

UNEMPLOYMENT INSURANCE TAX STRATEGIES AND FORMS

Kaitlin A. Brown, Esq.

Overview

- Factors That Influence Unemployment Insurance Tax Rates
- Avoiding SUTA Dumping Penalties Upon a Transfer or Sale of Business
- Strategies for Compliance: Distinctions between Employee Leasing Companies



Registration for Michigan Taxes (Form 518)

- When to register for state unemployment tax:
 - You have employees performing services in Michigan;
 - You plan to have employees working or performing services in Michigan; or
 - You have acquired all/part of the payroll, accounts, services or assets of a business having employees in Michigan
- Liable employer or employing unit?

Contributing v. Reimbursing Employers

- Private, for-profit: Contributing employer
- Government: Reimbursing employer*
- Indian tribe: Reimbursing employer*
- Non-profit: Contributing employer**

* **Unless it elects** to be contributing

** **Unless it notifies** UIA of preference to be reimbursing within 30 days of being found to be liable employer or 30 days before beginning of calendar year when effective

Taxable Wage Base

- Effective January 1, 2019, for contributing employers:
 - Standard taxable wage base: \$9,000
 - Modified taxable wage base for delinquent employers: \$9,500
 - Tax rates for experienced employers:
.06% to 10.3%

Factors That Influence Unemployment Insurance Tax Rates

- Nonchargeable Benefits Component (NBC)
- **Chargeable Benefits Component (CBC)**
- **Account Building Component (ABC)**
- Prior Actual Reserve
- **Benefits Charged**
- Contributions Paid
- **New Actual Reserve**
- Experience Rating
- Total/Taxable Payroll

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TAX RATE DETERMINATION FOR CALENDAR YEAR 2019

THIS IS NOT A REQUEST FOR PAYMENT. Your unemployment insurance tax rate, as determined in accordance with sections 18(d), 19, and 22 of the Michigan Employment Security (MES) Act, is shown below.

FORMULA FOR EACH COMPONENT	FIGURES BASED ON EMPLOYER ACCOUNT	RESULT (in percent)
NonChargeable Benefits Component (NBC)		(Maximum 1%)
Amounts paid based on this component will not appear in the "Taxes Credited" line of the ABC calculation below.		1.00%
Chargeable Benefits Component (CBC)		(Maximum 6.3%)
36 months of Benefit Charges (ending 6/30/2018)	0.00	0.00%
36 months of Taxable Payroll (ending 6/30/2018)	27,703.51	
Account Building Component (ABC)		
<i>Negative Numbers Shown in Parenthesis</i>		
Actual Reserve		
Prior Actual Reserve (as of 6/30/2017)	243.00	
Total Payments Credited to Reserve (as of 7/31/2018)	349.18	
Total Voluntary Payments Credited to Reserve	+ 0.00	
Total Taxes Credited to Experience Account	+ 349.18	
Minus Benefits Charged (12 months ending 6/30/2018)	- 0.00	
Equals Actual Reserve (as of 6/30/2018)	= 592.18	
Required Reserve		
12 months of Total Payroll (ending 6/30/2018)	14,620.29	
Multiplied by Cost Criterion	X 0.0375	
Equals Required Reserve (6/30/2018)	= 548.26	
ABC Calculation		(Maximum 3%)
(Required Reserve - Actual Reserve) X ABC multiplier 0.50	[548.26 - 592.18] X 0.50	0.00%
12 months Total Payroll (ending 6/30/2018)	14,620.29	
Your taxable payroll for 12 months ending 6/30/2018 was: 12,870.84		Your Computed Rate
For details on how this rate was calculated, see the table on the next page.		1.00%
Your years of liability is: 4		Obligation Assessment
		0.87%
		Your Total Rate
		1.87%

Nonchargeable Benefits Component (NBC) and Chargeable Benefits Component (CBC)

NonChargeable Benefits Component (NBC)

(Maximum 1%)

Amounts paid based on this component will not appear in the "Taxes Credited" line of the ABC calculation below.

1.00%

Chargeable Benefits Component (CBC)

(Maximum 6.3%)

36 months of Benefit Charges (ending 6/30/2018)

0.00

36 months of Taxable Payroll (ending 6/30/2018)

27,703.51

0.00%

- NBC – Drops to .06%, if no/low charges for years
- **Benefits Charged** – Ideally try to minimize
- **Taxable Payroll** – It is what it is

Account Building Component (CBC)

ABC Calculation

(Required Reserve - Actual Reserve) X ABC multiplier 0.50

12 months Total Payroll (ending 6/30/2018)

$$\left[\frac{548.26 - 592.18}{14,620.29} \right] \times 0.50$$

(Maximum 3%)

0.00%

- Required Reserve – It is what it is
- Actual Reserve – Try to make greater than Required Reserve
- ABC Multiplier – Always .50
- Total Payroll – It is what it is

Required Reserve

12 months of Total Payroll (ending 6/30/2018)		14,620.29
Multiplied by Cost Criterion	X	0.0375
Equals Required Reserve (6/30/2018)	=	<hr/> 548.26

- Total Payroll – It is what it is
- Cost Criterion – It is what it is
 - UIA calculates Cost Criterion by dividing total benefits paid to all workers during past year by the total wages paid by all insured employers during same period

Account Building Component (ABC)

Negative Numbers Shown in Parenthesis

Actual Reserve

Prior Actual Reserve (as of 6/30/2017)			243.00
Total Payments Credited to Reserve (as of 7/31/2018)	349.18		
Total Voluntary Payments Credited to Reserve	+	0.00	
Total Taxes Credited to Experience Account		+	349.18
Minus Benefits Charged (12 months ending 6/30/2018)		-	0.00
Equals Actual Reserve (as of 6/30/2018)		=	592.18

- **Prior Actual Reserve – It is what it is***
- **Contributions Paid – Add voluntary payments?**
- **Benefits Charged – Ideally try to minimize**
- **GOAL: Actual Reserve – Ideally more than Required Reserve!!**

PRACTICALLY SPEAKING ...

Recommended Practices to Limit Increases in your Unemployment Tax Rate

- Elect to be reimbursing, if non-profit
- Limit benefits charged
- Make voluntary payment to increase reserve

Avoiding SUTA Dumping Penalties Upon a Transfer or Sale of Business

- In addition to Form 518, all employers must complete:
 - Liability Questionnaire (UIA Schedule A) **and**
 - Successorship Questionnaire (UIA Schedule B)

Successor Liability

- If you buy or acquire either an existing or discontinued business or its stock of goods, **you can be held liable for tax debts incurred by the previous owner.** You must withhold sufficient purchase money to cover these tax debts until the previous owner produces a receipt showing the taxes have been paid or a certificate stating that no taxes are due.
- When businesses merge, the unemployment “experience” that is merged, and then a new rate is calculated, based on the combined payment and charge histories; **not averaged.**

SUTA Dumping

- **DO NOT** form, acquire, or merge businesses for the purpose of obtaining a rate or evading reimbursement payments than would otherwise apply by law.
- **DO NOT** trade employees with/to another employer in a manner that evades tax rates or contributions required by law

Penalties

- Any person who knowingly, attempts to, or knowingly advises others to engage in SUTA dumping:
 - Higher rates and civil fine up to \$5,000.
- Any employing entity, owner, director, or officer who willfully violates or intentionally fails to comply:
 - Difference between what was paid and should have been paid, plus 3 times that amount (if intentional) plus interest
 - Potential prosecution

Forms to Consider Filing Upon Succession/Purchase/Merger

- **Form UIA 1027:** Whenever you sell or transfer any part of the payroll, accounts, services or assets of a business
- **Form UIA 1346:** Disclosure of transferor account
- **Form UIA 1772:** Discontinuance or transfer of payroll/assets
- **Form UIA 1184:** Employer's report on partial transfer
 - **Form UIA 1184-1:** Report and agreement on partial transfer
- **Form UIA 5156:** Tax clearance application

Distinctions between Employee Leasing Companies (Form UIA 1045)

- Employee Leasing Company (“ELC”) / Professional Employer Organization (“PEO”) ***liable employer***
 - Provides employees to client entity, pays wages, reports and withholds taxes, administers benefits, and provides other management assistance, as agreed upon; can hire, fire, etc. No ownership in excess of 20% in client entity.
- Captive Provider ***client entity is liable employer***
 - ELC that provides services to only one entity and its subsidiaries and affiliates, and does not hold itself out as available to provide leasing services to other entities that do not share ownership relationship with this entity.

Distinctions between Employee Leasing Companies

- Common Paymaster ***employer with highest tax rate is the common paymaster/liable employer***
 - Services performed by one individual are divided among two or more employers that are related through commonality of ownership, but individual is compensated by only one of the employers
- Payrolling ***entity served (not payrolling) is liable employer***
 - A related or associated company for purposes of reassigning payroll functions from one business entity to the related business entity, usually to take advantage of the lower unemployment tax rate of the related business. No control over the employees – not ELC.

Distinctions between Employee Leasing Companies

- Temporary Help Firm (“THF”) ***liable employer***
 - Primary business to provide client entity with temporary services of one or more individual under contract with temporary help firm. Employees of THF are subject to reassignment by THF.

Non-ELC Option

- Management Firm ***liable employer***
 - Entity with expertise in management, risk management, accounting, and other business matters, employing all employees (top to bottom) who may operate a business at a particular location owned by client(s).

Strategies for Compliance

- File the forms necessary for State of Michigan to determine if you are a taxable employer (contributing or reimbursing)
- Limit unemployment benefits charged to your account
- Consider making voluntary payment to increase reserve
- If merging, acquiring, or transferring employees, complete the required forms – do not evade higher rates/contributions
- If using a management company or other employee leasing arrangement, memorialize the relationship in an agreement