Unemployment Insurance Tax

OVERVIEW

- How Unemployment Insurance (UI) Works
- Registering for Unemployment Insurance
- Calculating UI Rates
- Wages and Covered Employees
- Independent Contractor and Corporate Officer Wage Issues
- Filing and Amending Reports
- New e-file Reporting Requirement
- UI eServices for Employers – Save Time and Money
UNEMPLOYMENT INSURANCE HELPS YOUR BUSINESS

Provides short-term economic assistance to eligible workers

Encourages eligible workers to remain in the area for re-employment

Sustains local economies by maintaining purchasing power

Each benefit dollar received in the community turns over 1.6 times!

MONTANA FACTS & FIGURES

State Fiscal Year 2020 data unless otherwise noted.

<table>
<thead>
<tr>
<th><strong>UI Trust Fund Balance</strong></th>
<th>$ 237,299,420</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active UI Employer Accounts</strong></td>
<td>42,716</td>
</tr>
<tr>
<td><strong>Employer Contributions</strong></td>
<td>$ 113,541,758</td>
</tr>
<tr>
<td><strong>Benefit Payments (since 3/16/20 - includes PUA and $600/week supplement)</strong></td>
<td>$ 649,901,475</td>
</tr>
<tr>
<td><strong>MT Unemployment Rate</strong></td>
<td>February, 2020 - 3.5%</td>
</tr>
<tr>
<td><strong>2020 UI Taxable Wage Base</strong></td>
<td>$ 34,100</td>
</tr>
</tbody>
</table>
**REGISTERING FOR UI**

You must register for Unemployment Insurance if:

- Your annual payroll reaches $1,000 in a calendar year or you acquire a business already subject to UI.
- You are an agricultural employer who pays $20,000 in cash wages in one quarter or has 10 workers on 20 days in 20 different weeks.
- You are a domestic or household employer who pays $1,000 in wages in a calendar quarter.
- Your business is a corporation that employs/pays officer(s).

Register for a UI account online at [uieservices.mt.gov](http://uieservices.mt.gov)

- Promptly notify UI of changes in address, phone, ownership.

**THREE TYPES OF UI ACCOUNTS**

### Experience Rated

For profit businesses, non-profits, and tribal entities who do not elect to be a reimbursable employer

- Rates range from 0.00% to 6.12%
- Pay 0.13% or 0.18% Administrative Fund Tax (AFT) on taxable wages
- Annual Taxable Wage Base of $33,000 for 2019
- Rates are effective for calendar year

### Governmental

Any state, county, or local government unit

- Rates for SFY 2019 range from .26% to .86% and are assessed on total wages
- Pay 0.09% Administrative Fund Tax (AFT) on total wages
- Rates are effective from July 1 to June 30

### Reimbursable

Available to non-profit entities with 501(c)(3) exemption, tribal, or governmental entities

- Reimburse the UI Trust Fund for the amount of all benefits charged to their account
- Pay 0.08% Administrative Fund Tax (AFT) on total wages
- May switch between classes (reimbursable/experience rated) after two years.

To switch, contact Status unit for a new Election of Method before 12-1-2020
REIMBURSABLE ACCOUNTS AND THE CARES ACT

The CARES Act provided for a reimbursement of eligible reimbursable charges – if the employer pays their share of the charges.*

- Currently, that reimbursement is 50% of the charges.*
- The federal government’s payment of these charges will appear on statements (re-programming of statements of account is still in progress).
- The act requires that the employer pays their portion of the charges in order to receive the credit.

TO GET THE CORRECT UI RATE
CLEARLY DESCRIBE YOUR BUSINESS ACTIVITY

- A new employer is assigned an industry classification. An employer’s initial UI rate is based on the employer’s primary business activity within that classification.
- An inexact or vague business activity description could more than double your UI rate.

EXAMPLE: retail clothing store vs clothing manufacturer

- Industry rate for retail sales = 1.00%
- Industry rate for manufacturing = 1.10%
- Unclassified rate = 2.40%

- Correct classification also helps with economic analysis.

If you need help describing business activity, call Research & Analysis at 406-444-3476 or 406-444-3294
NEW EMPLOYER RATES

Consist of two components:

1. UI New Employer Rate - ranges from 1.00% to 2.40%
2. Administrative Fund Tax (AFT) + 0.18%

Total Rate = 1.18% to 2.58%

- The industry rates are re-calculated every year and may change.
- Industry rates are used until an employer has reported 3 full federal fiscal years of wages. Federal fiscal year is October 1-September 30th.
- If a new employer has a negative reserve within the first 3 years, a deficit rate is assigned at the next rating cycle. A negative reserve occurs when benefits charged exceed contributions paid.
- Every December, we send rate notices to experience rated employers (or their third party agent, if any). To ensure your tax payments are correct, update your software to reflect the new rate and/or make sure your tax preparer or third party agent uses the new rate.

INDUSTRY RATES FOR 2020

<table>
<thead>
<tr>
<th>Industry</th>
<th>Industry Rate</th>
<th>AFT Rate</th>
<th>Total Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Hunting &amp; Fishing</td>
<td>1.50%</td>
<td>0.18%</td>
<td>1.58%</td>
</tr>
<tr>
<td>Construction</td>
<td>2.40%</td>
<td>0.18%</td>
<td>2.58%</td>
</tr>
<tr>
<td>Finance, Insurance, &amp; Real Estate</td>
<td>1.00%</td>
<td>0.18%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.10%</td>
<td>0.18%</td>
<td>1.28%</td>
</tr>
<tr>
<td>Mining</td>
<td>1.10%</td>
<td>0.18%</td>
<td>1.28%</td>
</tr>
<tr>
<td>Retail</td>
<td>1.00%</td>
<td>0.18%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Services</td>
<td>1.00%</td>
<td>0.18%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Utilities, Transportation, &amp; Warehousing</td>
<td>1.00%</td>
<td>0.18%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.00%</td>
<td>0.18%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Unclassified</td>
<td>2.40%</td>
<td>0.18%</td>
<td>2.58%</td>
</tr>
</tbody>
</table>
CALCULATING EXPERIENCE RATES

Each employer’s rate is computed individually.

Reserve: UI Taxes Paid
- Benefits Charged
= Reserve (Balance)

Reserve / Average Taxable Wages (past 3 federal fiscal years) = Reserve Ratio

<table>
<thead>
<tr>
<th>Employer</th>
<th>Contributions</th>
<th>- Benefits</th>
<th>= Reserve</th>
<th>Avg Taxable Wages</th>
<th>Reserve Ratio</th>
<th>Rate</th>
<th>Rate Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Supply</td>
<td>404,027</td>
<td>296,672</td>
<td>107,355</td>
<td>1,264,921</td>
<td>0.084871</td>
<td>1.22%</td>
<td>Eligible Rate</td>
</tr>
<tr>
<td>XYZ Builders</td>
<td>38,733</td>
<td>59,058</td>
<td>-20,324</td>
<td>23,890</td>
<td>-0.850747</td>
<td>6.12%</td>
<td>Deficit Rate</td>
</tr>
<tr>
<td>123 Services*</td>
<td>7,463</td>
<td>62,443</td>
<td>-54,980</td>
<td>31,526</td>
<td>-1.743944</td>
<td>6.12%</td>
<td>Deficit Rate</td>
</tr>
</tbody>
</table>

*Missed 1 quarterly report. Penalty applied, increases rate by 50%. 9.36% With Penalty

2020 SCHEDULE OF CONTRIBUTION RATES

Note: In addition to above rates, AFT is assessed at 0.13% for employers with a 0.00% rate and at 0.18% for employers with a rate of 0.02% or higher.
RATE TRANSFERS

Mandatory Transfer of Experience
- Successor is under substantially common ownership, management, or control as the predecessor.

Voluntary Transfer of Experience – (Different Owners)
- If prior owner has positive reserve, voluntary transfer may result in rate savings.
  - A transfer of experience request (UI-272) must be completed within 90 days of acquisition.
  - All reports and taxes of the predecessor must be filed and paid.
  - Predecessor and successor owners must sign the transfer form.

Important Note: Year-to-date wages paid by the predecessor should be used to compute excess wages for the successor. UI eServices for Employers (eServices) will calculate the excess correctly and avoid overpayment of UI taxes.

WHAT SHOULD BE REPORTED AS WAGES?

Wages, commissions, bonuses

In-kind payments (items given in lieu of wages)

Vacation, sick pay, back pay, retirement payouts
  - Back pay from PPP loans is reportable when paid.

Fair value of room & board

Tips – if reported to employer

Employee contributions to 401(k) and Sec 125 Plans
NON-TAXABLE PAYMENTS

Employer Contributions to 401 (k)

Employer & Corporate officer health & life insurance

No additional cost service

Business Expense Reimbursements
• Actual value of receipted expenses
• Non-receipted expenses reimbursable up to federal rates:
  • Meals $55/day (Some locations may be higher)
  • Mileage $0.575/mile

WHAT ABOUT WAGES OF DIFFERENT EMPLOYER (ENTITY) TYPES?

| LLC member filing as sole prop. or partner | No |
| LLC member filing as S or C corporation* | Yes |
| Draws of sole proprietor, partners | No |
| Spouse or dependents of sole proprietors | No |
| Spouse or dependents of corp. officer | Yes |
| Corporate officer wages* | Yes |

*Reasonable wages must be reported for services rendered.
REASONABLE WAGES FOR CORPORATE OFFICERS

Administrative Rules of Montana (ARM) 24.11.2506

Corporate officers who provide services to their company are required to report a “reasonable wage” prior to taking profit distributions, dividends, or any other form of remuneration.

The rule considers several variables such as time spent providing the service, the position and responsibility, and specific duties performed.

If you need help determining a reasonable wage amount, refer to Informational Wage Rates by Occupation at lmig.mt.gov (under publications).

INDEPENDENT CONTRACTORS

- An Independent Contractor:
  - Is exempt from UI coverage if the individual is working under an Independent Contractor Exemption Certificate (ICEC);
  - Must be reported as an employee if the type of work performed is not the same as covered by the ICEC;
  - Must be reported as an employee if the individual does not have the ICEC;
- Independent Contractor Exemption Certificates issued to corporate officers are not valid for UI purposes.

- IMPORTANT: Check the current status of your contractors at MTContractor.com. If their exemption expires, you can be held responsible for UI taxes or workers’ compensation premiums on monies paid to them during a lapse.
MULTI-STATE WORKERS

Workers should be reported in one state. Apply the following four-part test to each worker to determine where to report the employee.

- Where are the majority of services performed? Pick the state where services are localized.
- If not localized, are services performed in the state where the employer’s base of operations is located?
- If not, are services performed in the state where employer directs and controls operations?
- If none of the above fit, are services performed in the worker’s state of residence?

You may cover multi-state workers in one state where service is performed with approval by other state(s) and your employees to this reciprocal coverage. If you have questions, contact the Status Unit at 444-3834, option 1.

EXCESS WAGES

- The 2020 taxable wage base, per employee, is $34,100.
- Wages paid above $34,100 to an employee are considered “excess wages” and must be reported, but are not taxed.
- If you acquire the experience from the business you purchase, you must use the wages paid by the previous employer to calculate your excess wages. UIeServices is able to access their payroll and makes the calculation for you.
- Excess miscalculations are the second leading cause of errors on returns.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Quarterly Wages</th>
<th>Total Wages Year to Quarter End Date</th>
<th>Excess Wages</th>
<th>Taxable Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>$14,000</td>
<td>$14,000</td>
<td>0</td>
<td>$14,000</td>
</tr>
<tr>
<td>Second</td>
<td>$14,000</td>
<td>$28,000</td>
<td>0</td>
<td>$14,000</td>
</tr>
<tr>
<td>Third</td>
<td>$14,000</td>
<td>$42,000</td>
<td>$7,900</td>
<td>$6,100</td>
</tr>
<tr>
<td></td>
<td>(exceeds $34,100)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth</td>
<td>$14,000</td>
<td>$56,000</td>
<td>$14,000</td>
<td>0</td>
</tr>
</tbody>
</table>
NEW E-FILE REQUIREMENTS BEGAN IN 2019

Beginning with 1\textsuperscript{st} quarter 2019, Administrative Rule 24.11.2711 requires electronic filing of quarterly reports if you are:

- A third-party agent reporting on behalf of an employer
- An employer who reported 20 or more employees in a single quarter in the prior year

Options for e-filing:

- UI eServices for Employers (eServices)
- E-File with QuickBooks Enhanced Payroll Service – or export QuickBooks reports to prepare uploads for UI eServices (which is free)
- ICESA and FSET bulk files
- Refer to e-filing handbook on uieservices.mt.gov for more information

Payment can be made electronically (ACH debit, ACH credit or credit card) or by check with a voucher.

REPORTING WAGES

IMPORTANT CHANGE: Beginning 3\textsuperscript{rd} quarter 2019, the Department stopped mailing UI5 reports to business employers, unless you “opt-in” for future mailings. To continue receiving hardcopy or paper UI5 reports, email uieservices@mt.gov with the subject line, “Opt-in.” Include your UI account number and business name in the email.

Employers or TPAs subject to the new e-Filing rule will not be able to opt-in.

UI Quarterly Wage Reports are due at the end of the following months:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Covers Months of:</th>
<th>Sent by: *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1\textsuperscript{st}</td>
<td>January - March</td>
<td>April 30</td>
</tr>
<tr>
<td>2\textsuperscript{nd}</td>
<td>April – June</td>
<td>July 31</td>
</tr>
<tr>
<td>3\textsuperscript{rd}</td>
<td>July - September</td>
<td>October 31</td>
</tr>
<tr>
<td>4\textsuperscript{th}</td>
<td>October - December</td>
<td>January 31</td>
</tr>
</tbody>
</table>

* or next work day if date falls on a weekend
BEFORE YOU REPORT

To avoid over or under paying your quarterly taxes, double check the UI rate you are using to calculate the amount due!

- Review your rate notice or log in to UI eServices for Employers to review your rate.
- Payroll software companies will not automatically update your rate, you must input it into your software each year. Make sure you correctly entered both the UI Contribution Rate and the AFT Rate, and that your total rate matches your rate notice.
- If a third party is reporting for you, make sure you’ve provided them with the correct rate information.
- Third party agents can check client rates using eServices. Sign-up for the Fiscal Rate Exchange and you can download a list of rates for your clients anytime. An MOU is required to participate in the exchange.

Now is the perfect time to sign up for eServices

- Easy to use. Employee names and SSNs can be loaded from the previous quarter with one click. Just enter their quarterly gross wage amount.
- Eliminate mistakes. Let the system calculate excess wage amounts and tax due.
- Capture your credit. eServices automatically applies existing credits to any tax payment due.
- Export wages from your system and upload them to eServices. Formats available include Excel, CSV, ICESA & FSET.
- Easy to amend reports. No matter how the original report was filed or who filed it, you can correct it online.
- E-mail reminders. Never forget your filing deadlines.
- Tax preparers/Third party agents can use it too. An authorization form is required.

Go to www.uieservices.mt.gov to sign up.

Step-by-step instructions are available.

Watch for upcoming webinars.
CUSTOMER SUPPORT

• (406) 444-3834, option 2 for eServices Support or email uieservices@mt.gov

• Send your questions to us using eServices.
**What is Fraud?**

- Identity theft – Someone files a UI claim using your employee’s SSN.
- Claimant doesn’t report weekly earnings on claim

**Potential fraud if someone is receiving UI benefits**

- Employee refuses to return to work when offered
- You offer a fulltime job to someone who is receiving UI benefits and they turn it down

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**COMBATTING FRAUD**

**LET’S FIGHT FRAUD TOGETHER**

**To report fraud:**

   - There are 3 options:
     - Report Claimant Fraud
     - Report Employer Fraud
     - Report PUA Fraud

2. Speak to investigator at (406) 444-0072.
3. Fax information to (406) 444-6651.
4. E-mail dliuidci@mt.gov (Do not include social security number in e-mail).

**To prevent fraud, sign up for full access to UI-eServices.**

- Use your last UI report to sign up. (FEIN, UI account, and gross wages)
- If you have file/pay access, but don’t have full access, call (406) 444-3834, option 2.
- Respond to all separation notices
- Report suspicious activity
- Manage your claims online and eliminate late responses to charges which can raise your UI rate.
WE’RE IN THIS TOGETHER!

Please visit the Department of Labor & Industry website www.dli.mt.gov for more information about programs and resources for employers.

- Frequently Asked Questions regarding UI Claims and return to work.
- COVID-19 and Workplace Safety
- Guidelines for re-opening businesses
- Grants and loans
- And more....

THANK YOU FOR ATTENDING