

**UNEMPLOYMENT  
INSURANCE  
AGENCY**

**JENNIFER M. GRANHOLM**, Governor  
State of Michigan

**STANLEY "SKIP" PRUSS**, Director  
Department of Labor &  
Economic Growth

**SUSAN CORBIN**  
Deputy Director  
Department of Labor &  
Economic Growth

**STEPHEN M. GESKEY**, Director  
Unemployment Insurance Agency

# Unemployment Insurance Solvency Tax

## What is the purpose of the Solvency Tax?

The Solvency Tax is used to pay interest on the interest-bearing federal loans.

## Who is subject to the Solvency Tax?

- Only "negative balance" contributing employers.
- "Negative balance" contributing employers have paid less into the unemployment compensation trust fund than the Unemployment Insurance Agency (UIA) has paid out in unemployment benefits to their laid-off workers.
- Approximately **20%** of Michigan's contributing employers are "negative balance" employers.
- Approximately **80% of all Michigan employers will not be affected by the Solvency Tax** because they are either reimbursing employers or do not possess "negative reserve balances."

## How do I know if my organization will be subject to the Solvency Tax?

The UIA has sent a letter to **all** fully experienced negative balance employers stating:

- (1) The amount of the negative balance;
- (2) The manner in which the Solvency Tax is computed; and
- (3) The procedures for paying-off the negative reserve balance to avoid Solvency Tax.

## How is the Solvency Tax calculated?

- The Solvency Tax is  $\frac{1}{4}$  of the Account Building Component (ABC) of the employer's contribution rate as determined under Section 19(a)(4) of the Michigan Employment Security Act.
- The maximum Solvency Tax rate is .75% (.0075), based on a 3% maximum ABC ( $\frac{1}{4}$  of 3%=.75%).
- The maximum tax increase per year would be \$67.50 per employee, based on the annual taxable wage base per employee of \$9,000.
- The Solvency Tax is in addition to an employer's calculated tax rate and will be displayed as a separate line item on Form UIA 1771, Tax Rate Determination For Calendar Year 2009 (if applicable).

## Will the Solvency Tax be added to the employer's calculated rate?

Yes, the Solvency Tax is a portion of their total rate.

## When will it take effect?

The Solvency Tax becomes effective January 1, 2009.

## How can employers avoid the Solvency Tax?

Employers can make a voluntary payment to bring their negative reserve balance to zero or greater.

- Because the UIA is statutorily required to issue 2009 tax rate determinations by December 31, 2008, the agency must **RECEIVE** voluntary payments by November 30, 2008, in order for the payments to be reflected in the 2009 tax rate determination.
- If the Agency receives a voluntary payment **after** November 30, 2008:
  - Form UIA 1771, **Tax Rate Determination for Calendar Year 2009** will not reflect this payment and will contain the Solvency Tax.
  - In January 2009, the UIA will automatically issue a redetermination, Form UIA 1771R, **Tax Rate Redetermination for Calendar Year 2009**, which will reflect the voluntary payment, the "new" Actual Reserve, the recalculated Account Building Component (ABC) and, most importantly, the Solvency Tax will be removed.

*frequently asked questions*

### **What is a Voluntary Payment?**

An employer, at any time may make payments to their experience account in excess of required tax payments to either reduce their ABC or reduce or eliminate their negative reserve balance.

### **Should employers pay their Solvency Tax or pay off their negative reserve balance?**

This is a business decision that your organization will need to consider. If you are a "negative balance employer," your decision may be influenced by comparing the amount of the negative reserve balance against the estimated Solvency Tax computation (\$67.50 x number of employees).

### **Can a voluntary payment be refunded?**

Once a voluntary payment has been accepted by the Agency, it is irrevocable (nonrefundable).

### **What if a voluntary payment is not enough to reduce an employer's negative reserve balance to zero or greater?**

The voluntary payment will not be accepted and will be returned to the employer with a letter of explanation.

### **If an employer makes a voluntary payment and brings his/her negative reserve balance to zero or to a positive balance for the 2009 tax rate, will the employer be subject to the Solvency Tax for 2010 or subsequent years?**

It is possible. If after bringing the reserve balance to zero or a positive balance the employer continues to pay less in state unemployment taxes than is being paid to their laid-off workers, then it will be possible for the employer to have a negative reserve balance once again in 2010.

- Each year, employers will have the option to make voluntary payments to bring their reserve balances to zero or greater.
- Voluntary payments are a business decision for employers to determine themselves; whether it would be to their advantage to do so or not.

### **If an employer acquires a business that has a negative reserve balance, will they be charged with a Solvency Tax?**

Yes. When an employer acquires a business with a negative reserve balance the employer inherits the negative reserve balance and will be required to pay the solvency balance.

### **Can the successor submit a voluntary payment?**

Yes, as long as the payment is made by November 30, 2008, or within 30 days of Form UIA 1771, Tax Rate Determination for Calendar Year 2009, which is due to be mailed on December 29, 2008. Also, the successor employer can make a voluntary payment within 30 days of the date of mailing of Form UIA 1769, Notice of Determination of Experience Account Transfer and Tax Rate (employers who receive this type of successorship rate determination can request their reserve balance by contacting the Agency -- *see below*).

### **Can a solvency voluntary payment be made online?**

No. All voluntary payments must be mailed directly to UIA's Tax Office with an annotation on the face of the check identifying the payment as a solvency voluntary payment (**SVP**). The solvency voluntary payment **MUST** be mailed under separate cover to:

**UNEMPLOYMENT INSURANCE AGENCY**  
**Tax Office - 3024 W. Grand Blvd., Suite 11-500**  
**Detroit, Michigan 48202.**

*Write "SVP" or "Solvency Voluntary Payment" on your check.*

### **Will the Solvency Tax be in effect beyond 2009?**

The Solvency Tax will remain in effect until the interest-bearing federal loans are paid in full.

### **Who should employers contact about their reserve balance or the Solvency Tax calculation?**

Employers may call the UIA's Employer Customer Relations hotline at **1-800-638-3994** or email [TaxSupport@michigan.gov](mailto:TaxSupport@michigan.gov).

DLEG is an equal opportunity employer/program. Auxiliary aids, services and other reasonable accommodations are available upon request to individuals with disabilities.



Michigan Department of Labor & Economic Growth  
Unemployment Insurance Agency  
Authority: UIA Director; Quantity: 1,000  
Cost: \$14 (1.4¢/copy). Paid for with federal funds.