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UNEMPLOYMENT INSURANCE TAX

House passes bill to lower hike in businesses' tax rate

By B.J. Reyes

POSTED: 01:30 a.m. HST, Feb 19, 2010

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Legislation aimed at lessening the increase employers are expected to pay in unemployment insurance taxes cleared the state House yesterday.

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Lawmakers have labeled the legislation a priority, fast-tracking it with the goal of passing a new employer contribution rate structure as soon as possible.

"Because of the recession, unemployment insurance rates will rise precipitously if no legislative action is taken," said Rep. Karl Rhoads, House labor chairman.

Under current law, unemployment taxes that average about \$90 per employee per year would jump to about \$1,070 come April.

House Bill 2169 proposes to keep contribution rates lower for the next two years. For this year the rate would be \$630 per employee instead of \$1,070. In 2011 the rate would go to an average of \$970 instead of \$1,520. Not all businesses pay the same rate. Rates are based on a business's history with layoffs, with a higher rate for those that have laid off more workers.

For those collecting unemployment, the maximum weekly benefit rate would remain at 75 percent of the average weekly wage until the end of 2011, falling to 70 percent beginning in 2012.

The bill allows for recalculation of the adequate reserve fund beginning in 2011.

Rhoads said HB 2169 will provide "significant tax relief" for businesses while maintaining unemployment benefits for laid-off workers.

TAX BURDEN

"This is money that keeps people's rent paid and food on the table," said Rhoads (D, Kakaako-Downtown).

Higher rates are needed to keep a sufficient balance in the state's unemployment trust fund, which pays benefits to out-of-work people.

Because of higher unemployment, the trust fund is being depleted rapidly and could run dry by the third quarter of this year, officials have said. The fund is being tapped at a rate of about \$31.7 million per month and has only about \$80 million left.

The measure passed the House unanimously and goes to the Senate for further vetting and crafting.

House Republicans raised concerns that the proposal does not provide a "soft landing" for businesses in the second year, noting that a proposal by Gov. Linda Lingle proposed a more gradual rise in the tax rate.

Rep. Gene Ward (R, Kalama Valley-Hawaii Kai) said under the governor's proposal, rates would not reach an average of \$900 until year four. He argued that the "front-loaded" HB 2169 could hurt small businesses in the second year.

"This could be a job killer," Ward said. "That's really the bottom line—a job-killer bill at a time when it's so precarious with the economy, it just doesn't make sense."

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