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OUR BUSINESS IS SMALL BUSINESS

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WHAT IS THE COST OF LOSING AN UNEMPLOYMENT CLAIM?

Have you ever wondered what it costs an employer to lose an unemployment claim? If your reasons for discharging an employee are a little "shaky" and you tell him you won't fight his claim for unemployment, what does that really cost your company? Here's how a Florida employer can figure the cost.

Calculating Your Tax Rate
First, you have to know what your tax rate is. Unemployment tax rates in Florida range from 0.1% to 5.4%. An employer that is eligible for an earned unemployment compensation rate is assigned a rate that's determined by three components:
(1) the employer's benefit ratio;
(2) a variable adjustment factor; and
(3) a final adjustment factor.

The law also allows certain employers to sign up for a short-time maximum compensation rate of 6.4%. The short-time compensation program is used primarily by seasonal employers and employers that plan to reduce their employees' work hours or workweeks. If you're one of those employers, you may want to investigate this program, which charges you only a portion of the benefits received.

The first component of calculating the tax rate is referred to as the "employer's benefit ratio." That's the amount of benefit charged to an employer as a percent of taxable wages for a 12-quarter period (3 years) ending June 30 of each year. Thus, the formula for this component of the rate is calculated as follows:

Individual employer's benefit ratio = $\frac{\text{benefits}}{\text{taxable wages}}$

That calculation depends on the size of the taxable wages in comparison to the benefits paid. The more benefits you pay, the greater effect they will have on your *benefits ratio*. In other words, an employer with 25 employees will be affected more than an employer with 200 employees, assuming they have the same number of unemployment claims.

The calculation of the *variable adjustment factor* and the *final adjustment factor* are more complex. Those factors depend in general on the economy and benefits paid by all employers. If an employer has benefits charged to it, application of the two factors usually will increase its tax rate

How does a claim affect your tax rate?
Currently, a new business in Florida is assigned an unemployment tax rate of 2.7%, which is the midpoint between the minimum rate and the maximum rate allowed by law.

The business will keep that rate for 10 quarters, or 2.5 years. If few or no claims are filed during that period, the employer will qualify for a reduction to the minimum tax rate at the end of the 10 calendar quarters. The minimum tax rate changes each year. For 2005, the minimum tax rate is .42 percent of the first $7,000 in payroll per employee per year. Since the tax rate is figured on the first

$7,000 per employee each year, a higher turnover rate significantly affects what an employer pays. With turnover, an employer is paying unemployment on each new hire, beginning a new $7,000 cap. The employer has now paid twice for the same position!

So how much does it cost you when a former employee is paid unemployment benefits? Let's explain with an example.

Say a Florida employer has 40 employees who are employed at an average wage of $8.50 an hour. At the 2.7% tax rate and assuming no turnover, each year it would pay about $7,560 in unemployment taxes for the 40 employees (.027 x $7,000 x 40 = $7,560). If for some reason it laid off or discharged five employees who were eligible to collect full benefits, those employees would receive up to $35,750 in unemployment benefits. Of course, benefit amounts vary with each person. In general, however, the average dollar benefit awarded in Florida is approximately one-half of an employee's weekly pay up to a maximum of $7,150. If you assume that the 5 employees collected the maximum benefits for 26 weeks, they would receive $33,750 in benefits.

Those payments have no immediate effect on the employer's taxes until June 30 of the next year. The employer's rate is figured based on a rolling 12-calendar-quarter period that is looked at each June 30. This employer likely would be moved to the maximum tax rate of 5.4% as a result of the benefits that were paid. That number is figured by a formula that includes the employer's taxable payroll for 3 years. Each of the company's 40 employees would earn gross wages of $17,680 ($8.50 x 2,080 annual hours). The taxable payroll is the first $7,000 of each employee's gross wages. In this example, and assuming there is no turnover, 3 years of taxable payroll would total $840,000 (40 employees x $7,000 x 3 years = $840,000). The taxable payroll is divided into the benefits paid ($35,750) to get a new tax rate of 4.26%.

The rate calculation does not end there, however. The state would also factor in a *variable adjustment factor* and a *final adjustment factor*, which would likely mean that this employer would be moved to the top rate of 5.4%. The variable adjustment and final adjustment factors are complicated to calculate, but the fact that the employer has paid benefits makes it much more likely that the two factors will increase its tax rate, which accounts for the employer moving from 4.26% to 5.4%. Assuming the employer now has 35 employees (remember, it paid 5 employees benefits) and no turnover, it will pay $13,230 each year (.054 x $7,000 x 35 = $13,230) for the next 3 years. The difference in the old rate and the new rate will cost it an additional $17,010 in tax payments paid over 3 years for the benefits received by the 5 former employees. Instead of paying $7,560 each year in unemployment taxes each year, the employer will pay $13,230 per year, for a total payment over 3 years of $39,690. Losing an unemployment compensation appeal shows up in your payments for 12 quarters.

The bottom line is that the lower the number of employees you have, the greater the effect of benefits paid on your tax rate. A smaller employer with 20 employees will have a significant change. If an employer has 100,000 employees, there will be no change in the rate if it pays benefits for one or even a few employees.

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LOOK FOR NEW MINIMUM WAGE POSTER IN DECEMBER'S NEWSLETTER

Effective January 1st, Florida's minimum wage will go up 27 cents to $6.67 an hour. Also on January 1st, all employers will be required to post a minimum wage poster at their workplace. As a benefit of your FUBA membership, FUBA is developing a poster that will comply with all legal requirements. All FUBA members will receive a free poster along with next month's newsletter.