

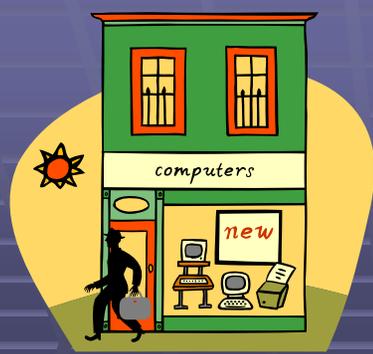
# How is My Tax Rate Calculated?





# Michigan's Unemployment System

- Michigan has an experienced-rated tax system that uses the employer's payroll, unemployment taxes the employer paid and unemployment benefits charged to the employer's account to calculate the employer's annual tax rate.
- Benefits paid, unpaid/underpaid taxes and a fluctuating payroll can all cause a tax rate to increase.



# New Employer Tax Rates

- Generally, in the first two years of liability the tax rate is set by Michigan law at 2.7%.
- The exception is for new employers in the construction industry whose rate for the first two years is the average construction contractor rate as determined by the Unemployment Insurance Agency each year.



## Tax Rate in the Third & Fourth Years of Liability

- Tax rates in the third & fourth years of liability are based on the employer's own history of benefit charges and taxable payroll (Chargeable Benefits Component or CBC) and a base rate.
- The Chargeable Benefits Component (CBC) is pro-rated to phase in the employer's experience.
- The third year base rate is 1.8%.
- The fourth year base rate is 1.0%.



## Tax Rate in the Fifth Year of Liability and Beyond

- Beginning in the fifth year of liability, the tax rate is comprised of three components that are computed separately and then added together to determine the yearly tax rate.
- The three components are:
  - Chargeable Benefits Component (CBC)
  - Account Building Component (ABC)
  - Non-chargeable Benefits Component (NBC)



# Unemployment Experience

- The Chargeable Benefits Component (CBC) and the Account Building Component (ABC) are affected by the employer's payroll, the unemployment benefit charges to their account, and the tax payments received. Since these components reflect each company's own **experience**, they are known as the **experience components**.



# Chargeable Benefits Component

- This component takes into consideration the amount of unemployment benefits charged to an employer's account over a 60-month (5-year) period, ending the previous June 30.

$$CBC = \frac{\text{60 months of benefits paid}}{\text{60 months of taxable payroll}}$$

The result is rounded to the next higher 0.1%



# Account Building Component

- Unemployment insurance, like any insurance system, uses past experience to try to achieve solvency for the insurance system. In the case of unemployment insurance, the Account Building Component (ABC) serves this purpose by comparing the balance in an employer's individual UIA employer account (actual reserve) with a calculated optimal balance for the employer (required reserve).
- The calculation uses each employer's total payroll for the 12-month period ending the previous June 30<sup>th</sup>

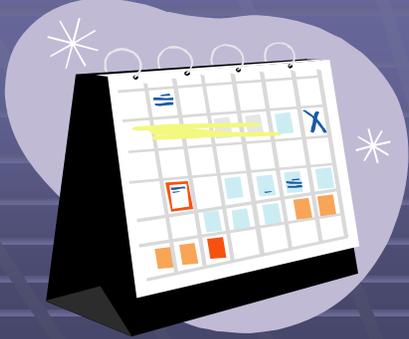
$$ABC = \frac{[(\text{Required Reserve}) - (\text{Actual Reserve})] \times 0.5}{12 \text{ months of total payroll}}$$

The result is rounded up to the next higher one tenth of one percent (0.1%)



# Nonchargeable Benefits Component

- This component is the only one of the three that does not entirely reflect an employer's own experience.
- This component is generally a flat 1.0% for all contributing employers with five or more years in business and unemployment benefit charges.
- For employers with no or very few benefit charges, the NBC can range from 0.5% to as low as 0.06%.



# Computation Period

- A computation period is the four calendar quarters (12 months) used to determine a tax rate. A computation period begins July 1<sup>st</sup> of one year and ends the June 30<sup>th</sup> of the following year. The financial information that falls in this "period" is used to determine the unemployment tax rate for the next calendar year.



# Computation Period

- For the 2009 tax rate, these are the quarters that were used in the computation:

9/30/2007

12/31/2007

3/31/2008

6/30/2008

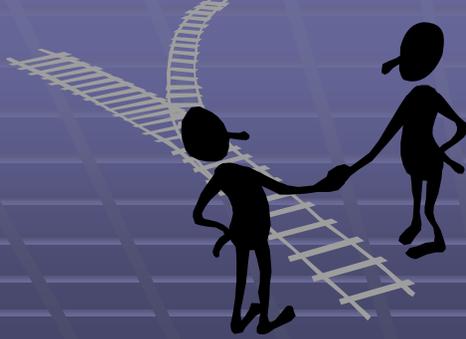
- For 2010, these are the quarters that will be used in the computation:

9/30/2008

12/31/2008

3/31/2009

6/30/2009

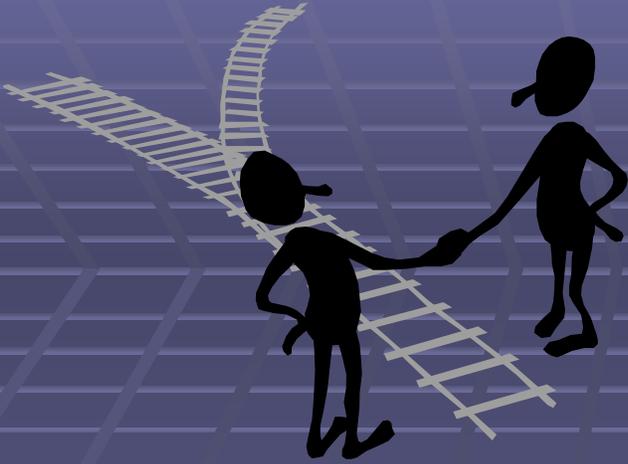


# Acquisition of a Business

- If a new or existing business acquires the organization, trade, business or 75% or more of the assets of an existing business, there is a mandatory transfer of unemployment experience account of the predecessor employer. This is termed "successorship."
- If the taxable payroll attributable to the transferred portion of the business is less than 100%, then the transfer of experience is termed a partial transfer.

For additional information, please refer to Section 22(a) of the MES Act.

# Acquisition of Business with same Controlling Interest



- If an employer transfers its trade or business, in full or in part, to another employer and there is common ownership, management or control of the two employers at the time of the transfer, there is a mandatory transfer of unemployment experience.

# Effects of Missing Tax Reports



- If at least 1, but fewer than 4, quarterly tax reports are filed, the employer will receive a computed tax rate plus a 3.0% non-reporting penalty added to their tax rate.
- If none of the required tax reports are filed, the rate will be set at the highest rate applicable for the number of years in business plus the 3.0% non-reporting penalty.
- For experienced employers, the rate could be 10.3% plus 3.0% = 13.3%.
- If the missing reports are filed within 30 days of the tax rate determination, the non-reporting penalty can be removed.
- Beyond the 30 days but up to one year, the non-reporting can be reduced to 2.0%.

# Notification of Unemployment Tax Rate

- The UIA is required to notify each employer, no later than 6 months after the computation date (06/30), of their tax rate for the upcoming year.
- Tax rates are computed annually and are mailed on the last business day of the year for the upcoming calendar year. For example, tax rate determinations for 2009 were mailed 12/29/2008.
- If, subsequently, a tax rate is modified, a tax rate redetermination is issued.
- Form UIA 1771 is a determination and like all determinations issued by UIA, it can be protested. Protests must be submitted in writing and received within 30 days of the mail date.

# Contact Information

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