | 9 | -0.148 | -1 |
| Pennsylvania | 5.311 | 22 | 4.995 | 27 | 0.317 | 5 |
| Rhode Island | 4.249 | 46 | 4.193 | 47 | 0.056 | 1 |
| South Carolina | 5.182 | 24 | 5.295 | 22 | -0.114 | -2 |
| South Dakota | 7.365 | 1 | 7.288 | 1 | 0.077 | 0 |
| Tennessee | 5.668 | 15 | 5.890 | 12 | -0.222 | -3 |
| Texas | 6.798 | 4 | 6.781 | 4 | 0.017 | 0 |
| Utah | 5.095 | 26 | 5.054 | 26 | 0.041 | 0 |
| Vermont | 4.310 | 45 | 4.355 | 44 | -0.045 | -1 |
| Virginia | 5.737 | 12 | 5.703 | 13 | 0.035 | 1 |
| Washington | 6.252 | 9 | 6.424 | 8 | -0.171 | -1 |
| West Virginia | 4.240 | 47 | 4.253 | 46 | -0.013 | -1 |
| Wisconsin | 4.460 | 41 | 4.434 | 41 | 0.026 | 0 |
| Wyoming | 6.446 | 7 | 6.582 | 7 | -0.136 | 0 |
| District of Columbia | 3.702 | - | 3.709 | - | -0.008 | - |

Note: The higher the score, the more favorable a state's tax system is for business. Virginia and Indiana were the only states with identical scores. Both rank 12th, and the next state ranks 14th.

A return to budget surpluses could offer many state lawmakers the opportunity to reform their tax codes in order to make their state more attractive to domestic and foreign investment. The

¹ Dave Wasson, "Florida Lawmakers Slam Capital One's Layoffs After Years of Tax Breaks," *Tax Analysts*, July 27, 2004.

no page 2

Table 2
Major Components of the State Business Tax Climate Index, 2004

| State | Overall Rank | Corporate Income Tax Index Rank | Individual Income Tax Index Rank | Sales and Gross Receipts Tax Index Rank | Unemployment Insurance Tax Index Rank | Fiscal Balance Index Rank |
|----------------|--------------|---------------------------------|----------------------------------|-----------------------------------------|---------------------------------------|---------------------------|
| Alabama | 16 | 27 | 19 | 13 | 6 | 14 |
| Alaska | 3 | 49 | 4 | 1 | 38 | 10 |
| Arizona | 19 | 15 | 26 | 41 | 8 | 7 |
| Arkansas | 42 | 45 | 22 | 39 | 44 | 37 |
| California | 38 | 39 | 44 | 37 | 22 | 30 |
| Colorado | 8 | 5 | 13 | 22 | 25 | 1 |
| Connecticut | 36 | 19 | 21 | 33 | 24 | 43 |
| Delaware | 18 | 36 | 20 | 3 | 10 | 46 |
| Florida | 2 | 9 | 4 | 21 | 1 | 5 |
| Georgia | 20 | 11 | 26 | 7 | 33 | 15 |
| Hawaii | 50 | 28 | 47 | 45 | 20 | 50 |
| Idaho | 31 | 17 | 35 | 19 | 46 | 22 |
| Illinois | 23 | 23 | 11 | 42 | 41 | 18 |
| Indiana | 12 | 23 | 10 | 10 | 5 | 28 |
| Iowa | 28 | 43 | 30 | 15 | 28 | 17 |
| Kansas | 32 | 46 | 24 | 32 | 17 | 29 |
| Kentucky | 44 | 44 | 25 | 8 | 47 | 42 |
| Louisiana | 27 | 34 | 18 | 49 | 21 | 11 |
| Maine | 42 | 40 | 34 | 11 | 39 | 40 |
| Maryland | 21 | 6 | 35 | 9 | 14 | 26 |
| Massachusetts | 33 | 29 | 15 | 11 | 48 | 38 |
| Michigan | 36 | 50 | 12 | 17 | 41 | 39 |
| Minnesota | 48 | 31 | 38 | 36 | 32 | 48 |
| Mississippi | 25 | 32 | 16 | 47 | 2 | 27 |
| Missouri | 11 | 13 | 23 | 29 | 9 | 4 |
| Montana | 17 | 30 | 50 | 5 | 23 | 19 |
| Nebraska | 35 | 42 | 28 | 34 | 16 | 32 |
| Nevada | 6 | 1 | 7 | 46 | 39 | 16 |
| New Hampshire | 5 | 37 | 8 | 2 | 43 | 8 |
| New Jersey | 34 | 33 | 32 | 24 | 26 | 34 |
| New Mexico | 39 | 18 | 35 | 48 | 15 | 41 |
| New York | 49 | 14 | 49 | 40 | 50 | 36 |
| North Carolina | 30 | 22 | 44 | 35 | 7 | 31 |
| North Dakota | 39 | 48 | 29 | 20 | 37 | 34 |
| Ohio | 29 | 38 | 46 | 38 | 11 | 21 |
| Oklahoma | 14 | 12 | 39 | 14 | 3 | 12 |
| Oregon | 10 | 15 | 43 | 4 | 27 | 6 |
| Pennsylvania | 22 | 47 | 13 | 25 | 12 | 25 |
| Rhode Island | 46 | 23 | 41 | 28 | 49 | 33 |
| South Carolina | 24 | 10 | 40 | 16 | 44 | 13 |
| South Dakota | 1 | 1 | 1 | 43 | 30 | 3 |
| Tennessee | 15 | 23 | 9 | 44 | 34 | 9 |
| Texas | 4 | 20 | 4 | 23 | 13 | 2 |
| Utah | 26 | 8 | 42 | 27 | 19 | 24 |
| Vermont | 45 | 35 | 48 | 18 | 4 | 49 |
| Virginia | 12 | 7 | 17 | 6 | 29 | 19 |
| Washington | 9 | 1 | 1 | 50 | 36 | 23 |
| West Virginia | 47 | 41 | 31 | 26 | 35 | 45 |
| Wisconsin | 41 | 20 | 32 | 31 | 31 | 44 |
| Wyoming | 7 | 4 | 1 | 30 | 18 | 47 |

Note: Rankings do not average across to total. States without a given tax rank equally as number 1 and states with identical scores rank equally.
Source: Tax Foundation

temptation for many is to craft packages of tax incentives and infrastructure subsidies to lure high-profile businesses or factories from other states. But as Florida's experience shows, these expensive and preferential programs do not always guarantee that the jobs will stay in the state permanently. Moreover, such subsidy packages often paper over deeper flaws in a state's business climate.

State lawmakers would be wise to look to making systemic changes to their business climates that will improve their competitive position for the long-term. As they begin to assess their tax systems, they should keep two rules in mind:

1. Taxes matter to business. Taxes affect business decisions, job creation and retention, plant location, competitiveness, and the long-term health of a state's economy. For businesses, taxes are an input cost, just like the cost of raw materials. If the cost goes up, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus a state with lower tax costs will be more attractive to business investment.
2. States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of higher-tax states.

Clearly, there are many non-tax factors that affect a state's business climate: its proximity to raw materials or transportation centers, its regulatory or legal structures, the quality of its education system and the skill of its workforce, not to mention the intangible perception of a state's "quality of life."³

Some of these factors are, of course, outside of the control of elected officials. Montana law-

² U.S. Department of Labor, "Extended Mass Layoffs Associated With Domestic And Overseas Relocations, First Quarter 2004," June 10, 2004, and "Extended Mass Layoffs In The Second Quarter Of 2004," August 26, 2004. In the press release announcing the June 10 study, DOL reported that: "Three out of four [lay-off] events (90 out of 119) associated with movement of work occurred among establishments within the same company. In more than 7 out of 10 cases, the work activities were reassigned to places elsewhere in the U.S. In the 29 events in which work activities were reassigned to another company under contractual arrangements, half of the instances involved relocation of work outside the U.S. and half to companies within the U.S."

2005 UNEMPLOYMENT INSURANCE TAX RATE
AND TAXABLE WAGE BASE NOTICE

T

DATE: 12-03-04

FARGO ND 58107

~~2005 UNEMPLOYMENT INSURANCE TAX RATE~~

TABLE Page 2 Item Z

IN 2005 THE FIRST \$19,400 PAID EACH WORKER IS TAXABLE.

Your rate is determined in two steps. Step 1: It is determined if your Total All Years Reserve is positive or negative. Because your TOTAL ALL YEARS RESERVE is positive, your rate is from the enclosed POSITIVE ACCOUNT TAX RATE SCHEDULE.

Step 2: Your Reserve Ratio is determined by dividing the Last 6-Year Reserve by the Average Taxable Payroll. The Reserve Ratio determines your rate within the Positive Account Tax Rate Schedule.

YOUR RESERVE RATIO IS 2.63 (LAST 6-YEAR RESERVE DIVIDED BY AVERAGE PAYROLL.) *LAST 6 YEAR RESERVE = 7A/B = 10263*

| | TOTAL ALL YEARS* | LAST 6 YEARS** | YEAR ENDING | TAXABLE PAYROLL |
|-----------------|------------------|-------------------------|-------------|-----------------|
| TAXES PAID | 581,538 | 98,488 | 9/04 | 2,917,206 |
| BENEFIT CHARGES | 114,376 | 24,834 - <i>4139/9R</i> | 9/03 | 2,768,002 |
| RESERVE = | 467,161 | 73,654 (A) | 9/02 | 2,691,167 |
| | | | AVERAGE = | 2,792,125 (B) |

Information Purposes only: YEAR ENDING 9/04 TAXES PAID 34,714 (D)
BENEFIT CHARGES 2,219

Additional payments may be made to lower your rate. To figure the amount needed to place you in a lower rate within the schedule, multiply your average payroll by the reserve ratio needed for the desired rate, and subtract the present 6-year reserve. Such payment must be made by April 30, 2005, in addition to taxes due.

* Total All Years Reserve is the Taxes Paid through October 31, 2004, minus the Benefit Charges to your account through September 30, 2004.
** Last 6-Year Reserve is the Taxes Paid for the last six years through October 31, 2004, minus the Benefit Charges to your account for the last six years through September 30, 2004.

If you disagree with this determination,
YOU HAVE 15 DAYS FROM THE DATE OF THIS NOTICE TO FILE AN APPEAL.

Home > News > 2005 Unemployment Insurance Tax Rate Schedules

NEWS

2005 Unemployment Insurance Tax Rate Schedules
Date: 12/02/2004

2005 Taxable Wage Base is \$19,400
(This amount is set annually and is 70% of a statewide average wage)

New Employer - Positive Balance
Non-Construction----- 2.08%
Construction----- 10.09%

New Employer - Negative Balance
Non-Construction----- 6.49%
Construction----- 10.09%

New Employers are
Non-construction covered after June 30, 2003.
Construction covered after June 30, 2002.

Actual tax rates may differ from those shown on the tables due to the application of NDCC 52-04-05(3)(a) (rate reduction).

POSITIVE TAX RATE TABLE

| Reserve Ratio | Rate |
|------------------|-----------------------------|
| +0.79% and less | 1.39% |
| +0.80% to +1.97% | 1.29% |
| +1.98% to +2.38% | 1.19% |
| +2.39% to +2.67% | 1.09% <i>(2) - Item (2)</i> |
| +2.68% to +2.79% | 0.99% |
| +2.80% to +2.93% | 0.89% |
| +2.94% to +3.12% | 0.79% |
| +3.13% to +3.38% | 0.69% |
| +3.39% to +4.09% | 0.59% |
| +4.10% and over | 0.49% <i>Item (X)</i> |

*Tax Using UI Rating = 2917206
x .0109
\$ 31757.55*

NEGATIVE TAX RATE TABLE

| Reserve Ratio | Rate |
|--------------------|--------|
| -30.59% and less | 10.09% |
| -30.58% to -16.41% | 9.69% |
| -16.40% to -13.08% | 9.29% |

*TAX Using Total
History 2917206
.0049
\$ 14294.31
EXCESS TAXATION \$ 17503.24*

Job Service North Dakota - News

| | |
|-------------------|-------|
| -13.07% to -8.10% | 8.89% |
| -8.09% to -5.61% | 8.49% |
| -5.60% to -3.39% | 8.09% |
| -3.38% to -1.75% | 7.69% |
| -1.74% to -0.77% | 7.29% |
| -0.76% to +2.09% | 6.89% |
| +2.10% and over | 6.49% |

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Tax Rate For Negative Balance Employers

| | |
|------------------------------------------------|--------------------|
| Current Payroll Cap | \$19,400.00 |
| Current Maximum Rate | 10.09% |
| Maximum Tax per Employee | \$1,957.46 |
| Maximum Weekly Benefit | \$324.00 |
| Maximum # of Weeks | 26 |
| Total Unemployment Liability | \$8,424.00 |
| Total Unemployment Liability | \$8,424.00 |
| Total Neg Balance Tax Contribution | \$1,958.00 |
| Tax Burden Not Funded By Negative Rates | \$6,466.00 |
| Tax Rate Needed to Cover Max Benefit | 43.42% |
| Negative Reserve Reduction Plan | 6.58% |
| Total Maximum Tax Rate | 50.00% |
| Total Maximum Tax per Employee | \$4,212.00 |



**Testimony of Dave MacIver
Greater North Dakota Chamber of Commerce
Presented to the
Senate Industry, Business and Labor Committee
February 15, 2005**

HB 1027

Mr Chairman and members of the Senate Industry, Business and Labor Committee, my name is Dave MacIver. I am here today representing a coalition which includes a number of local chambers of commerce in North Dakota with over 7400 member businesses to urge you to support HB 1027

This bill has a number of components to it but the ones that are the most important to the business community are the solvency target and the rates. Each time I talk to a business person in this state and the topic of unemployment insurance comes up the issue that they want to discuss are the rates. If they are a positive balance employer they believe their rates are too high and if they are a negative balance employer they believe the same thing. However the negative balance employers also know that they are going to be required to pay more for the fund to reach its solvency target. This bill does address the needs of both sides by moving the rates towards reducing the positive balance employers down a modest amount and the negative balance up a little. We believe that moving towards this goal over time is a responsible way to approach the issue. It is also our understanding the solvency target will be met in the next year making ND a very stable place to do business, while other states struggle to meet their monetary needs.

Thank you, Chairman Mutch and members of the Senate Industry, Business and Labor Committee for this opportunity to discuss the business community's position on HB 1027. The North Dakota Chamber of Commerce urges a **DO PASS** for HB 1027. Thank you and I would be happy to answer any questions at this time.

South Dakota legislature looks at unemployment insurance

Marin Daley
HANDOUT



By Bob Mercer

South Dakota's unemployment insurance system will be on the front burner during the state legislature's 2005 and 2006 sessions.

Why? The UI trust fund is in a steep nosedive. An emergency surcharge on participating employers very likely will be imposed next year to keep the fund from hitting bottom.

The eight members of the state's recently reconstituted Unemployment Insurance Advisory Council started meeting again in December.

They agreed on a strategy in early January to seek some less-controversial changes in the legislative session now under way, then return in 2006 with a package of deeper reforms that can be vetted beforehand with businesses during the coming months.

"Open a dialogue," was how state Labor Secretary Pamela Roberts put it.

During the second half of the 1980s and throughout the '90s, South Dakota's UI system was financially solid -- so sound that the advisory council overseeing it hadn't met the past 12 years.

The system started to wobble in 2001 as an economic slowdown took hold. It's been seriously out of balance every year since then, as taxes and interest income coming into the system fell behind the amounts being paid out in benefits by more than \$10 million annually.

The result: the trust fund balance that normally ran in the \$50 million neighborhood has been rapidly drained. Depending on the assumptions used for their calculations, state UI officials predict the trust could hit zero in 2007 or at best stabilize at about \$15 million.

Now many of the business-friendly features of South Dakota's system are under scrutiny. Roughly one-third of the employers in the system no longer pay taxes into the system because their experience rating qualifies them for the zero rate. At the opposite end, the most any business pays is seven percent on a \$7,000 wage base, or \$490 per employee.

South Dakota and Nebraska are the only states in the region that still use the \$7,000 federal minimum. One of the immediate steps sought by the advisory council is adding an inflation factor.

"What we're doing is fixing a system that is

broken," said council member David Owen, president of the South Dakota Chamber of Commerce and Industry.

The members plan to look at raising the base to at least \$8,000, along with examining the entire tax structure, including raising the top rate to perhaps nine percent and possibly eliminating the zero rate (also known as a premium waiver).

"That one you're going to have a struggle with," member Jerry Wheeler, executive director for the South Dakota Retailers Association, cautioned about taking away the zero rate.

Another immediate change could be ending the practice of crediting interest to employers' individual accounts. The effect has been to reduce the amounts that employers pay into the system.

Much of the discussion recently has

focused on some sectors of the construction and manufacturing industries that routinely cost the system much more than the taxes paid by those businesses. They tend to be at the high end of the tax structure.

But a Labor Department analysis of the 2003 income and benefits found that every tax bracket ran a deficit that year.

The thought currently running throughout the discussions is making sure the system is equitable. "At what point are non-users paying more than they should and the users not paying enough?" Roberts said.


(Newspaperman Bob Mercer covers the South Dakota statehouse for the Watertown Public Opinion, the Mitchell Daily Republic, the Pierre Capital Journal and the Black Hills Pioneer. The four daily newspapers are separately owned. He can be reached at Bobmercer1@aol.com.)

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DEPARTMENT OF LABOR

Pamela S. Roberts, Secretary

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- ⇒ Unemployment Insurance
 - ⇒ UI Forms
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Tax Rates

I am starting a new business. What will my unemployment tax rate be?

Does my unemployment tax rate stay the same forever?

What is experience rating, and when do I become eligible?

How and when will I know what my rate is for the upcoming year?

Do I need to do anything when I get the rate notice?

What is a voluntary contribution and why would I do it?

How do I calculate a voluntary contribution (VC)?

How do I make a voluntary contribution?

What is a reimbursable employer?

What is the investment fee?

I am starting a new business. What will my unemployment tax rate be?

There are two rates in South Dakota for new businesses:

Non-construction businesses have a first year tax rate of 1.9%. This breaks into two parts: Unemployment Contribution (UI) of 1.2% and Investment Fee (IF) of 0.7%.

Construction businesses have a first year tax rate of 6.7%. This also breaks into two parts: Unemployment Contribution (UI) of 6.0% and Investment Fee (IF) of 0.7%.

(Top)

Does my unemployment tax rate stay the same forever?

No. During your second and third years of unemployment your rate will decrease as long as your account balance remains positive (meaning your contributions exceed the claims being paid out of your account).

Non-construction rates are a total of 1.7% during your second and third years. This breaks out to Unemployment Contribution (UI) of 1.0% and Investment Fee (IF) of 0.7%.

Construction rates are a total of 3.7% during your second and third years. This breaks out to Unemployment Contribution (UI) of 3.0% and Investment Fee (IF) of 0.7%.

(Top)

What is experience rating, and when do I become eligible?

After you have three years of taxable payroll you become experience rated. This means that your tax rate will vary according to several variables.

The variables that effect your tax rate are: amount of taxable payroll for the previous three years, contributions paid in, claims paid out, interest credited/pool charge reserve ratio (set by the Legislature).

(Top)

How and when will I know what my rate is for the upcoming year?

All eligible accounts are rated during the first quarter of each year. The Unemployment Insurance Tax Unit mails a notice to you with your tax rate and the variable reach that rate.

The formula for calculating your tax rate is:

| | | | | |
|---------------------------------------------------------------------|---|-------------------------------------------------|---|---|
| Account Balance | / | Total of last three years of taxable payroll | = | % |
| Move decimal in % two places to the right | | | | |
| Convert % into reserve ratio (found on the back of the rate notice) | | | | |

Example:

$$1050.00 / 75817.78 = 0.0138$$

$$0.0138 = 1.38$$

$$1.38 = .3 \text{ UI \& .3 IF}$$

(Top)

Do I need to do anything when I get the rate notice?

This depends. First, you should always check the amounts listed for each taxable payroll. Compare what you have in your records to what is listed. If there are any discrepancies you should contact the Unemployment Insurance Tax Unit at 626-2312 or your local Tax Representative (see Field Reps). Next, you can make a voluntary contribution which would be cost effective for you. Lastly, if you disagree with a portion of the rate notice you can appeal it (see Appeal Rights).

(Top)

What is a voluntary contribution and why would I do it?

A voluntary contribution (VC) is commonly referred to as "buying down your rate." Basically what this means is that during the specified time you may make a contribution to your account to bring your tax rate down for the current year. There are several advantages to doing this.

- First, if your reserve ratio is close to falling into the next lower tax bracket, you may be able to make a small contribution (sometimes a very small amount) to lower your tax rate. This can be cost effective if the decrease in your tax rate results in a larger savings than the voluntary contribution was.
- Secondly, when you make a voluntary contribution all of the contribution is deposited into your account. Whereas, if you make quarterly tax payments, only the unemployment contribution (not the investment fee) is deposited into your account. Therefore, by doing a voluntary contribution, you keep more money in your account.

(Top)

How do I calculate a voluntary contribution (VC)?

You must first determine your desired reserve ratio/tax rate. Once you have

the formula:

| | | | | |
|----------------------------------|-----|------------------------|---|-----------------|
| Last three years taxable payroll | (x) | Desired reserve ratio | = | Account balance |
| Account balance needed | - | Actual account balance | = | Amount of v |

Example:

Desired tax rate of .2 UI &.2 IF

$$75817.78(x) 1.4\% = 1061.45 \quad 1061.45 - 1050.00 = 11.45 \text{ VC}$$

In this example, you could make a voluntary contribution of \$11.45 to low rate to .2 UI and .2 IF.

To determine if this is cost effective you must estimate what your taxable be for the upcoming year.

| | | | | |
|-------------------|-----|------------------|---|-------------|
| Estimated payroll | (x) | Actual tax rate | = | Actual tax |
| Estimated payroll | (x) | Desired tax rate | = | Desired tax |
| Actual taxes | - | Desired taxes | = | Savings |

Example:

Estimated payroll is 25000.00

$$25000.00 (x).6 = 150.00$$

$$25000.00 (x).4 = 100.00$$

$$150.00 - 100.00 = 50.00 \text{ Savings}$$

In this example, it would be cost effective to make a voluntary contribution.

(Top)

How do I make a voluntary contribution?

Make a copy of the rate notice. On the front of the rate notice indic

- How much of a voluntary contribution you would like to mak
- What your desired tax rate is.
- Provide contact information (name and number).
- Include the voluntary contribution payment (made out to SD

(Top)

What is a reimbursable employer?

South Dakota Law allows certain employers to elect "cost reimbursement" as an alternative to "tax paying". Generally employ

House Bill No. 1027

Senate Industry, Business, and Labor Committee

Senator Duane Mutch, Chairman

Testimony of John Graham, for Job Service North Dakota

Tuesday, February 15, 2005

Chairman Mutch, members of the Committee, I am John Graham, and I represent Job Service North Dakota and the Unemployment Insurance (UI) program. I am here to explain House Bill No. 1027, and to answer the Committee's questions concerning the bill.

This Bill would create a proportionately greater responsibility on the part of negative balance employers for that portion of the UI tax burden which represents the amount of revenue necessary to make due progress towards the solvency target as required by House Bill No. 1135 (1999). The foregoing is true when the solvency target is above the year end fund balance. When the solvency target is below the year end fund balance, the proportionately greater reduction would go to negative balance employers.

The graphic chart I have brought with me displays the principal outcome of the bill when the solvency target is above the ending fund balance, as contrasted with how UI tax rates are currently structured. Basically, the current tax structure is calculated by determining the amount necessary to reach a calculated solvency target taking into account the amount necessary to pay estimated benefits, (the first line on the graphic), and an **added** percentage (the second, and parallel, line on the graphic) necessary to progress towards

the required solvency target. Thus, the impact of the move towards a solvency target falls equally on all UI taxpayers (in 2005 in the amount of 0.27 percent).

The proposed bill draft would require the first calculation (e.g. the amount necessary to pay estimated benefits); but would then not add the same rate to each calculated rate to reach the solvency amount. Instead, the Bill (see page 5, lines 3-8) would create a ratio between the income estimated as needed to pay benefits and the solvency amount, and then **multiply** that ratio (in the example based on this year's rates, the ratio is 18.61%) against each rate in the rate array (see the third line on the graphic).

Thus, using the 2005 tax rate schedule and the current solvency targets as the example, this bill would have the following impact on the minimum and maximum rates in each tax rate array:

| | Current rate: | Rate under H.B 1027: |
|--------------------------|----------------------|-----------------------------|
| Positive Balance Minimum | 0.49% | 0.30% |
| Positive Balance Maximum | 1.39% | 1.36% |
| Negative Balance Minimum | 6.49% | 7.41% |
| Negative Balance Maximum | 10.09% | 11.68% |

When the UI Trust Fund solvency is reached (see lines 17-22, page 2), the calculation of the solvency target must be continued on an annual basis, and if the trust fund reserve is below or above the target, tax rates must be adjusted to bring the reserve to the targeted amount within a five-year period.

I would be happy to answer the Committee's questions, Mr. Chairman.

| Description | Current Tax Rate Schedule | | | | | Description | Proposed Tax Rate Schedule | | | | | Difference | |
|-----------------------------------------------------|---------------------------|----------|-----------------------------|---------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------|----------|-----------------------------|---------------------------------------|------------------|------------|-------------|
| | Number of Employers | Tax Rate | Percentage of Taxable Wages | Percentage of Taxable Wages per Group | Projected Income | | Number of Employers | Tax Rate | Percentage of Taxable Wages | Percentage of Taxable Wages per Group | Projected Income | Employers | Income |
| 10 groups = 100% of positive employer taxable wages | 4,771 | 0.49% | 86.09% | 10.000% | \$1,546,000 | 10 groups = 100% of positive employer taxable wages | 9,984 | 0.58% | 86.09% | 34.122% | \$6,245,000 | 5,213 | \$4,699,000 |
| | 1,960 | 0.59% | 86.09% | 10.000% | 1,862,000 | | 1,109 | 0.68% | 86.09% | 6.855% | 1,471,000 | -851 | -391,000 |
| | 1,361 | 0.69% | 86.09% | 10.000% | 2,177,000 | | 732 | 0.78% | 86.09% | 7.314% | 1,800,000 | -629 | -377,000 |
| | 2,029 | 0.79% | 86.09% | 10.000% | 2,493,000 | | 744 | 0.88% | 86.09% | 5.710% | 1,586,000 | -1,285 | -907,000 |
| | 1,758 | 0.89% | 86.09% | 10.000% | 2,809,000 | Set rate to the minimum rate if cumulative reserve divided by FY 2004 contributions is greater than or equal to 12 | 631 | 0.98% | 86.09% | 6.928% | 2,143,000 | -1,127 | -666,000 |
| | 687 | 0.99% | 86.09% | 10.000% | 3,124,000 | | 378 | 1.08% | 86.09% | 6.113% | 2,083,000 | -309 | -1,041,000 |
| | 876 | 1.09% | 86.09% | 10.000% | 3,440,000 | | 587 | 1.18% | 86.09% | 6.621% | 2,465,000 | -289 | -975,000 |
| | 808 | 1.19% | 86.09% | 10.000% | 3,755,000 | | 629 | 1.28% | 86.09% | 8.814% | 3,560,000 | -179 | -195,000 |
| | 1,098 | 1.29% | 86.09% | 10.000% | 4,071,000 | | 904 | 1.38% | 86.09% | 8.631% | 3,759,000 | -194 | -312,000 |
| | 1,824 | 1.39% | 86.09% | 10.000% | 4,386,000 | | 1,474 | 1.48% | 86.09% | 8.892% | 4,153,000 | -350 | -233,000 |
| Positive | 17,172 | | | | \$29,663,000 | Positive | 17,172 | | | | \$29,265,000 | 0 | -\$398,000 |
| 10 groups = 100% of negative employer taxable wages | 234 | 6.49% | 7.18% | 10.000% | 1,708,000 | 10 groups = 100% of negative employer taxable wages | 234 | 6.58% | 7.18% | 10.000% | 1,732,000 | 0 | \$24,000 |
| | 107 | 6.89% | 7.18% | 10.000% | 1,813,000 | | 107 | 6.98% | 7.18% | 10.000% | 1,837,000 | 0 | 24,000 |
| | 78 | 7.29% | 7.18% | 10.000% | 1,919,000 | | 78 | 7.38% | 7.18% | 10.000% | 1,942,000 | 0 | 23,000 |
| | 133 | 7.69% | 7.18% | 10.000% | 2,024,000 | | 133 | 7.78% | 7.18% | 10.000% | 2,048,000 | 0 | 24,000 |
| | 138 | 8.09% | 7.18% | 10.000% | 2,129,000 | | 138 | 8.18% | 7.18% | 10.000% | 2,153,000 | 0 | 24,000 |
| | 149 | 8.49% | 7.18% | 10.000% | 2,234,000 | | 149 | 8.58% | 7.18% | 10.000% | 2,258,000 | 0 | 24,000 |
| | 225 | 8.89% | 7.18% | 10.000% | 2,340,000 | | 225 | 8.98% | 7.18% | 10.000% | 2,363,000 | 0 | 23,000 |
| | 92 | 9.29% | 7.18% | 10.000% | 2,445,000 | | 92 | 9.38% | 7.18% | 10.000% | 2,469,000 | 0 | 24,000 |
| | 258 | 9.69% | 7.18% | 10.000% | 2,550,000 | | 258 | 9.78% | 7.18% | 10.000% | 2,574,000 | 0 | 24,000 |
| | 365 | 10.09% | 7.18% | 10.000% | 2,656,000 | | 365 | 10.18% | 7.18% | 10.000% | 2,679,000 | 0 | 23,000 |
| Negative | 1,779 | | | | \$21,818,000 | Negative | 1,779 | | | | \$22,055,000 | 0 | \$237,000 |
| Positive & Negative | 18,951 | | | | \$51,481,000 | Positive & Negative | 18,951 | | | | \$51,320,000 | 0 | -\$161,000 |
| Negative - construction | | 10.09% | 0.14% | 100.000% | 518,000 | Negative - construction | | 10.18% | 0.14% | 100.000% | 522,000 | | 4,000 |
| Negative - non-construction | | 6.49% | 0.14% | 100.000% | 333,000 | Negative - non-construction | | 6.58% | 0.14% | 100.000% | 338,000 | | 5,000 |
| New - non-construction | | 2.08% | 5.66% | 100.000% | 4,315,000 | New - non-construction | | 2.22% | 5.66% | 100.000% | 4,606,000 | | 291,000 |
| New - construction | | 10.09% | 0.79% | 100.000% | 2,922,000 | New - construction | | 10.18% | 0.79% | 100.000% | 2,948,000 | | 26,000 |
| Rounding | | | | | 1,000 | Rounding | | | | | 1,000 | | 0 |
| Total | | | | | \$59,570,000 | Total | | | | | \$59,735,000 | | \$165,000 |
| Average Tax Rate | | | | | 1.63% | | | | | | 1.63% | | 0.00% |

⊙ Employer counts are from a database with 10-1-2003 to 9-30-2004 taxable wages used for Calendar Year 2005 tax rates.