



**FACT SHEET #146 January 2016**

**Obligation Assessment**

On June 27<sup>th</sup> 2012, the Unemployment Insurance Agency, in partnership with the Michigan Department of Treasury concluded a long-term financing of the debt owed to the United States Treasury. These bonds will be repaid by Obligation Assessments issued to employers.

**Who has to pay the Bond Obligation Assessment (OA)?**

The OA will be assessed on all contributing employers until the bonds are repaid.

**How long will this be in effect?**

The bonds are scheduled to take 7 years to repay. The OA rate will be determined yearly and included on the annual Tax Rate Determination.

**How will the Obligation Assessment be billed?**

It will not be billed; however, it will be included as a part of the annual tax rate determination.

**Why was it included on the tax rate statement?**

It was determined that it would be easier for employers if the OA was a percentage factor added to the annual tax rate. An employer will multiply their taxable wages, quarterly, by their total tax rate (which includes the Obligation Assessment). By doing it in this manner, it permits an employer to pay the assessment based on the allocation of the wages paid to his employees, instead of a lump sum payment.

**Will the Obligation Assessment be the same for all employers or a percentage factor of an employer's experience?**

One of the components of the OA is based on the employer's individual tax rate; therefore, the amount will vary.

**Will it be credited to an employer's experience account?**

No, similar to the solvency tax, interest and penalty charges, it is not credited to an employer's experience account.

**How is it calculated?**

The OA is structured to incorporate the employer's experience rate and a base assessment of \$63 per employee. The calculation of the OA takes into consideration the employer's current tax rate, the OA ratio, a base assessment, and the taxable wage base. The OA ratio for 2016 is 0.188239, the base assessment is \$63.00 and the taxable wage base is \$9,000.00. The formula is:

$$(2016 \text{ tax rate} \times \text{OA ratio}) + (\text{base assessment} \div \text{taxable wage base})$$

When calculating your individual OA rate, you would use the tax rate that is shown on your **2016** tax rate determination form.

**For Example:**

Employer's 2016 Tax Rate is 2.4% = 0.0240

2016 Obligation Assessment = 0.188239

**0.0240 x 0.188239 = 0.00451774**

2016 Base Assessment = \$63.00

Taxable Wage Base = \$9,000

**\$63.00 ÷ \$9,000 = 0.007**

**0.00451774 + 0.007 = 0.1151774 or rounded to 1.16%**

If you would like to verify the OA, click on:

[http://michigan.gov/uia/0,4680,7-118-26898\\_27193-270759--,00.html](http://michigan.gov/uia/0,4680,7-118-26898_27193-270759--,00.html). Enter the tax rate from the “Your Computed Rate” field located on your Form UIA 1771, Tax Rate Determination for Calendar Year 2016, and follow the instructions to determine your Obligation Assessment amount.

#### How is the Obligation Assessment Ratio (OAR) determined?

The OAR is set by the State Treasurer & the Director of the Department of Talent and Economic Development (TED) on or before November 20<sup>th</sup> of each tax year.

#### Can you explain the formula used?

- **2016 tax rate** – The tax rate issued on the 2016 tax rate determination.
- **Obligation Assessment Ratio (OA Ratio)** – The OA Ratio is used to calculate the experience based cost of the Obligation Assessment Rate. The formula for the OA Ratio is as follows:  
$$\frac{\text{Principal, interest, and administrative expenses due on 2016 bonds}}{\text{Anticipated regular UI revenue from contributing employers due in 2016}} = \text{OA Ratio}$$
- **Base Assessment** – The base assessment is a flat rate that is assessed to all covered employees.
- **Taxable Wage Base** – The taxable wage base is the maximum amount of wages paid to an employee by an employer that are subject to Unemployment Insurance taxes. Since most employers qualified for the \$9,000.00 taxable wage base, \$9,000.00 was used in the calculation instead of the higher taxable wage base of \$9,500.00.

#### Is the Bond (OA) appealable?

No, this is not an **UI Tax** assessment determination; therefore, it cannot be protested or appealed. It is a statutory amendment to the Michigan Employment Security (MES) Act.

#### If I received a Redetermination, will the Obligation Assessment change?

Yes. Since the tax rate is a part of the formula to determine the obligation assessment, any circumstance that would cause the employer’s 2016 tax rate to change will also change the OA rate for 2016.

#### MiWAM and Tax rates with the Obligation Assessment

If an employer checks their rate history in MiWAM, they will not be able to see the reason their tax rate has increased. In MiWAM, the rate history does not provide a detail of the rate components and the obligation assessment. Only the total tax rate is displayed for the year. Every employer was mailed their Tax Rate Determination which details how each component was calculated as well as the Obligation Assessment being assigned. This Tax Rate Determination can be viewed through MiWAM under the Letters tab.

For more information about the Obligation Assessment, employers may call the UIA Office of Employer Ombudsman (OEO) at either 1-855-484-2636 (4-UIAOEO) or 1-313-456-2300, or email [OEO@michigan.gov](mailto:OEO@michigan.gov).