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## BILL ANALYSIS



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Senate Bill 500 (as introduced 9-16-15)  
Sponsor: Senator Ken Horn  
Committee: Economic Development and International Investment

Date Completed: 9-17-15

**CONTENT**

**The bill would amend the Michigan Employment Security Act to require a determination on June 30 each year, rather than quarterly, of whether the taxable wage limit will remain \$9,500 or be lowered to \$9,000, depending on the balance in the Unemployment Compensation Fund; and provide for the applicable limit to take effect beginning in the next calendar year, rather than be in effect for the current quarter and next quarter.**

The Unemployment Compensation Fund is a fund dedicated to pay unemployment benefits when due, and is funded by employer contributions. The Act establishes a "taxable wage limit" (or base) for the purpose of determining the amount of contributions due from an employer.

The current taxable wage limit is \$9,500. If the balance in the Unemployment Compensation Fund at the beginning of a calendar quarter equals or exceeds \$2.5 billion, however, and the Unemployment Insurance Agency (UIA) projects that the balance will remain at or above that level for the remainder of the quarter and the entire next quarter, the taxable wage limit for that quarter and the next quarter will be \$9,000 for an employer that is not delinquent in the payment of unemployment contributions, penalties, or interest.

Under the bill, starting in 2016, if on June 30 of the current year the balance in the Unemployment Compensation Fund equaled or exceeded \$2.5 billion and the UIA projected that the balance would remain at or above \$2.5 billion for the entire next quarter, the taxable wage limit beginning in the next calendar year would be \$9,000 for an employer that was not delinquent in the payment of unemployment contributions, penalties, or interest and that timely filed electronic reports as required by the Act. If the Fund balance would be less than \$2.5 billion on June 30 of any year when the \$9,000 taxable wage limit was in effect for nondelinquent employers, however, the UIA would have to notify employers that the reduced wage base exception to the \$9,500 taxable wage limit would no longer be in effect as of January 1 of the following year.

For these purposes, if an employer had a quarterly unpaid balance of \$25 or more, the employer would be considered delinquent unless one or more of the following applied:

- The employer had filed a timely protest or appeal of the notice of assessment and the assessment had not become final.
- Within 45 days after the beginning of the first calendar quarter in which the reduced taxable wage base limit took effect, all outstanding balances owed to the UIA were paid.
- If the employer was a domestic employer, all applicable contributions, interest, and penalties were paid by the date specified by the UIA.

**FISCAL IMPACT**

The bill would have no immediate fiscal impact on the State and no impact on local units of government. In the future, the bill could result in both positive and negative impacts on the Unemployment Compensation Fund. Currently, the Michigan taxable wage base is discounted to \$9,000 because the Fund balance is at or above \$2.5 billion. This means that there would be no impact on the Fund at this time.

Under current statute and practice, if the Fund balance falls below \$2.5 billion in any quarter, the taxable wage base discount is removed and the base is increased to \$9,500 in the next quarter. The State is able to respond quickly to drops below \$2.5 billion and replenish the Fund at a rapid rate. Changing the taxable rate base only once a year, on January 1, would result in a slower response to drops in the Fund. This could result in a loss of up to \$57.0 million for a full year of not increasing the taxable wage base. However, by allowing only one time annually when the taxable wage base can be increased, the bill could result in lower administrative costs to change the taxable base amount. Changing the wage base annually also could reduce the potential for employers' taxes to be delinquent, which may result from miscommunication about the changes to the base.

Currently, the Unemployment Insurance Agency allows employers that file a timely protest to be considered not delinquent as a standard practice, which the bill would put into statute. The UIA also already considers an employer not delinquent if all contributions, interest, and penalties are paid by the date specified by the Agency. These amendments would not result in a cost to the Agency, because they would not change current practice. Under the only new change, if an employer paid all contributions, interest, and penalties by the middle of the first calendar quarter, the employer's taxable wage base could be reduced to \$9,000 for the remainder of the year. This would result in minor administrative changes within the Agency and costs, but those costs could be covered under current appropriations. The amendment also could give employers an incentive to pay delinquent contributions, interest, and penalties at a faster rate.

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