President Obama's FY 2014 Budget Includes $65 billion combination FUTA and SUTA tax increase over the next ten years

The President’s budget detail for the FY 2014 budget once again includes FUTA tax increases and forced state UI tax base increases as part of the new tax revenue to be generated.

The Budget includes a solvency proposal which would return the net FUTA tax rate to 0.8% in 2014, then reduce it to 0.37% in 2016. The FUTA taxable wage base (which effectively provides a floor for state taxable wage bases) would be increased to $15,000 in 2016, then indexed to wage growth. The proposal would also provide near-term tax relief by allowing for a two-year moratorium on state loan interest and by delaying FUTA credit reductions for borrowing states for two years. These changes would first reduce, then increase, state loan repayments and repayment of FUA general fund advances as well as increasing repayments of EUCA general fund advances.

The effect of the proposal would be to immediately increase the FUTA tax rate by 25% for employers in all states and then build in the net increase into permanent per employee FUTA taxes and index the $15,000 to be increased with wage growth. The proposal would also require that states with state UI tax bases lower than $15,000 increase their tax bases to $15,000 and then index the state tax base to wage growth. The additional revenue (cost to employers) is estimated at $65 billion ($50 billion due to tax base increase and $15 billion due to FUTA rate increase)

We expect that the President’s proposal on FUTA and SUTA tax increases would once again receive no traction in the House and we are evaluating whether the Senate might be interested in including any parts of it in negotiations with the House.

States immediately impacted by the increased tax base would include Alabama, Arkansas, Colorado, Delaware, DC, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, New Hampshire, New York, Ohio, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, West Virginia, and Wisconsin. Over time additional states with fixed state UI tax bases would also be impacted.

Unemployment Benefits

EUC and special 100% federal funding of regular extended benefits are not continued after 2013, relieving some of the additional spending for weeks of extended and emergency unemployment compensation. The budget assumes a slight increase in state UI benefits from $43.6 billion in FY 2013 to $44.0 billion for FY 2014. The number of weeks of unemployment compensation on average is projected to come down but the average weekly benefit amounts will go up with wage increases. The budget also proposes an increase in minimum wage to $9.00 per hour which could have an impact on monetary eligibility.

The end of EUC as a national "emergency" has been past due for a while. However, there may still be interest in the Senate in a further extension before the end of the year.

For more details, see the attached sections from Treasury and http://workforcesecurity.doleta.gov/unemploy/content/prez_budget.asp

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