

## How Do Benefit Charges Actually Impact My Company?

### Tax Contributing Employers

Did you know that the unemployment tax is the only payroll tax the employer has control over? The ratio of benefit charges versus taxable payroll are the two factors which drive your company's unemployment tax rate. The more you pay out in benefits the higher the tax rate. That's why controlling charges has a dramatic impact on your taxes leading to a better bottom line.

Unemployment taxes are based on an experience factor (benefits) in relation to the employer's payroll. The two most common experience rating systems are the reserve ratio system and the benefit ratio system.

#### The Reserve Ratio System

In this system the tax rate reflects an employer's cumulative experience. Generally all benefits ever charged against the employer are subtracted from all contributions (taxes) the employer paid into the fund. The resulting balance, either positive or negative, is then divided by the employer's average payroll for the past 3 years.

#### The Benefit Ratio System

Contributions are not a factor here. Tax rates are based simply on the ratio of an employer's benefit charges over a period to the employer's payroll over the same period. Unlike the reserve ratio system, only the last few years of benefit charges are used.

### Reimbursing Employers

Reimbursing employers can easily see the effect of unemployment benefits on their bottom line because instead of paying unemployment taxes - they directly reimburse the system (typically dollar-for-dollar) for benefits their former employees are paid. Government entities (city, county, state) and nonprofits make up the majority of reimbursing employers. For-profit companies cannot elect the reimbursing option.

The effect of reimbursing is that while these employers directly pay the costs of benefits collected by their former employees, they do not pay the base tax rate, and so do not contribute to the payment of socialized costs or to building up a balance in the fund.

Regulations vary from state to state, however reimbursing employers may not have the benefit of certain noncharge provisions which tax paying employers are entitled to. Additionally, many states will not allow reimbursing employers to protest claims unless they were the most recent employer for the claimant.



If you have questions about your company's unemployment cost methodology or another aspect of your unemployment program contact your TALX Client Relationship Manager.