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For Immediate Release: Thursday, Feb. 4, 2010
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Legislation Proposed to Change the Unemployment Insurance Tax System

PIERRE, S.D. – The South Dakota Department of Labor has worked with the business community, state legislators and other interest groups in developing legislation to modify the Unemployment Insurance (UI) tax system and reduce the employer surcharge payable this year.

SB186 will reduce the surcharge amount for 2010 and 2011, increase the wage base and create a new tax-rate table with higher rates for employers with negative account balances.

"We understand that a recession is the worst possible time for employers to pay a surcharge," said State Labor Secretary Pam Roberts. "The bill will reduce the surcharge amount due this year and next."

An employer surcharge was triggered in the fourth quarter of 2009 and is expected to continue through 2010 and into 2011 if the Trust Fund balance remains below $16.5 million. Under current law, employers will pay a 1.5 percent surcharge rate on base wages, with a maximum payment of $142.50 per employee this year and $150 per employee in both 2010 and 2011.

"SB186 proposes to cap the surcharge rate at one percent, or $100 maximum per employee in 2010, and 0.75 percent, or $82.50 per employee in 2011," Secretary Roberts explained.

Like other states, South Dakota has an automatic trigger mechanism when the state Trust Fund is in danger of becoming insolvent. The current surcharge system has been in South Dakota law since 1939.

SB186 will also increase the wage base by $1,000 per year through 2015. South Dakota's current $10,000 wage base is one of the lowest in the region.

The legislation also ends the current tax-rate table, as of 2009. The new table will increase the maximum tax rate from 8.5 percent to 9.5 percent, with higher rates for employers with negative account balances. In addition, employers will need higher balances in their unemployment accounts for the various tax rates.

“The zero percent tax rate will still remain available to employers,” Secretary Roberts said.

To receive a zero percent tax rate under the bill, employers must have $675 per worker in their accounts in 2010. Currently, that amount is set at $432.

The proposed legislative changes are projected to provide $74.4 million for the Trust Fund, bringing the balance to $1.8 million at the end of 2010.

“The same amount of revenue is necessary for the Trust Fund to become solvent,” Secretary Roberts said. “All of the changes in this bill are revenue neutral for 2010.”

The Trust Fund continues to pay benefits at an all-time high. For the last week in January, $1.68 million was paid in state benefits to 6,944 claimants – more than double the amount compared to the same week two years ago.

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