

SB 186: An Act to change the unemployment insurance wage base and contribution rates and to declare and emergency.

The South Dakota Department of Labor has worked with the business community, state legislators, and other interest groups to develop SB 186 to change the unemployment insurance tax system and reduce the employer surcharge payable this year. The changes proposed in SB 186 will increase the wage base, create a new tax rate table with higher rates for employers with negative account balances, increase the maximum tax rate, and cap the surcharge amount.

Section 1: Wage Base

South Dakota's current \$10,000 wage base is one of the lowest compared to our neighboring states. This bill will increase the wage base by \$1,000 per year through 2015:

2011 = \$11,000
2012 = \$12,000
2013 = \$13,000
2014 = \$14,000
2015 = \$15,000

Sections 2 & 3: Tax Rate Structure

SB 186 will end the current tax rate table as of 2009 and create a new tax rate table. 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 a higher balance in their unemployment accounts for the various tax rates.

The zero percent tax rate will remain available to employers. In order to receive the zero percent tax rate, employers must have \$675 per worker in their account in 2010. Currently, the amount is set at \$432.

Section 4: Surcharge

Like other states, South Dakota has an automatic mechanism which triggers on when the State Trust Fund is in danger of becoming insolvent. The current surcharge system has been part of South Dakota law since 1939. It triggers on when the balance is below \$11 million at the end of any quarter and triggers off when the balance is above \$16.5 million at the end of any quarter.

The current maximum surcharge rate is 1.5 percent (\$150 per employee). The bill will cap the surcharge rate at 1.0 percent (\$100 per employee) in 2010 and 0.75 percent (\$82.50 per employee) in 2011. If the surcharge again triggers in 2012 or later, it will remain in effect for four consecutive quarters.

This bill is revenue neutral for 2010.

- Total income for 2010 under current law: \$27.9 million in tax revenue + \$44.2 million in surcharge = \$71.1 million. (Projected Trust Fund balance at end of year -\$400,000.)
- Total income for 2010 under proposed bill: \$43.4 million in tax revenue + \$30.9 million in surcharge = \$74.4 million. (Projected Trust Fund balance at end of year \$1.8 million.)

Section 5: Emergency Clause

This Act shall be effective immediately after passage and approval.