

## Unemployment insurance taxes

Employers in the state of Washington pay for unemployment benefits through unemployment taxes; workers do not pay unemployment taxes.

### Background

Note: Most government agencies, public schools, tribes and some nonprofits pay dollar-for-dollar for benefits paid to former employees, rather than paying a tax. Unemployment tax rates are calculated each year using a mathematical formula established in state law. The Governor and the Employment Security Department have no independent authority to adjust the rates.

### State unemployment tax has two components

In Washington, the state unemployment tax has two main components:

1. An **experience rated tax**, which is based on an average of an employer's claim history over the past four fiscal years. The four year rolling average cushions the effect of one bad year for an employer.

**When benefit payouts far exceed taxes collected social cost charge helps keep the trust fund stable.**

Just as drivers with a history of at-risk behavior pay higher automobile insurance premiums, employers with a history of more benefit claims generally pay a higher unemployment tax rate.

Washington has 40 experience-rate classes. Employers with the most favorable experience are assigned the lowest rate, and those with the least favorable experience are assigned the highest rate. Thus, an employer's benefit claim history determines its future rate class. Employers with no former employees collecting benefits in the previous four years will be in rate class one and will owe no experience rate tax.

2. A **social cost tax** is paid by nearly all employers to cover the shared costs of the insurance system. For example, it recovers costs from the previous year that can't be attributed to a specific employer (e.g., benefits paid to workers whose company went out of business).

During a deep recession, when benefit payouts far exceed the taxes collected, the social cost tax also increases somewhat to slow the decline of the benefit trust fund, so employers aren't hit by sharper, more sudden tax increases in the future to protect the solvency of the fund.





Since the experience rated taxes are averaged over four years, they don't replenish the fund fast enough to maintain adequate stability during a recession, so the social cost tax steps in to help.

The experience rate and the social cost rate are added together to determine an employer's **unemployment insurance rate**. The employer's **total tax rate** also includes a portion for the Employment Administrative Fund.

### Benefit trust fund

Taxes paid by employers go into the state's benefit trust fund, which is used to pay unemployment benefits. The amount of money in the trust fund at the end of each year is factored into the calculation of tax rates for the next year.

The Washington State Legislature has created a tax system that attempts to maintain enough money in the trust fund to pay for at least 12 months of unemployment benefits during a severe recession. Each year, the social cost tax rate is adjusted based partly on the size of the trust fund; the formula for calculating the social cost tax is written into state law.

### 2020 tax rates

Tax rates in all 40 rate classes remained the same as in 2019, ranging from 0.10 to 5.7 percent (not counting delinquency taxes). About 81 percent of employers will move into a lower rate class or stay the same in 2020.

### Highlights

- 21 percent of Washington employers will have a lower tax rate in 2020, 60 percent will remain the same, and 19 percent will move to a higher rate class.
- The *average* tax rate will decrease from an estimated 1.03 percent in 2019 to an estimated 0.99 percent in 2020. The average total tax paid per covered employee will decline by \$2 to \$200.
- About 47 percent of all taxable employers are in rate class 1, taxed at 0.10 percent. Ninety percent of employers in rate class 1 have five or fewer employees.
- The experience rated portion of the 2020 unemployment tax (paid by rate classes 2 and higher) will be based on benefit payouts from July 2015 through June 2019.
- Unemployment tax collections will decrease from 2019 (\$998 million) to 2020 (about \$963 million).

Employers will pay unemployment taxes on the first \$52,700 of each employee's earnings in 2020. For an employee earning \$52,700 or more, the total tax for the year will range from \$68 (employers in rate class 1) to \$3,014 (rate class 40). On average, the total tax per employee will *decline* by \$2 in 2020, to \$200.

