HOUSE RESEARCH ORGANIZATION bill analysis 5/7/2001

HB 2086
Yarbrough

SUBJECT: Raising the taxable wage base for unemployment insurance taxes

COMMITTEE: Economic Development — favorable, with amendment

VOTE: 6 ayes — Solis, Keffer, Deshotel, Homer, Luna, Yarbrough

2 nays — Clark, Seaman

1 absent — McClendon

WITNESSES: For — None

Against — Bill Hammond, Texas Association of Business and Chambers of Commerce

On — Steve Riley, Texas Workforce Commission

BACKGROUND: The Texas Workforce Commission (TWC) collects unemployment insurance (UI) taxes for deposit into the unemployment compensation trust fund to pay unemployment benefits. The general UI tax rate is based on the wages paid by the employer and on the number of "chargebacks" — unemployment benefits paid to former employees — to its account. Experience-rated employers, those with chargebacks for four or more consecutive calendar quarters, must pay taxes at higher rates. Taxes are paid on the first $9,000 of wages paid by an employer to each employee.

If the amount of money in the fund falls below a statutorily defined limit on October 1, money in the Smart Jobs holding fund must be transferred to the unemployment compensation trust fund. If, after this transfer, the fund is still below the statutorily defined floor, a deficit tax must be assessed on all experience-rated employers sufficient to bring the amount of money in the fund up to the floor.

DIGEST: HB 2086, as amended, would raise the amount of wages on which an employer must pay unemployment insurance taxes from $9,000 this year to $12,000 by 2004, in increments of $1,000 per year.

The bill would take effect September 1, 2001.

SUPPORTERS SAY:

HB 2086 would ensure that the unemployment compensation trust fund has enough funds to cover unemployment compensation payments and to prevent a deficit tax from being imposed on all experience-rated Texas employers. Since 1988, the average UI payroll tax on employers has fallen significantly, from 1.39 percent of total wages to only 0.37 percent in 1999, costing the trust fund hundreds of millions of dollars. TWC estimates that the trust fund will be almost $110 million below the floor on October 1, and that even after the required transfer from the Smart Jobs holding fund, the trust fund would be only $7 million above the floor. Even the slightest rise in unemployment rates, which is quite likely in the current economy, could drop the fund below the floor and require an additional deficit tax on employers.

Raising the taxable wage base now, before the economy enters a recession, would be wiser than forcing employers to pay a deficit tax while the economy is weak. Moreover, if the fund was insufficient to cover unemployment compensation payments, the state would have to borrow its additional needs from the federal government with interest. Raising the taxable wage base to $12,000 by 2004 would bring Texas up to the national average and would generate more than $182 million for the trust fund through fiscal 2002-03 to ensure that the state did not have to impose a deficit tax or borrow money from the federal government.

OPPONENTS SAY:

HB 2086 would increase taxes by one-third for Texas employers to cover a trust fund deficit that may not occur, especially as other funds have sufficient money to cover the projected deficit. The deficit tax, which was designed specifically to replenish the fund when it falls below the floor, is a better mechanism for generating money for the fund and would be easier for businesses to bear than a permanent tax increase.

NOTES:

The committee amendment capped the increase in the taxable wage base at $12,000 in 2004, rather than continuing to raise the base to $15,000 in 2006, as in the filed version.