

LEGISLATIVE REPORT

Washington wages subject to Unemployment Insurance tax Analysis of taxable wages collected in 2020

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Introduction

In 2021, the Legislature passed and the governor signed Engrossed Senate Substitute Bill 5061 (ESSB 5061) requiring the Employment Security Department (ESD) to provide a report to the Legislature and the governor that reviews the amount of wages subject to tax. This includes an analysis of the equitable treatment of employers and a comparison of the percentage of wages subject to tax for small, medium, and large businesses, as well as how changes to the taxable wages would affect trust fund balances and employer contributions.

This analysis entails two separate data requests:

- 1) Wages subject to Unemployment Insurance (UI) tax for small, medium, and large businesses
- 2) Wages subject to UI tax for various industry sectors

With this data, ESD can estimate how changes to the amount of wages subject to UI tax, also referred to as taxable wages, would affect trust fund balances and employer contributions. By running simulations of changes in the taxable wage base for 2020, ESD can estimate the effects on the percent of wages subject to UI tax and the UI trust fund balance.

This report reviews the current legislation on taxable wages, as well historical changes to the taxable wage base. It includes a simulation of UI taxes paid under a different taxable wage base in 2019. Per ESSB 5061, this report also includes a section for members of an existing Unemployment Insurance Advisory Committee to respond directly to the contents of the report.

Wages subject to UI tax legislation

The current taxable wage for the state of Washington (WA) is listed under [RCW 50.24.010](#). The full text of this statute is listed in Appendix A. Prior to 2008, the taxable wage base in Washington was calculated based on 80% of the average annual wage for contributions purposes averaged over the prior three years. Beginning in 2008, the taxable wage base calculation moved to a calculation based upon 80% of the average annual wage for the preceding year. In this analysis, ESD investigates how changing the taxable wage base may affect the amount of wages subject to UI tax and the UI trust fund balance.

Historical changes to the legislation

The Legislature has added one amendment to the taxable wage state statute, which passed in 2003 but was not implemented until 2008. The amendment changed the taxable wage base calculation from a three-year average to a one-year average. Table 1 displays the historical taxable wage base from 2005 to 2022. There was a significant increase in the taxable wage base in 2008 with the change in calculation. The taxable wage base grew by 72% in 2020 (\$52,700) from the initial base of \$30,500 in 2005.

Table 1. Historical changes to the WA taxable wage base legislation

| Year | Taxable wage base | Notes on taxable wage base calculation | Legislation change |
|------|-------------------|--|--------------------|
| 2005 | \$30,500 | 80% of AAWCP (three-year average) | |
| 2006 | \$30,900 | 80% of AAWCP (three-year average) | |
| 2007 | \$31,400 | 80% of AAWCP (three-year average) | |
| 2008 | \$34,000 | 80% of AAWCP (one-year average) | 2ESB 6097 (2003) |
| 2009 | \$35,700 | 80% of AAWCP (one-year average) | |
| 2010 | \$36,800 | 80% of AAWCP (one-year average) | |
| 2011 | \$37,300 | 80% of AAWCP (one-year average) | |
| 2012 | \$38,200 | 80% of AAWCP (one-year average) | |
| 2013 | \$39,800 | 80% of AAWCP (one-year average) | |
| 2014 | \$41,300 | 80% of AAWCP (one-year average) | |
| 2015 | \$42,100 | 80% of AAWCP (one-year average) | |
| 2016 | \$44,000 | 80% of AAWCP (one-year average) | |
| 2017 | \$45,000 | 80% of AAWCP (one-year average) | |
| 2018 | \$47,300 | 80% of AAWCP (one-year average) | |
| 2019 | \$49,800 | 80% of AAWCP (one-year average) | |
| 2020 | \$52,700 | 80% of AAWCP (one-year average) | |
| 2021 | \$56,500 | 80% of AAWCP (one-year average) | |
| 2022 | \$62,500 | 80% of AAWCP (one-year average) | |

Analysis of taxable wages in 2020

The data for this analysis was collected from the Next Generation Tax System (NGTS) database, ESD's UI tax IT system. This data includes quarterly UI tax records, which include the taxable wage and total wage information for the year 2020 at the employee level matched to their employer's and North American Industry Classification System (NAICS) industry sector.

The data collected illustrates the two key components of this analysis: 1) the amount of wages subject to UI tax for the NAICS industry sectors and 2) the amount of wages subject to UI tax for small, medium, and large employers.

Taxable wages by NAICS industry

Table 2 provides the wages subject to the UI tax (taxable wages), total wages, and the percent of total wages subject to the UI tax data by NAICS industry in 2020. Figures 1 and 2 provide a graphical representation of the data shown in Table 2. Figure 1 displays the taxable wages and total wages by NAICS industry sector for 2020.

On average, wages subject to the UI tax make up more than 63% of total wages based on the industry percentages; however, the share varies significantly across NAICS industry sectors. The agriculture, forestry, fishing and hunting sector has the highest share at 91%, while the information sector has the lowest share at 24%.

This report provides additional information on the taxable wages for these sectors below. Figure 2 illustrates the large variation in the share of total wages subject to UI tax across the different NAICS industry sectors.

Table 2. Wages subject to UI tax by NAICS industry in 2020

| NAICS industry | Taxable wages | Total wages | Share of total wages subject to UI Tax (%) |
|---|---------------------|---------------------|--|
| Accommodation and food services | \$5,523,785,675.70 | \$6,276,845,164.28 | 88.0 |
| Administrative and waste services | \$6,350,132,468.37 | \$8,830,609,835.65 | 71.9 |
| Agriculture, forestry, fishing and hunting | \$3,208,301,492.91 | \$3,522,359,936.66 | 91.1 |
| Arts, entertainment, and recreation | \$819,120,289.56 | \$1,262,779,808.51 | 64.9 |
| Construction | \$9,779,812,391.23 | \$14,045,256,519.01 | 69.6 |
| Educational services | \$807,559,618.30 | \$1,069,054,207.56 | 75.5 |
| Finance and insurance | \$5,002,848,805.50 | \$11,380,267,992.66 | 44.0 |
| Health care and social assistance | \$9,154,380,284.52 | \$12,511,769,133.74 | 73.2 |
| Information | \$8,564,718,210.89 | \$36,062,806,509.66 | 23.7 |
| Management of companies and enterprises | \$312,091,415.86 | \$793,101,164.60 | 39.4 |
| Manufacturing | \$13,184,356,641.71 | \$22,195,213,348.41 | 59.4 |
| Mining, quarrying, and oil and gas extraction | \$87,523,828.89 | \$123,857,459.78 | 70.7 |
| Other services, except public administration | \$2,687,699,947.67 | \$3,682,353,063.09 | 73.0 |
| Professional and technical services | \$10,200,419,870.95 | \$21,623,027,992.03 | 47.2 |
| Public administration | \$598,407,673.90 | \$674,932,503.83 | 88.7 |
| Real estate and rental and leasing | \$2,281,886,278.74 | \$3,435,123,643.81 | 66.4 |
| Retail trade | \$15,106,105,412.30 | \$29,534,849,105.19 | 51.1 |
| Transportation and warehousing | \$4,166,541,752.92 | \$6,197,522,813.41 | 67.2 |
| Utilities | \$489,957,048.49 | \$1,036,970,495.20 | 47.2 |
| Wholesale trade | \$6,741,697,586.48 | \$12,480,743,733.53 | 54.0 |

Figure 1. Taxable wages and total wages by NAICS industry in 2020

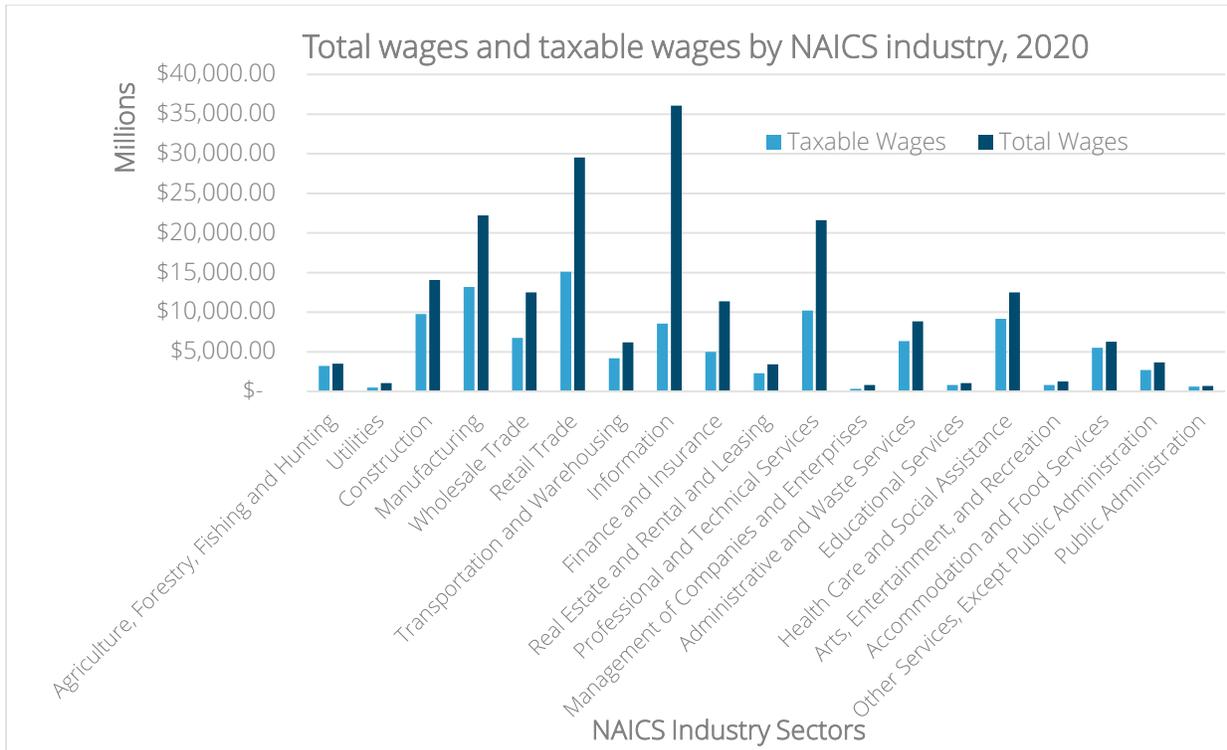
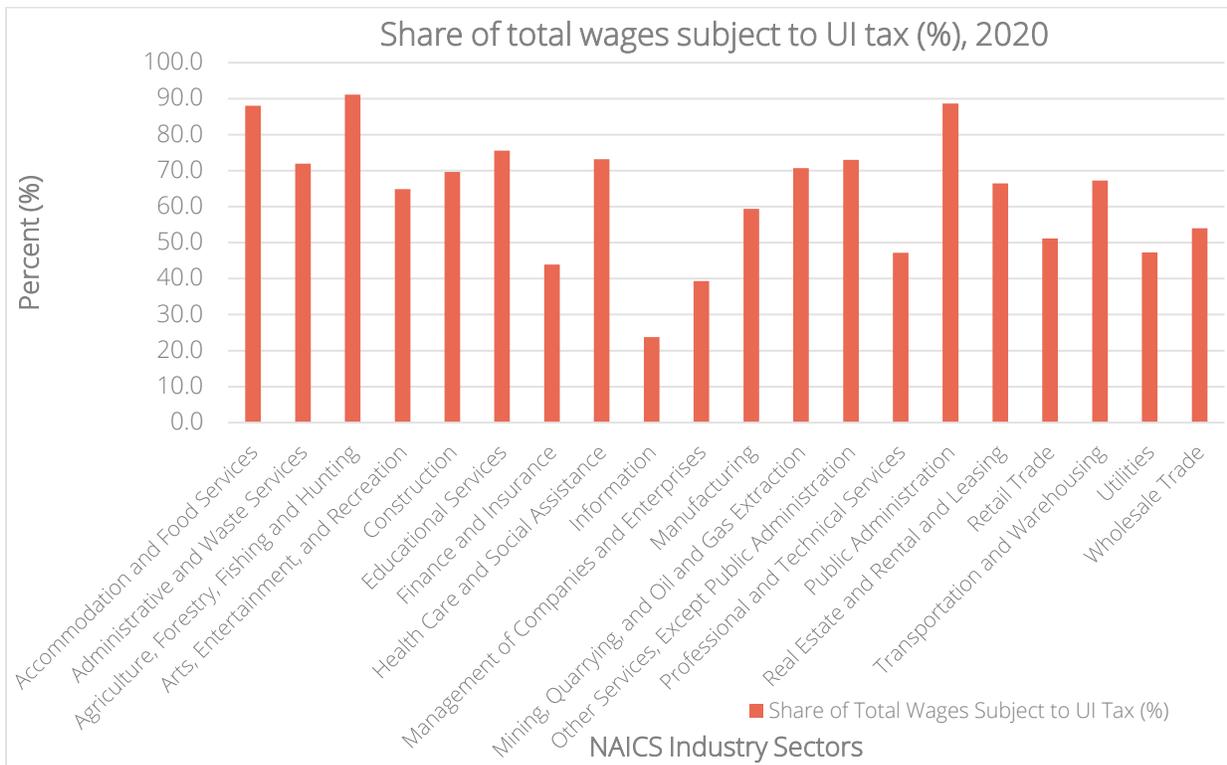


Figure 2. Share of total wages subject to UI tax by NAICS industry in 2020



Taxable wages by employer size

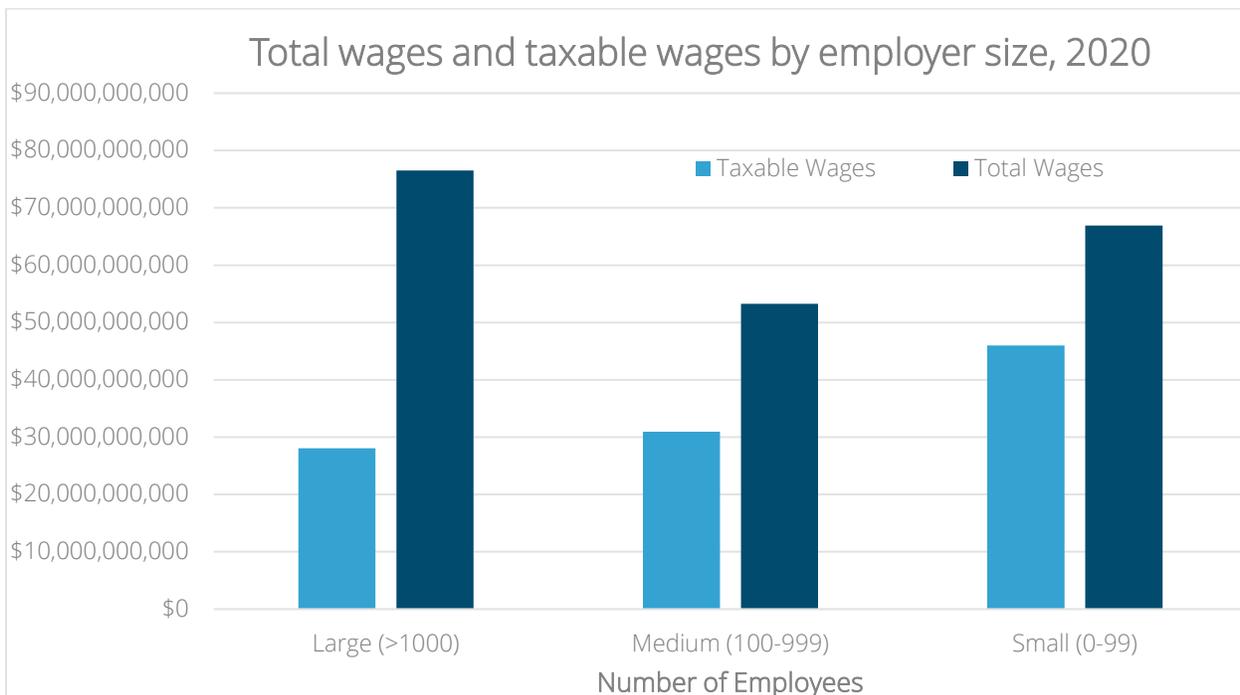
This section of the report examines the amount of wages subject to UI tax by employer size¹. The employer size has been organized into three categories based on the number of employees: small (0-99), medium (100–999), and large (>1,000).

Table 3 below displays the breakdown of wages by employer size. Figure 3 is a graphical illustration of the data displayed in Table 3. Based on 2020 data, smaller employers (69%) pay a significantly higher share of total wages subject to UI tax than larger employers (37%).

Table 3. Wages subject to UI tax by employer size in 2020

| Employer size | Taxable wages | Total wages | Share of total wages subject to UI tax (%) |
|---------------|---------------------|---------------------|--|
| Large | \$28,059,366,395.27 | \$76,498,569,881.26 | 36.7 |
| Medium | \$30,969,303,596.22 | \$53,270,463,504.35 | 58.1 |
| Small | \$45,978,853,325.86 | \$66,910,222,610.17 | 68.7 |

Figure 3. Taxable wages and total wages by employer size in 2020



¹ Employer size has been calculated as a quarterly average number of employees for 2020.

Taxable wages by NAICS industry and employer size

This analysis explores the variation in taxable wages by employer size for NAICS industries with the highest and lowest shares of total wages subject to the UI tax. As shown in Table 2, the agriculture, forestry, fishing and hunting sector has the highest share at 91%, while the information sector has the lowest share at 24%.

Taxable wages by employer size for the agricultural industry

Since the agriculture, forestry, fishing and hunting sector had the highest percent of total wages subject to UI tax (91%) compared to the other industries, this report further investigates the total wage data and taxable wage data for this sector².

For this analysis, ESD examined the amount of total wages subject to UI tax by employer size³ for the agriculture, forestry, fishing and hunting industry. Employer size has been organized into three categories, as previously described⁴.

Table 4 displays the breakdown of wages by employer size. Figure 4 is a graphical illustration of the data displayed in Table 4. Based on 2020 data, the percentage of total wages subject to UI tax only varies slightly by employer size for this industry but remains high when compared to other industry sectors.

Notably, larger employers are paying a higher share (94%) when compared to medium-sized employers (91%) and smaller employers (90%). For the agriculture, forestry, fishing and hunting industry, the percentage of total wages subject to UI tax decreases as the employer size decreases.

Table 4. Agriculture, forestry, fishing and hunting industry wages by employer size in 2020

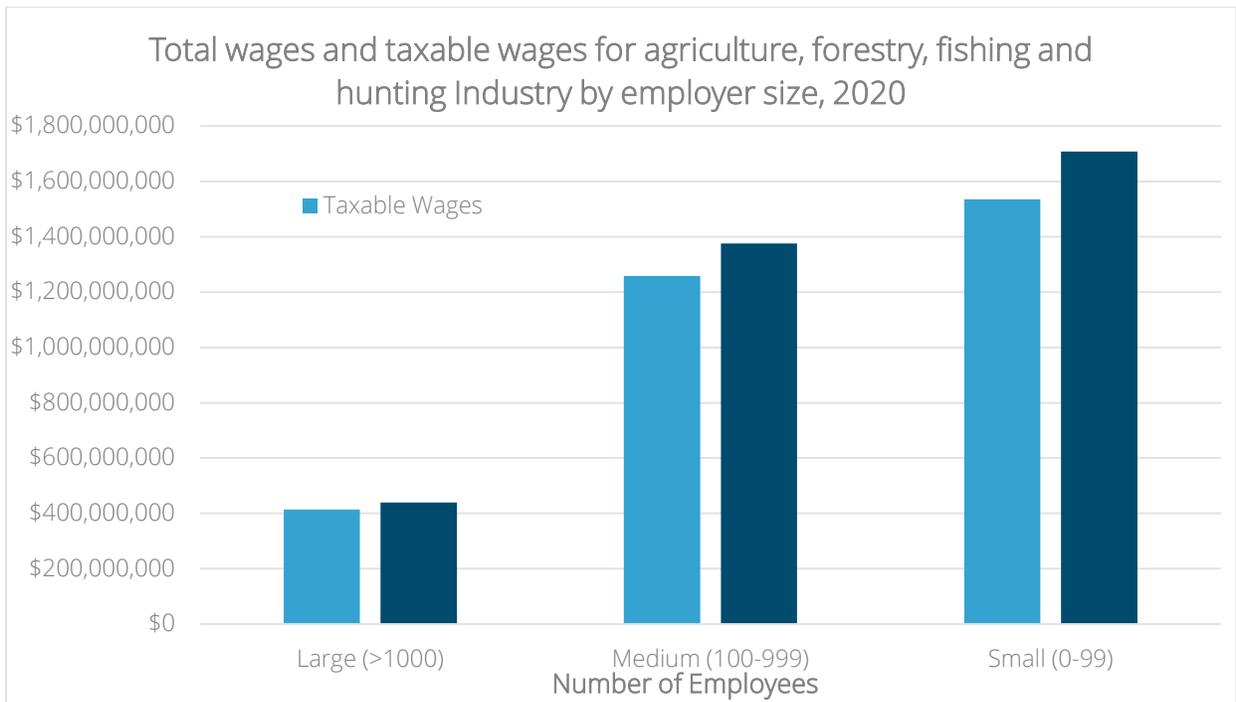
| Employer size | Taxable wages | Total wages | Share of total wages subject to UI tax (%) |
|---------------|--------------------|--------------------|--|
| Large | \$414,356,096.97 | \$439,251,980.60 | 94.3 |
| Medium | \$1,258,245,279.23 | \$1,375,667,410.89 | 91.5 |
| Small | \$1,535,681,224.66 | \$1,707,421,653.12 | 89.9 |

² Percent of total wages subject to UI tax data by industry is displayed in Table 2.

³ Employer size has been calculated as a quarterly average number of employees for 2020.

⁴ The employer size has been organized into three categories based on the number of employees: Small (0-99), Medium (100 – 999), and Large (> 1000).

Figure 4. Agriculture, forestry, fishing and hunting industry wages by employer size in 2020



Taxable wages by employer size for the information industry

Since the information sector had the lowest percentage of total wages subject to UI tax (24%) compared to the other industries, this report further investigates the total wage data and taxable wage data for this sector⁵.

For this analysis, ESD examined the amount of total wages subject to UI tax by employer size⁶ for the Information industry. Employer size has been organized into three categories, as previously described⁷.

Table 5 displays the breakdown of wages by employer size. Figure 5 is a graphical illustration of the data displayed in Table 5. Based on 2020 data, the percentage of total wages subject to UI tax remains low and only varies slightly between large and medium-sized employers, but significantly increases for smaller employers.

⁵ Percent of total wages subject to UI tax data by industry is displayed in Table 2.

⁶ Employer size has been calculated as a quarterly average number of employees for 2020.

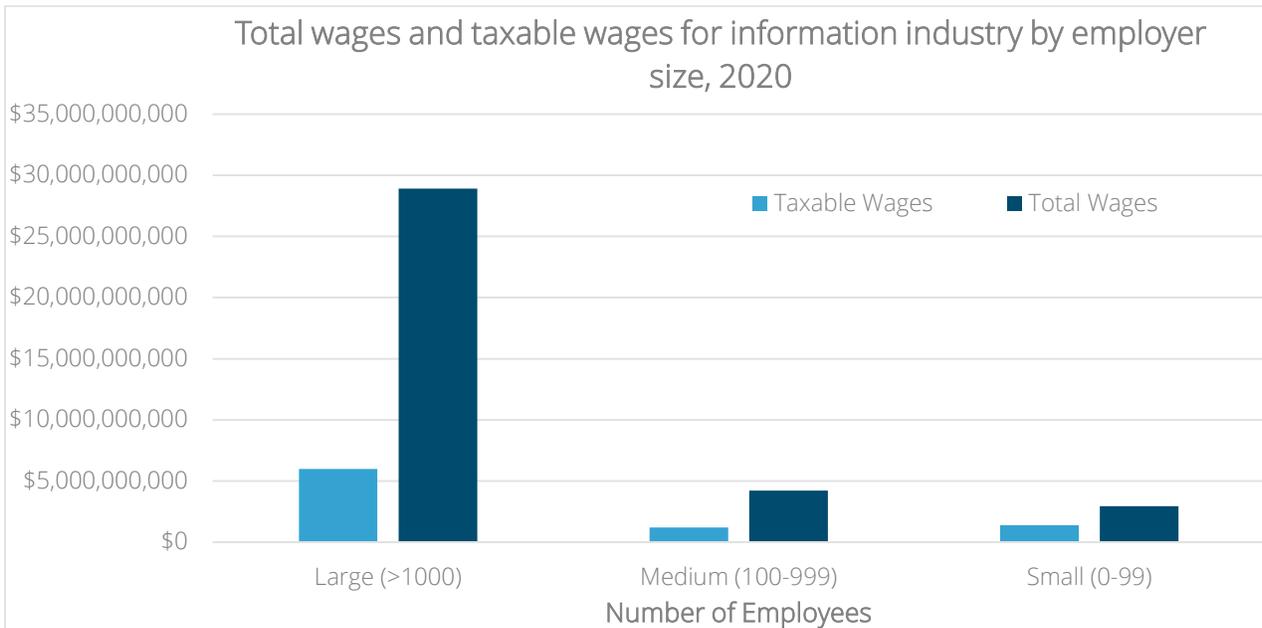
⁷ The employer size has been organized into three categories based on the number of employees: Small (0-99), Medium (100 – 999), and Large (> 1000).

Larger employers are paying the lowest share (21%) when compared to medium-sized employers (28%) and smaller employers (47%). For the Information industry, the percentage of total wages subject to UI tax increases as the employer size increases. This follows the same trend as the wage data displayed in Table 3.

Table 5. Information industry wages by employer size in 2020

| Employer size | Taxable wages | Total wages | Share of total wages subject to UI tax (%) |
|---------------|--------------------|---------------------|--|
| Large | \$5,990,938,817.76 | \$28,906,814,228.09 | 20.7 |
| Medium | \$1,198,423,392.86 | \$4,213,380,786.55 | 28.4 |
| Small | \$1,374,983,247.09 | \$2,942,191,557.53 | 46.7 |

Figure 5. Information industry wages by employer size in 2020



Taxable wage base

Analysis on impacts to employer UI tax contributions

To analyze impacts of a change to the taxable wage base to employer UI tax contributions and the UI trust fund balance, this report examines the amount of wages subject to UI tax by looking at a simulation of a change in the taxable wage base for 2019 and impacts to overall UI tax collections in 2021 for qualified⁸ tax employers. While the taxable wage analysis included above focused on all taxable employers, this analysis includes only qualified taxable employers in 2021. The reason for this is qualified tax employers' UI tax rates are based on the employers' own experience with unemployment during the previous four years. They are not influenced by industry average tax rates or delinquent tax rates for non-qualified employers.

This analysis includes estimated effects on 2021 UI tax contributions for the first quarter of 2021 through the third quarter of 2021 for qualified tax employers, resulting from a change in the taxable wage base calculation for 2019. The UI taxable wage base in Washington state for 2019 was \$49,800. The simulation of an increase in the taxable wage assumes the UI taxable wage base increased to \$51,000 in 2019, while the simulation of a decrease in the taxable wage base assumes the UI taxable wage base decreased to \$48,000 in 2019.

Each qualified employer's experience with unemployment during the four preceding fiscal years is used to determine the employer's assigned UI tax rate. For qualified employers in 2021, this experience would be from July 2016 through June 30, 2020. Each qualified employer's benefit charges during the four-year base period are divided by the employer's taxable payrolls for the same period to compute the employer benefit ratio, which determines the employer's experience tax rate.

An increase or decrease in the taxable wage base also factors into the employer's assigned UI tax. With an increase in the taxable wage base, more wages potentially become subject to UI tax. However, employers could also see a decrease in their assigned UI tax rate resulting from a lower benefit ratio, as more taxable wages are used in the employer's four-year benefit ratio, which is used in determining their UI tax rate. With a decrease in the taxable wage base, less wages are subject to UI tax, but employers could have potentially higher UI tax rates, as less taxable wages are used in the four-year benefit ratio calculation to determine tax rates.

⁸ To be a qualified employer for 2021, you must: 1. Have been a covered employer at some time between April 1, 2018 and March 31, 2019; 2. Have not had four or more consecutive quarters with no payroll in 2019 or 2020; and 3. Have submitted all tax and wage reports and all payments by September 30, 2020.

Table 6 displays the breakdown of taxable wages for the four-year fiscal years ending June 2020 for qualified tax employers in 2021 by industry sector. This includes an analysis of taxable wages under current law, taxable wages assuming a lower taxable wage base in 2019, and taxable wages assuming a higher taxable wage base in 2019.

Table 6. Wages subject to unemployment tax for qualified employers in 2021 (fiscal year 2017 through fiscal year 2020) by industry sector under different taxable wage bases in 2019

| NAICS industry | Total wages | Taxable wages (FY17-FY20) — current law | Share of total wages subject to UI tax (%) — current law | Taxable wages (FY17-FY20) — lower taxable wage base (2019) | Share of total wages subject to UI tax (%) — lower taxable wage base | Taxable wages (FY17-FY20) — higher taxable wage base (2019) | Share of total wages subject to UI tax (%) — higher taxable wage base |
|---|------------------|---|--|--|--|---|---|
| Accommodation and food services | \$8,055,510,689 | \$7,279,803,293 | 90.4% | \$7,238,166,298 | 89.9% | \$7,288,561,625 | 90.5% |
| Administrative and waste services | \$5,440,954,626 | \$4,645,253,269 | 85.4% | \$4,439,482,357 | 81.6% | \$4,651,181,721 | 85.5% |
| Agriculture, forestry, fishing and hunting | \$2,790,498,048 | \$2,759,113,910 | 98.9% | \$2,724,393,649 | 97.6% | \$2,759,492,145 | 98.9% |
| Arts, entertainment, and recreation | \$1,088,411,568 | \$945,602,871 | 86.9% | \$938,098,846 | 86.2% | \$954,003,475 | 87.7% |
| Construction | \$4,807,518,132 | \$4,515,254,794 | 93.9% | \$4,344,142,623 | 90.4% | \$4,519,754,688 | 94.0% |
| Educational services | \$590,669,496 | \$462,840,847 | 78.4% | \$458,478,916 | 77.6% | \$464,160,333 | 78.6% |
| Finance and insurance | \$10,415,093,729 | \$5,251,360,678 | 50.4% | \$4,995,569,277 | 48.0% | \$5,270,725,316 | 50.6% |
| Health care and social assistance | \$5,839,906,643 | \$4,947,220,981 | 84.7% | \$4,790,117,784 | 82.0% | \$4,960,527,651 | 84.9% |
| Information | \$72,856,854,552 | \$17,258,543,179 | 23.7% | \$16,898,530,425 | 23.2% | \$17,478,803,460 | 24.0% |
| Management of companies and enterprises | \$326,229,28 | \$111,829,226 | 34.3% | \$108,043,569 | 33.1% | \$113,311,810 | 34.7% |
| Manufacturing | \$6,205,461,975 | \$4,076,391,442 | 65.7% | \$4,089,641,205 | 65.9% | \$4,171,042,088 | 67.2% |
| Mining, quarrying, and oil and gas extraction | \$41,916,283 | \$38,276,731 | 91.3% | \$37,942,704 | 90.5% | \$38,277,931 | 91.3% |
| Other services, except public administration | \$2,313,523,785 | \$2,026,064,025 | 87.6% | \$1,998,618,840 | 86.4% | \$2,028,512,262 | 87.7% |

| | | | | | | | |
|-------------------------------------|------------------|------------------|-------|------------------|-------|------------------|-------|
| Professional and technical services | \$8,290,004,029 | \$4,837,563,942 | 58.4% | \$4,728,883,777 | 57.0% | \$4,879,822,293 | 58.9% |
| Public administration | \$1,204,884,183 | \$1,179,600,324 | 97.9% | \$1,148,036,568 | 95.3% | \$1,179,927,078 | 97.9% |
| Real estate and rental and leasing | \$1,631,237,280 | \$1,309,243,319 | 80.3% | \$1,283,553,437 | 78.7% | \$1,312,771,631 | 80.5% |
| Retail trade | \$58,983,432,145 | \$27,193,623,751 | 46.1% | \$26,861,047,650 | 45.5% | \$27,355,662,315 | 46.4% |
| Transportation and warehousing | \$5,232,321,212 | \$3,951,315,199 | 75.5% | \$3,899,469,118 | 74.5% | \$3,965,297,604 | 75.8% |
| Utilities | \$28,182,241 | \$20,799,419 | 73.8% | \$20,244,783 | 71.8% | \$20,864,140 | 74.0% |
| Wholesale trade | \$4,866,831,403 | \$2,994,528,696 | 61.5% | \$2,909,346,578 | 59.8% | \$3,007,522,050 | 61.8% |

On average, wages subject to the UI tax for qualified employers increase with a higher taxable wage base and decrease with a lower taxable wage base; however, the share of wages subject to UI tax varies significantly across the NAICS industry sectors. For example, the administrative support and waste management sector saw the largest decrease, -3.8%, under a lower taxable wage base in 2019, while an increased taxable wage base in 2019 resulted in a 0.1% increase in taxable wages for this sector.

Table 7 displays the breakdown of UI taxes for qualified employers by industry sector for the first quarter of 2021 through the third quarter of 2021 under current law, under a lower taxable wage base in 2019, and under a higher taxable wage base in 2019. This includes a simulation of an analysis of taxable wages under current law, taxable wages assuming a lower taxable wage base in 2019, and taxable wages assuming a higher taxable wage based in 2019.

Assuming a lower taxable wage base in 2019 (\$48,000), qualified tax employers on average would have paid 1% more in UI taxes going into the UI trust fund for the first three quarters of 2021 than they would of under current law. With a lower taxable wage base in 2019, 98.9% of qualified employers would have seen the same overall UI tax rate in 2021, as compared to current law, while 1% of qualified employers would have seen a higher UI tax rate, and 0.1% would have seen a lower UI tax rate. For the first three quarters of 2021, a lower taxable wage base in 2019 of \$48,000 would have resulted in \$973,500 in additional UI tax collections into the UI trust fund from qualified employers.

Assuming a higher taxable wage base in 2019 (\$51,000), qualified tax employers on average would have paid 0.3% less in UI taxes going into the UI trust fund for the first three quarters of 2021 than they would of under the current law taxable wage base. With a higher taxable wage base in 2019, 99.86% of qualified tax employers would have seen the same overall UI tax rate in 2021 as compared to current law, while .01% of qualified employers would have seen a higher UI tax rate, and 0.13% of qualified employers would have seen a lower UI tax rate. For the first three quarter of 2021, a higher taxable wage base in 2019 of \$51,000 would have resulted in \$245,400 less in UI tax collections into the UI trust fund from qualified tax employers.

Table 7. UI taxes paid (Q1 2021 through Q3 2021) for qualified employers by industry sector under different taxable wage bases

| NAICS industry | Taxes paid — current law | Taxes paid — 2019 taxable wage base 48,000 | Taxes paid — 2019 taxable wage base 51,000 |
|--|-----------------------------|---|---|
| Accommodation and food services | \$7,360,803 | \$7,411,661 | \$7,360,290 |
| Administrative and waste services | \$7,155,945 | \$7,198,169 | \$7,144,589 |
| Agriculture, forestry, fishing and hunting | \$3,993,441 | \$4,104,040 | \$3,992,641 |
| Arts, entertainment, and recreation | \$1,347,690 | \$1,381,843 | \$1,347,676 |
| Construction | \$5,123,125 | \$5,328,376 | \$5,114,742 |
| Educational services | \$330,749 | \$341,242 | \$330,304 |
| Finance and insurance | \$4,998,408 | \$5,006,690 | \$4,996,792 |
| Health care and social assistance | \$4,270,172 | \$4,389,051 | \$4,242,826 |
| Information | \$23,737,078 | \$23,896,655 | \$23,732,278 |
| Management of companies and enterprises | \$105,367 | \$97,191 | \$96,606 |
| Manufacturing | \$3,245,195 | \$3,271,956 | \$3,244,464 |
| Mining, quarrying, and oil and gas extraction | \$1,828 | \$2,226 | \$1,828 |
| Other services, except public administration | \$2,142,099 | \$2,153,794 | \$2,134,368 |
| Professional and technical services | \$3,844,714 | \$3,875,694 | \$3,834,586 |
| Public administration | \$820,784 | \$840,194 | \$820,784 |
| Real estate and rental and leasing | \$2,069,487 | \$2,082,973 | \$2,067,625 |
| Retail trade | \$16,107,822 | \$16,155,364 | \$15,954,781 |
| Transportation and warehousing | \$4,287,412 | \$4,357,249 | \$4,286,127 |
| Utilities | \$6,528 | \$7,844 | \$6,528 |
| Wholesale trade | \$2,453,838 | \$2,473,773 | \$2,447,264 |

Conclusion

This report analyzed employer wage data as required in ESSB 5061. This analysis entailed two separate data requests: 1) wages subject to UI tax for small, medium, and large businesses, and 2) wages subject to UI tax for different industry sectors.

Based on the 2020 data, a significantly higher share of total wages are subject to UI tax for smaller employers compared to medium- and large-sized employers.

On average, wages subject to the UI tax account for more than 63% of total wages based on the overall industry percentages; however, the share varies significantly across the NAICS industry sectors. The agriculture, forestry, fishing and hunting sector has the highest share at 91%, while the Information sector has the lowest share at 24%.

For the agriculture, forestry, fishing and hunting sector, the percent of total wages subject to UI tax only varies slightly by employer size but remains high when compared to the other industry sectors. Notably, the larger employers are paying a higher share when compared to medium-sized employers and smaller employers. For this industry, the percentage of total wages subject to UI tax decreases as the employer size decreases.

For the Information sector, the percentage of total wages subject to UI tax remains low and only varies slightly between large and medium-sized employers, but significantly increases for smaller employers. The larger employers are paying the lowest share when compared to medium-sized employers and smaller employers. For this industry, the percentage of total wages subject to UI tax increases as the employer size increases. This follows the same trend as the overall wage data.

Wages subject to UI tax vary widely across industry sector. Based upon a simulation and analysis of UI tax collections for qualified tax employers by industry sector resulting from a change on the taxable wage base in 2019, ESD estimates that a decrease in the taxable wage would have resulted in more overall UI tax collections (1.0% more) into the UI trust fund, while an increase in the taxable wage base would have resulted in a small decrease in UI tax collections (-0.3%) for the first three quarters of 2021. This UI tax analysis focused only on a one-year change in the taxable wage base that resulted in a small change for both an increase and a decrease in the taxable wage base. A larger scale adjustment on the taxable wage base across multiple years could result in a more significant adjustment to overall UI tax collections.

Appendices

Appendix A

Current Washington taxable wage legislation

RCW 50.24.010

Payment of contributions—Amount of wages subject to tax—Wages paid by employers making payments in lieu of contributions not remuneration. Contributions shall accrue and become payable by each employer (except employers as described in RCW 50.44.010 who have properly elected to make payments in lieu of contributions and those employers who are required to make payments in lieu of contributions) for each calendar year in which the employer is subject to this title at the rate established pursuant to chapter 50.29 RCW.

In each rate year, the amount of wages subject to tax for each individual shall be one hundred fifteen % of the amount of wages subject to tax for the previous year rounded to the next lower one hundred dollars, except that the amount of wages subject to tax in any rate year shall not exceed eighty percent of the "average annual wage for contributions purposes" for the second preceding calendar year rounded to the next lower one hundred dollars. However, the amount subject to tax shall be twenty-four thousand three hundred dollars for rate year 2000.

In making computations under this section and RCW 50.29.010, wages paid based on services for employers making payments in lieu of contributions shall not be considered remuneration. Moneys paid from the fund, based on services performed for employers who make payments in lieu of contributions, which have not been reimbursed to the fund as of any June 30 shall be deemed an asset of the unemployment compensation fund, to the extent that such moneys exceed the amount of payments in lieu of contributions which the commissioner has previously determined to be uncollectible: PROVIDED, FURTHER, That the amount attributable to employment with the state shall also include interest as provided for in RCW 50.44.020.

Contributions shall become due and be paid by each employer to the treasurer for the unemployment compensation fund in accordance with such regulations as the commissioner may prescribe, and shall not be deducted, in whole or in part, from the remuneration of individuals in employment of the employer. Any deduction in violation of the provisions of this section shall be unlawful.

In the payment of any contributions, a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to one cent.

Appendix B

Employer response to ESD's analysis of taxable wage report

The representatives of the Unemployment Insurance Advisory Committee appreciate the opportunity to provide feedback and perspective on the department's study and supply further context to the equitable treatment of businesses in the unemployment insurance system.

We believe the report accurately reflects the data that was analyzed but would like to suggest additional clarity may be needed. We are unsure if analyzing wage data from 2020 is the most appropriate time frame for review as many sectors were impacted, to varying degrees, by the COVID-19 worldwide pandemic. Without additional analysis from previous years, it is difficult to understand how this may have impacted the data. Additionally, the simulation is based on qualified employers' experience rates from July 2016 through June 30, 2020. This is a significant detail that should not be overlooked because employers experienced the most significant interaction with the unemployment system in our history with the program, with layoffs due to the pandemic. The Legislature then responded with SB 5061, which removed benefit charges for every employer over a period of time. We will never know what natural experience rates would have been had the pandemic not happened. Therefore, it is difficult to draw conclusions on the true impact of adjustments to the taxable wage base.

However, from the employers' perspective, equitable treatment of businesses in the unemployment insurance area should be centered around insurance principles, and this has been a unifying perspective across the business community. Businesses that utilize the system should pay more and those that utilize the system less should pay less, which is the basis of the experience rated system. This system acknowledges there will be some social costs, but the underlying structure allows for lower taxes for businesses who use the system less. The salary level at which taxes are assessed and the salary structures that industries and large or small employers implement does not reflect an employer's experience using the unemployment insurance system. Providing for a fair and equitable unemployment insurance system would mean that subsidization between industry sectors is kept to a minimum.

While we acknowledge the limitations discussed in the first paragraph, increasing or decreasing the taxable wage base could have the outcome of impacting taxes paid by a factor outside of an employer's experience with the system, and that conflicts with the fair and equitable

treatment of employers the business community strives for in the unemployment insurance system. We also believe it is important context to understand that Washington state already has the highest taxable wage base in the country at \$62,500 in 2022. When the taxable wage base is increased, employers are paying a tax rate on a larger percentage of wages, which equates to a larger tax payment.

In conclusion, we do not recommend a change to the current taxable wage base calculation. Doing so would decrease equity as we add factors that impact tax rates outside of an employer's experience with the program.

Appendix C

Labor response to ESD's analysis of taxable wage report

The taxable wage base study required by SB 5061 highlights the balanced method for calculating UI trust fund contributions. While it may initially seem counter-intuitive that increasing the taxable wage base may result in lower overall taxes paid by employers, a holistic look at UI tax calculations shows how this is possible. When the taxable wage base increases, the benefit ratio decreases. (The benefit ratio is benefit charges over the past four fiscal years divided by the taxable wage base). In this case, on average, the increased taxable wage base produced a decrease in taxes that was more significant than the increase. The result of this study reflects a principle of insurance: that spreading costs more widely can be beneficial for all involved.