AMERICAN PAYROLL ASSOCIATION

October 9, 2020

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
1236 Longworth H.O.B.
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
317 Russell S.O.B.
Washington, DC 20510

The Honorable Richard Neal
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth H.O.B.
Washington, DC 20515

The Honorable Chuck Grassley
Chairman, Committee on Finance
U.S. Senate
219 Dirksen S.O.B.
Washington, DC 20510

Re: Unemployment Insurance

Dear Speaker Pelosi, Majority Leader McConnell, Chairman Neal, and Chairman Grassley:

The American Payroll Association (APA)[1] respectfully asks that Congress consider new measures to provide relief from forecasted substantial increases in unemployment insurance (UI) taxes beginning in 2021 to avoid impeding economic recovery and discouraging hiring and employment growth.

The UI system is entirely funded by employer taxes with minor exceptions in a handful of states in which both employers and employees pay state UI taxes. The expected significant tax increases correlate directly to the dramatic spike in unemployment because of the COVID-19 pandemic and related government orders impacting business.

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[1] APA is a nonprofit association serving the interests of about 21,000 payroll and accounts payable professionals nationwide. APA's primary mission is to educate its members and the payroll and accounts payable industry about the best practices associated with paying America's workers while complying with applicable federal, state, and local laws and regulations. APA members are directly responsible for administering and paying unemployment insurance taxes.

The APA recognizes and appreciates the critical work of the Strategic Services on Unemployment and Workers' Compensation (UWC) on this topic. The UWC is a national association representing the views of business with respect to Unemployment Insurance whose members include state and national business associations, employers, state unemployment agencies and others who manage unemployment administration and report and pay unemployment taxes.

According to U.S. Department of Labor, regular UI benefits (excluding federally reimbursed programs) chargeable to employers increased from $25.5 billion in 2019 (full year) to nearly $80 billion in the first seven months of 2020 alone. The possibility of unemployment tax increases well over 100% in many states could discourage employers from hiring and retaining employees, adding to the burden of this economically fragile time. Unemployment benefits increased fourfold in many states, including the additional supplemental $600 per week authorized by Congress in March.

The APA appreciates the strong leadership demonstrated in the House and Senate in enacting the Coronavirus Aid, Relief, and Economic Security (CARES) Act provisions to provide and pay for additional unemployment compensation. This critical legislation, which helped workers and businesses affected by the pandemic, included relief from UI charges to employer accounts for pandemic-related claims. Unfortunately, the various government shutdown orders also sparked dramatic increases in "regular" unemployment compensation claims that were indirect and not covered by the congressional relief measures.

The key principle for APA members is that employers should not be responsible for the full cost of unemployment due to COVID-19 government orders. Business closures and layoffs due to COVID-19 were in response to state and federal government decisions, rather than the normal functioning of the labor market or the actions of employers.

The APA recommends that Congress take the following measures to aid in economic recovery and foster hiring and retention:

- Contribute to state UI trust accounts to pay for the increases in unemployment benefits associated with COVID-19. This would reduce what otherwise promises to be very large increases in state UI tax rates on employers, directly caused by charges related to COVID-19 shutdowns and the need for states to obtain loans from Federal Unemployment Accounts.

- Delay the application of the Federal Unemployment Tax Act (FUTA) offset credit reduction for one year. Under current law, the FUTA credit is reduced in increments of 0.3% (approximately $21 per employee per year) beginning the year following the second year in which the state has an outstanding Title XII loan. A delay in the FUTA credit reduction would help states and employers adjust to the need for UI trust fund solvency and avoid further FUTA tax increases.

- Provide short-term transfers of federal funds to state UI trust fund accounts under Section 2103 of the CARES Act for reimbursable employers that are experiencing unprecedented unemployment benefit charges because of the COVID-19 pandemic (i.e., those employers that reimburse state unemployment trust funds for UI benefits that their employees receive). Employers in this COVID-19 hardship situation include many nonprofit and governmental organizations with small operating budgets. They may not be able to allocate the required payments and may need to reduce their activities even after the economy begins to recover. Although the 50% in charge reduction is helpful, even reduced amounts charged are much greater than any previous year. A transfer of 100% of charges due to the COVID-19 recession would allow for reimbursing employers to manage the increased costs and provide additional funds to reduce unemployment trust fund deficits.

- The Families First Coronavirus Response Act provided a waiver of interest on Title XII loans through the end of 2020, but an extension through 2021 is needed to avoid significant increased costs for states and special assessments imposed on employers. Many state budgets did not account for the payment of interest on the dramatic increase in state borrowing. A further extension would enable states to plan for payments and/or enact measures to pay down outstanding Title XII loan amounts.

The APA urges you to address these specific UI issues as an important part of the federal government's response to COVID-19 and to strengthen and relieve state UI systems in response to the dramatic increases in unemployment compensation caused by COVID-19.

To discuss the APA's request further, please contact Alice Jacobsohn, Esq., Director of Government Relations for the APA, at ajacobsohn@americanpayroll.org or 202-669-4001. Thank you for consideration.

Sincerely,

Alice P. Jacobsohn

Alice P. Jacobsohn, Esq.
Director, Government Relations

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Chairs, State and Local Topics Subcommittee:
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