

Historical Tax Law Changes Unemployment Insurance Tax

Laws 1936, 1st Special Session, Chapter 13 established the Unemployment Compensation Fund from which benefits were paid to unemployed Arizona workers. A 3-member Unemployment Compensation Commission was created to administer the fund. The fund consisted of contributions paid by Arizona employers at a rate equal to 0.9% of total payroll wages for 1936, 1.8% for 1937 and 2.7% thereafter. Contributions were not to be deducted from wages paid to employees. Beginning in 1941, each employer's contribution rate was established based on an experience rating schedule. Under this schedule an employer could qualify for a contribution rate smaller than 2.7%, provided that contributions exceeded total benefits charged to employer's account. An employer could only qualify for a lower contribution rate after employees had been eligible to receive Unemployment Compensation for 3 calendar years. If the benefits charged against an employer's account were larger than the contributions to the Unemployment Compensation Fund, the employer's contribution rate was increased to 3.6%. The contribution rates of employers with good experience ratings was reduced below 2.7% if the total assets of the Unemployment Compensation Fund exceeded the total benefits paid during the preceding calendar year. The minimum rate under this experience rating schedule was 0.9%. (Effective December 2, 1936)

Laws 1937, Chapter 68 changed the contribution rates paid by employers with good experience ratings after 1941. Under this law, the minimum allowable contribution rate paid by employers was changed from 0.9% to 1.0%. (Effective March 23, 1937)

Laws 1941, Chapter 124 abolished the Unemployment Compensation Commission and transferred its powers and duties to a new body entitled the Employment Security Commission. The taxable wage base was modified to include only the first \$3,000 of each employee's wages plus certain payments for employee benefits. Under this law, an employer could not qualify for a reduced contribution rate, unless employees had been eligible for Unemployment Compensation for at least 36 months on June 30 of the preceding calendar year. (Effective June 16, 1941)

Laws 1947, Chapter 75 again changed the range of contribution rates paid by employers. Under this law, the maximum contribution rate was 2.7%. Employers with good experience ratings could qualify for reduced contribution rates that ranged from 0.5% to 2.7%. Each employer's contribution rate was determined on the basis of excess contributions to the Unemployment Compensation Fund. Excess contributions are the amount by which the employer's contributions to the Unemployment Compensation Fund exceed the benefits paid from the fund. Employers who had accumulated a large amount of excess contributions (when measured as a percent of their total payrolls) were entitled to the lowest contribution rates. The contribution rates were determined as follows:

Excess contributions as a percent of the annual payroll	Required rate of contribution to the Unemployment Compensation Fund
less than 5%	2.7%
5% but less than 7%	2.0
7% but less than 9%	1.5
9% but less than 11%	1.0
11% or more	0.5

This law also authorized an adjustment in the rates of contribution based on the level of assets in the Unemployment Compensation Fund. (Effective June 30, 1947)

Laws 1951, Chapter 32 modified the schedule of contribution rates for employers with good experience ratings. Under the new schedule, each employer's contribution rate was determined as follows (Effective at Midnight of June 16, 1951)

Excess contributions as a percent of the <u>annual payroll</u>	Required rate of contribution to the Unemployment <u>Compensation Fund</u>
less than 5%	2.70%
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% or more	.50

Laws 1952, Chapter 122 again changed the schedule of contribution rates for employers with good experience ratings. Under this schedule, each employer's contribution rate was determined as follows:

Excess contributions as a percent of the <u>annual payroll</u>	Required rate of contribution to the Unemployment <u>Compensation Fund</u>
less than 3%	2.70%
3% but less than 4%	2.50
4% but less than 5%	2.25
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% or more	.50

The method of adjusting the contribution rates based on total assets in the Unemployment Compensation Fund was also changed. (Effective July 1, 1952)

Laws 1953, Chapter 115 authorized employers who were not covered under the Unemployment Insurance Tax, to volunteer for coverage. (Effective at Midnight of June 29, 1953)

Laws 1958, Chapter 30 again modified the schedule that was used to determine employer contribution rates. Under this schedule, each employer's contribution rate was determined as follows:

Excess contributions as a percent of the <u>annual payroll</u>	Required rate of contribution to the Unemployment <u>Compensation Fund</u>
less than 3%	2.70%
3% but less than 4%	2.50
4% but less than 5%	2.25
5% but less than 6%	2.00
6% but less than 7%	1.75
7% but less than 8%	1.50
8% but less than 9%	1.25
9% but less than 10%	1.00
10% but less than 11%	.75
11% but less than 12%	.50
12% or more	.25

The method of adjusting these contribution rates based on total assets in the Unemployment Compensation Fund was also changed. (Effective July 1, 1958) **Laws 1962, Chapter 81** provided that employers were eligible to pay a reduced contribution rate under the experience rating schedule after their employee's had been eligible for unemployment benefits for the 12-month period ending on June 30 of the preceding calendar year. Formerly, employers had to wait till their employees had been eligible for 36 months before qualifying. (Effective July 1, 1962)

Laws 1964, Chapter 88 increased the taxable wage base to include the first \$3,600 of each employee's wages. (Effective January 1, 1965)

Laws 1966, Chapter 52 required employers to pay a contribution rate of 2.9% if their contributions to the Unemployment Compensation Fund were less than the benefits paid from the fund on their behalf. This law also changed the method of adjusting these contribution rates based on total assets in the Unemployment Compensation Fund. (Effective July 23, 1966)

Laws 1970, Chapter 29 suspended, for calendar years 1970 and 1971, that portion of the law which adjusted the contribution rates based on the level of total assets in the Unemployment Compensation Fund. (Effective March 27, 1970)

Laws 1971, Chapter 172 provided a new method of adjusting employer contribution rates based on the level of assets in the Unemployment Compensation Fund. This method replaced the one suspended in 1970 and 1971. The taxable wage base was increased to include the first \$4,200 of each employee's wages beginning in calendar year 1972. Unemployment coverage was extended to nonprofit organizations and state and local hospitals and institutions of higher education. These entities were given the option to reimburse the Department of Economic Security for their proportionate share of actual benefits paid to former employees, in lieu of paying the Unemployment Insurance Tax. Any reimbursements received from these organizations were deposited in the Unemployment Compensation Fund. (Effective August 15, 1971)

Laws 1972, Chapter 142 transferred the powers and duties of the Employment Security Commission to the Department of Economic Security. (Effective no Later than July 1, 1973)

Laws 1974, Chapter 80 extended Unemployment Tax coverage to include state government employers not covered by Laws 1971, Chapter 172. Government employers included under this law were given the option to

reimburse the Department of Economic Security for their share of actual benefits paid to former employees, in lieu of paying the Unemployment Insurance Tax. (Effective for Service Performed After December 31, 1973)

Laws 1974, Chapter 155 established a new schedule for determining an employer's contribution rate that became effective in calendar year 1975. Under this schedule, an employer's contribution rate continued to be determined from the reserve ratio. An employer's reserve ratio is the percentage that results from dividing the reserve (the excess of the contributions paid to the Unemployment Fund over benefits charged against employer's account) by the average annual payroll. The following table illustrates the contribution rates applicable under this statute:

<u>Reserve Ratio</u>	<u>Contribution Rate</u>
less than 3%	2.70%
3% but less than 4%	2.50
4% " " " 5%	2.25
5% " " " 6%	2.00
6% " " " 7%	1.75
7% " " " 8%	1.50
8% " " " 9%	1.25
9% " " " 10%	1.00
10% " " " 11%	0.75
11% " " " 12%	0.50
12% " " " 13%	0.25
13% or greater	0.10

The method of adjusting these contribution rates based on the level of assets in the Unemployment Compensation Fund was also changed. (Effective August 11, 1974)

Laws 1976, Chapter 143 raised the taxable wage base to include the first \$6,000 of each employee's wages. The law also provided for the levy of a surtax on each employer's contribution rate. The surtax was to equal 50% of the employer's contribution rate or a maximum of 1.2%. The surtax, which was levied only if the assets of the fund were less than \$50,000,000 on December 31, 1976, was determined to be unnecessary. (Effective September 23, 1976)

Laws 1977, Chapter 166 extended unemployment insurance coverage placing Arizona laws in compliance with the requirements of the Federal Social Security Act and the Federal Unemployment Tax Act. Coverage was extended to agricultural employers, domestic employers, local governments (including special districts and school districts) and non-profit elementary or secondary schools. (Effective January 1, 1978)

Laws 1978, Chapter 76 exempted certain services from unemployment insurance coverage when the compensation received for the services was in the form of a commission or similar form of remuneration. (Effective September 3, 1978)

Laws 1981, Chapter 84 provided that employers who implement a Shared Work Plan may be subject to payment of an extra contribution rate in addition to the regular unemployment contribution rate. A Shared Work Plan is a written plan under which an employer arranges to secure unemployment benefits for a group of his employees working a reduced work week, as an alternative to a complete lay off of these employees. The law provides that the additional rate is paid by employers with shared work plans only when they have a Negative Reserve Ratio. An employer's reserve ratio is the percentage that results from dividing the reserve (the excess of contributions paid by an employer over benefits charged against employer's account) by the employer's average annual payroll. The amount of the additional contribution rate paid by employers depends on the level of their reserve ratio. The

following table shows the additional rate associated with reserve ratios of different levels (Effective from January 1, 1982 until December 31, 1983)

<u>Reserve Ratio</u>	<u>Amount to be added to the regular contribution rate for the next calendar year</u>
positive or 0	0.00%
less than 0 and greater than minus .05	0.25
-0.5 or less and greater than minus .15	1.00
minus .15 or less	3.00

Laws 1983, Chapter 16 permanently enacted the provisions of Laws 1981, Chapter 84 relative to Shared Work Plans. Originally this law was set to expire after calendar year 1983. (Effective March 18, 1983)

Laws 1983, Chapter 203 excluded from the taxable wage base certain remuneration received by individuals for drill, training and other national guard or reserve activities. (Effective April 20, 1983)

Laws 1984, Chapter 176 changed the following items relating to employer contribution rates:

- (1) The standard rate of contributions beginning with calendar year 1985, has been increased from 2.7% to 5.4% of paid annual wages.
- (2) It is no longer necessary for an employer's account to have been chargeable with benefits for the 36 consecutive months ending June 30 of the prior year in order to have a rate computed in accordance with A.R.S. § 23-730. The requirement has been reduced to 12 consecutive months. If the employer's account has not been chargeable for that 12-month period, the reduce rate of will be applied.
- (3) Variation and adjustment of contribution rates, beginning with calendar year 1985, are now determined based on Positive or Negative Reserve Ratios. A Positive (Negative) Reserve Ratio is applicable if employer contributions paid on or before July 31 of the preceding calendar year equal or exceed (are less than) total chargeable benefits. A Positive Reserve Ratio is calculated by dividing the employer's reserve surplus (amount of contributions paid above benefits charged) by average annual taxable payroll. A Negative Reserve Ratio is determined by dividing the employer's reserve deficit (the excess of benefits charged over contributions paid) by average annual taxable payroll. The rate determined based on a Negative Reserve Ratio is subject to an adjustment increase but not a reduction.
- (4) A.R.S. § 23-765 was repealed dealing with shared work plans and the following information was enacted in its place.
 - (a) An employer's contribution rate, determined according to A.R.S. § 23-730 for the following calendar year, is subject to increase (1% if the Negative Reserve Ratio is at least 5% but less than 15% and 2% if it is 15% or greater) if prior to the computation date shared work benefits are paid under the Shared Work Plan.
 - (b) The above does not apply if: (1) as of the computation date the employer's reserve ratio is positive or zero; or (2) the employer's account has not been charged with shared work benefits during the 12 months immediately preceding the computation date and the reserve ratio is presently more favorable than at the previous computation date; or (3) the employer's account has not been charged with benefits under the shared work plan for the 24-months preceding the computation date.

Laws 1985, Chapter 175 changed the statutory definition of "wages" to specifically include fringe benefits.

Laws 1986, Chapter 180 provided collection procedures for delinquent and deficient unemployment insurance contributions by granting the Department of Economic Security authority to collect these taxes or direct the sheriff's office to execute a levy to collect these taxes in the same manner as a writ of execution. The levy shall include power of distraint and seizure, but certain properties are exempt from the levy. (Effective August 13, 1986)

Laws 1998, Chapter 58 reduced employer contribution rates to the Unemployment Insurance Trust Fund and increased maximum weekly benefit amounts for eligible unemployed workers. Contributions for employers with positive reserve ratios were decreased by 10 percentage points, except for the "13% or more" reserve ratio rate, which was reduced by 5 percentage points. Contributions for employers with negative reserve ratios were reduced by 5 percentage points, except for the "13% or more" reserve ratio rate, which remained unchanged. The required income rate was reduced by 10 percentage points, and the minimum adjusted rate for employers was reduced from 0.1% to 0.05%. The maximum weekly benefit amount for eligible unemployed workers was increased to \$195 for FY 1999 and \$205 for FY 2000 and thereafter. (Effective July 1, 1998)

Laws 2000, Chapter 383 provided that the Arizona Job Training Program be funded through an employer tax, rather than through a General Fund appropriation. It established a job training employer tax equal to 0.1% of taxable wages paid annually to each employee. It also reduced the current unemployment tax rate by 0.1% until the federal unemployment tax rate is reduced to 6% or less, or until the repeal date of the program. As a result of the use of the new tax for job training purposes, the Department of Commerce's General Fund appropriation for FY 2001 was reduced from \$7 million to \$3.5 million. Beginning in FY 2002, it was intended that the Job Training Program would be funded entirely by the employers' wage tax. The tax was estimated to generate \$7,500,000 for the Arizona Job Training Fund in FY 2001 and a total of \$15,000,000 in FY 2002. (Effective January 1, 2001)

Laws 2001, Chapter 3 was an emergency measure that provided technical and clarifying changes to the Arizona Job Training Program Fund. In addition, the act added a section to statute to conform to federal legislation.

Laws 2004, Chapter 251 made miscellaneous changes in beneficiary eligibility requirements and increased the maximum weekly benefit from \$205 to \$240 per week beginning July 1, 2004. Beginning January 1, 2005, an employer is not required to contribute to the UI Trust Fund or to pay the job training employer tax if its quarterly contribution amount is less than \$10.

Laws 2005, Chapter 178 provided language for the state to comply with the federal State Unemployment Tax Act (SUTA) Dumping Prevention Act of 2004. SUTA dumping refers to a tax evasion scheme where shell companies are formed and creatively manipulated to obtain low unemployment insurance tax rates. Laws 2005, Chapter 178 established rules and defined penalties intended to prevent SUTA dumping. (Effective August 12, 2005)

Laws 2008, Chapter 36 established a statutory time limit of 6 years for the Department of Economic Security to collect delinquent unemployment insurance contributions, payments in lieu of contributions, interest, or penalties. The law suspends the 6-year time limit if the Department of Economic Security has initiated civil action to collect the debt. Laws 2008, Chapter 36 also repealed and rewrote statute relating to the authority of the Department of Economic Security to release, subordinate, and withdraw liens.

Laws 2009, Chapter 3 established that unemployment insurance benefits recipients who have exhausted their ordinary benefits may qualify for extended benefits for up to 13 weeks if the state unemployment rate is between 6.5% and 8% and for up to 20 weeks if the state unemployment rate exceeds 8%. These benefits are provided under the Extended Benefits program, an existing federal program in which Arizona has not historically participated. Funding for the program is ordinarily split 50-50 between state and federal funding sources, and in the past Arizona has not had the statutory triggers necessary to participate in the program.

The American Recovery and Reinvestment Act of 2009 temporarily provides 100% federal funding for these benefits instead of the normal 50-50 split. This legislation temporarily inserts the triggers necessary to participate in the Extended Benefits program into statute, and the change expires on either December 12, 2009 or on

expiration of the 100% federal funding of the program, whichever comes first. As a result, the changes in the bill have no impact on the unemployment insurance tax rate.

Laws 2010, Chapter 197 established that benefits paid as a result of unemployment due to an individual's employer being called to active duty are not used as a factor in determining the contribution rate of affected employers. Additionally, the contribution rate is not affected by individuals who receive benefits as a result of being unemployed due to a former employee returning from active duty.

Laws 2011, Chapter 218 established a special assessment in 2011 and 2012. The rate is determined by DES, which set the rate at 0.4% in CY 2011 and 0.5% in CY 2012. Monies collected will be deposited in the Unemployment Special Assessment Fund, which is to be used to pay down the state's federal loan for unemployment insurance. Fund monies must first pay interest on the loan and then are to be used to pay down the federal loan by November 10, 2012.

Laws 2012, Chapter 115 alters the definition of "employee" by codifying the indications of control of a worker by the employing unit that were already used to determine unemployment insurance benefit eligibility. For an individual to qualify for unemployment insurance benefits, in addition to existing statute, an employing unit must control an individual's hours of work, location of work, right to perform services for others, tools, equipment, materials, expenses, and use of other workers and other indicia of employment.

Laws 2012, Chapter 162 changes the 0.1% Required Income Rate reduction (Job Training Employer Tax exemptions elimination trigger) to a FUTA rate that is less than 6.0%. Previously, the trigger was a FUTA rate that is less than 6.2%. When the FUTA rate declined to 6.0% beginning July 1, 2011, the 0.1% Required Income Rate reduction and Job Training Employer Tax exemptions were eliminated. Because contributions are paid by employers on a quarterly basis, the 0.1% Required Income Rate reduction and Job Training Employer Tax exemptions are restored administratively as of the beginning of the third quarter of 2012 (July 1, 2012).