



WELCOME

Office of Employer Ombudsman
2015 Employer Seminar



UI Tax Information & Updates

Trust Fund Division

How is My Tax Rate Calculated?





Michigan's Unemployment System

Michigan has an experience-rated tax system that uses an employer's:

- Past unemployment benefit claims
- Payroll Size
- Years of Experience

to determine an employer's annual tax rate.

Michigan's Unemployment System

Factors that will cause the tax rate to increase:

- Benefits paid
- Unpaid/underpaid taxes, and
- Increasing payroll



Tax Rate Components

Employer Tax rates are calculated by using the following three components:

- Chargeable Benefits Component (CBC)
- Account Building Component (ABC)
- Non-Chargeable Benefits Component (NBC)

$$\text{CBC} + \text{ABC} + \text{NBC} = \text{Tax Rate}$$



Experience Components

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 36-month (3-year) period, ending the previous June 30.

36 months of benefits paid

36 months of taxable payroll



The result is rounded to the next higher 0.1%

Chargeable Benefits Component

Rounding:

$$.0601 = .060\underline{1} = .0610 = 6.1\%$$

$$.0600 = 6.0$$



Account Building Component



- The Account Building Component compares the balance in an employer's 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 30th

Account Building Component



ABC = 12 months of total payroll

Required Reserve = Employers total (gross) payroll for the 12 months ending the previous June 30th multiplied by 3.75%

Actual Reserve = All monies paid in UI taxes since the business began, minus all benefit charges that have been charged since the business began.
(Includes predecessor reserve.)

*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 fully-experienced employers with benefit charges.
- Effective 1-1-2013, new employers will have 1% NBC in 3rd year and become fully experienced.
- For employers with no, or very few, benefit charges, the NBC can range from 0.5% to as low as 0.06%.

Computation Period

- For the 2016 tax rate, these are the quarters that are used in the computation:

9/30/2014

12/31/2014

3/31/2015

6/30/2015

- For 2015, these are the quarters that were used in the computation:



9/30/2013

12/31/2013

3/31/2014

6/30/2014

**Benefits charged today
affect future tax rates!**

Effects of Missing Tax Reports

- If any of the tax reports needed for the computation period are missing (not 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 a 3.0% non-reporting penalty.
- For fully experienced employers, the rate could be 10.3% plus 3.0% = 13.3%. (not including the OA)
- If the missing reports are filed within 30 days of the tax rate determination, the non-reporting penalty is removed.
- Beyond the 30 days but up to one year, the non-reporting penalty can be reduced to 2.0%.

Tax Rates for Newly Liabile Employers

Rate Year 2013 and After

- Year 1 – 2.7⁰% + 1/3 CBC
- Year 2 – 2.7⁰% + 2/3 CBC
- Year 3 – CBC + ABC+ NBC

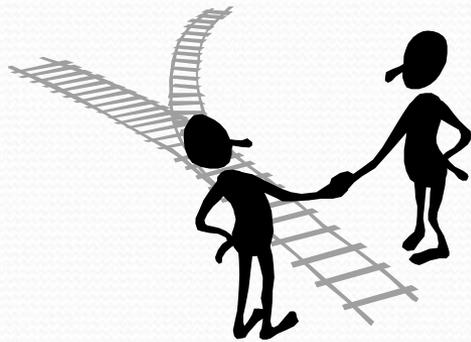
36 months = fully experienced

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 the 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.

Bonding Obligation Assessment



Public Acts
267 and 268,
December 19, 2011

Bonding/Obligation Assessment

In 2011, the State of Michigan issued bonds to repay federal loans for unemployment benefits and restore solvency to the Unemployment Trust Fund. These bonds will be repaid through an Obligation Assessment (OA) issued to employers.





Facts about the OA

- The OA is assessed on all contributing employers until the bonds are repaid.
- The bonds are scheduled to take seven years to repay.
- The OA portion of the rate will be determined yearly and included on the annual Tax Rate Determination (UIA 1771).
- The OA cannot be protested.

OAR (OA Ratio)

$$\frac{\text{Principal, interest, and administrative expenses due on 2015 bonds}}{\text{Anticipated regular UI revenue from contributing employers due in 2015}} = \text{OA Ratio}$$

OA ratio for 2015 = .168337

Tax Rates w/Obligation Assessment

Rate Year 2014

- Year 1 – 2.7% + 1/3 CBC + OA
- Year 2 – 2.7% + 2/3 CBC + OA
- Year 3 – CBC + ABC + NBC + OA

36 months = fully experienced



OA On-Line Calculator

Further instructions on the OA calculation can be found on the UIA website at:

<http://www.michigan.gov/uia>

Under Employers

Taxes and Tax Credits

Bonding

2015 OA Rate Calculator



Public Act 241 of 2014

- PA 241 excluded wages for certain J1 Visa & H-2B Visa holders from UI coverage, effective 8-26-14.
- These wages are not used to calculate computed tax rate. They are used to determine the OA.
- However, these wages are reported through MiWAM on the Visa Wages Tab.
- These wages are included in the taxable wages for the quarterly OA total calculation.
- See Fact Sheet #164 for more details.



SSN Reporting Issues

- Invalid/incorrect SSN's generate Error Report and penalties if not corrected in 14 days.
- Form I-9, Employment Eligibility Verification or W-4, Employees Withholding Allowance Certificate can be submitted to stop penalties.
- Employee may be able to be contacted for correct SSN.
- Notarized affidavit may be needed to stop additional penalties.



Providing SSNs to the Agency

- The SSN Privacy Act of 2005 requires that complete SSNs are not provided in emails over the internet.
- Use the Claim Number, Case Number, Letter ID and Claimant Name in email and fax correspondence to the Agency.



Public Act 269 Changes

- Employers quarterly tax due amount must be rounded to the nearest whole dollar.
- A contribution payment amount that is not an even dollar amount shall be credited to the employer's account in an amount equal to the next lower dollar amount if under 50 cents and in an amount equal to the next higher dollar amount if 50 cents or more.
- The Obligation Assessment is not rounded.

Public Act 269 Changes

- **Section 13(2)** Involves on-Line filing of Quarterly Reports. By 2015 all employers will be required to file on-line.
- **Section 13(3)** Allows employers with 25 or fewer employees with 50% or more of taxes in first quarter of the previous year to equally distribute the first quarter taxes over the 4 quarters.
- **Section 15a(1)** If an employer elects to pay 1st quarter tax liability in 4 equal payments, interest will not be charged.

Section 13(3) Apportionment

2014 Tax Due

- 1st Qtr taxes= \$2,000.00
- 2nd Qtr taxes= \$750.00
- 3rd Qtr taxes= \$500.00
- 4th Qtr taxes= \$0.00

For 2015:

- 1st Qtr taxes= \$2,000.00
Pay \$500.00 - 1st Qtr
- 2nd Qtr Taxes = \$750.00
Pay \$750.00 + 500.00
- 3rd Qtr taxes= \$500.00
Pay \$500.00 + \$500.00
- 4th Qtr taxes= \$0.00
Pay \$500.00

Public Act 269 Changes

Increased penalties under Section 54(c)(2)

- **\$50.00** for late reporting if not received within 30 days of the report due date.
- Additional **\$250.00** penalty if still not received by the next quarter due date, and **\$250.00** for each quarter it is not received.

Wage Penalties 54(c)(2)

The same penalties apply if an incomplete or erroneous report is filed.

If the UIA discovers an error in a report that was filed, the Agency provides written notification on UIA 1107, Error Report. Penalties will not apply if a corrected report is filed within 14 calendar days after notification of the error if original report was filed timely.

Missing Form UIA 1028

- **UIA 1430**, Notice of Delinquent Tax Report, is sent 45 days after quarter end date.
- **UIA 1093**, Determination of Willful Neglect, is sent with UIA 1772, Discontinuance, if UIA 1028 not received within 10 days after UIA 1430 sent.
- **UIA 5223**, Notice of Estimated Tax Liability, is sent & posted to account if UIA 1028 not received within 30 days.
- **UIA 1448**, Notice of Assessment, is sent 5 days after estimated UIA 1028 posts.

Basic Collections Steps

- **UIA 1448**, Notice of Assessment, notifies employers of delinquencies.
- **UIA 1494**, (Lien) Collection Notice, is sent if delinquency is not paid.
- **UIA 1492**, Notice to Withhold, is sent to bank if delinquency is not paid.
- At the same time, **UIA 1449**, UIA Tax Lien, is sent to county for recording.

Contact Information

- **Tax Status:** liability, transfer of business

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- **Tax Maintenance:** tax rates, missing tax reports

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