

January 2015

**Tax rates  
recalculated  
annually, based  
on formula in  
state law**

**Employers with  
the most benefit  
claims pay  
higher rates**

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

## Background

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

Just as drivers with a history of frequent car accidents pay higher automobile insurance premiums, employers who lay off workers more frequently generally will pay a higher unemployment tax rate.

There are 40 experience-rate classes in Washington. The experience-rate tax rate ranges from 0.0 percent in rate class 1 to 5.4 percent in rate class 40. An employer's benefit-claim history determines its future rate class. Employers that had no former employees collecting benefits in the previous four years will be in rate-class 1 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 covers benefits paid out 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. This way, employers aren't hit by sudden tax increases in the future and it protects 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 an adequate level of stability during a recession. The social-cost tax helps stabilize the trust fund.

The experience rate and the social-cost rate are added together to determine an employer's **total tax rate**.

## Benefit trust fund

The 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.

## 2015 tax rates

Tax rates in all 40 rate classes remain unchanged from 2014 to 2015 and range from 0.14 to 5.82 percent (not counting delinquency or Employment Administration Fund taxes). About 73 percent of employers will move into a lower rate class or maintain the same rate as 2014.

### Highlights

- 23 percent of Washington employers will move into lower tax-rate classes in 2015, 50 percent will remain the same and 27 percent will move to higher rate classes.
- The *average* tax rate will decrease from 1.77 percent in 2014 to an estimated 1.66 percent in 2015. The average total tax paid per employee will decline by \$20, to \$393.
- About 37 percent of all taxable employers are in rate-class 1, taxed at 0.14 percent. Ninety percent of employers in rate-class 1 have five or fewer employees.
- The experience-rated portion of the 2014 unemployment tax (paid by rate-classes 2 and higher) will be based on benefit payouts from July 2010 through June 2014.
- Unemployment tax collections will decrease somewhat from 2014 (\$1.30 billion) to 2015 (about \$1.23 billion).

Employers will pay unemployment taxes on the first \$42,100 of each employee's earnings in 2015. For an employee earning \$42,100 or more, the total tax for the year will range from \$59 (employers in rate-class 1) to \$2,450 (rate-class 40). On average, the total tax per employee will *decline* by \$20 in 2015, to \$393 per year.

### For 2015:

**Range of tax rates are unchanged**

**Average tax rate is down 7 percent**

**73 percent of employers move into lower rate classes or remain the same.**

**Average annual tax per employee declines by \$20.**

## Contacts

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