

## **Legislative Testimony**

### **Impact of 2010 Unemployment Insurance Tax Increase**

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#### **Testimony before House Commerce Committee**

**Rachelle Colombo, Senior Director of Legislative Affairs, The Kansas Chamber**

Thank you Mr. Chairman and members of the committee for the opportunity to voice the business community's response to 2010 unemployment insurance tax increase.

Since employers received notification of their 2010 tax rate six weeks ago there are two major issues that business owners are struggling to rectify above all else. First, the significance of the increase in their tax rates has resulted in "sticker shock" and little time to absorb the cost accordingly. Secondly, the fact that positively balanced employers will pay the lion's share of the intended yield despite the reduced rate at which they draw down the fund.

Although there was general awareness that the fund would likely become insolvent and require the rollback of recent tax reductions in 2010, the degree to which the rates were set to increase was completely unanticipated by the business community. It has been asserted that the rates seem artificially steep because the reduction was in place last year but this is only partially accurate. Employers expected to return to tax rates they had paid prior to the reductions afforded through the passage of SB 83 in 2007, but 2010 rates exceed the highest rates that many businesses have paid in more than a decade. In fact, even if tax rates had not been reduced as a result of SB 83 and the nearly \$300 million that business owners invested back into the economy had gone into the trust fund it would have only delayed the fund's bankruptcy by a few months. The trigger requiring the rollback of tax reductions was expected; the fact that the fund would go from solvent to bankrupt in the span of the same year requiring exorbitant tax increases, was not. Attached is a table showing the range of increases our member businesses are experiencing, with some paying 700% - 1700% more than they did last year.

Secondly, the extent to which positively balanced employers are subsidizing negatively balanced employers has added insult to injury. Business owners who have maintained employment despite significantly reduced revenue in 2009 were devastated to see their tax rates double at a minimum. At the same time, employers who laid off employees in 2009 at a rate equal to or greater than in previous years saw a smaller percent increase to their unemployment taxes. The disparity in the unemployment insurance system is pronounced and requires some explanation. Employers are not confident about the extent to which their experiencing rating affects their tax rate or how the required annual yield is distributed over the rate groups.

Many questions remain for Kansas job creators. How will they pay their 2010 assessment? If they are among the majority who have been assessed the maximum tax rate, what incentive do they have to maintain employment? If they are negatively balanced and have not seen an increase because their rate and penalties are capped, what incentive do they have to lay off fewer employees? In a time when their revenue and their workforce is reduced how can they absorb a \$200 million tax increase on their cost of labor? How can our unemployment system be restructured to incentivize employment and to put more capital in the marketplace to speed the economic recovery of Kansas families, businesses and the state at large?

The majority of Kansas employers have maintained their workforce during the greatest recession of our time and they are now being penalized with a massive tax increase. More than twenty-five states have preceded Kansas in bankrupting their unemployment funds and are working to replenish their coffers without further delaying hiring or capital investment. We must remain competitive and now more than ever, we must foster this fragile economy to sustain and grow jobs.

Submitted on behalf of the Kansas Business Coalition on Unemployment Insurance: *The Kansas Chamber; Wichita Independent Business Association; Society of Human Resource Managers; National Federation of Independent Business, Kansas;*