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exhibit 1

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## **SECTION 4: EMPLOYER UI TAX RATES (section4employerruitaxrates.asp)**

### **What UI taxes does an employer pay?**

It depends. There are four types of covered employers: "new" employers, experience-rated employers, reimbursable employers, and state and local government employers. See the explanations below to determine what taxes each employer type pays.

### **What is a "new" employer?**

A "new" employer is one that has been employing in Montana for less than three complete federal fiscal years (October 1 to September 30). Experience-rated employers have "new" employer rates for three years while they accumulate a rating history with the Unemployment Insurance program. New employer rates are the average rates paid during the previous year by employers in the same type of industry as the new employer. New employers' rates may change during the three-year "new employer" period because their industry average may change. A new employer must submit a completed employer registration form to obtain the proper "new" employer industry rate.

### **What is an experience-rated employer? What taxes do they pay?**

If you are a private, for-profit employer, you must pay all three UI related taxes:

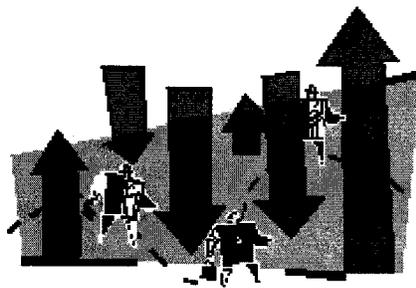
> **State Unemployment Insurance Contributions (SUTA):** The UI program can only use this tax to pay Unemployment Insurance benefits to qualified individuals. This tax money cannot be used to operate the UI Program. All money collected from this tax is deposited into the UI Trust Fund.

> **Administrative Fund Tax:** This tax is assessed to help fund Department of Labor and Industry operations, including local Job Service Workforce Centers. For experience-rated employers, this tax ranges from 0.13% to 0.18% of taxable wages depending on the employers rate schedule & rate class. This tax is due each quarter and is computed by applying the tax rate to each quarter's total taxable wages.

> **Federal Unemployment Tax Act (FUTA) Tax:** This tax is paid directly to the Internal Revenue Service (IRS) to help finance the operations of Montana's UI claim, tax, and Job Service programs. Employers receive a reduced FUTA rate by paying their Montana UI tax.

**How is it decided what an employer's rate will be each year?**

If you are a private, for-profit employer, your tax rate is based on the contribution rate schedule and your experience rating history. The Contribution Rate Schedule determines the range of contribution rates assigned to all employers each calendar year. The schedule is determined by the ratio of the UI Trust Fund balance to total wages paid in covered employment for the state fiscal year. A higher balance in the UI Trust Fund results in lower Unemployment Insurance rate schedules.



**Trust Fund balance/total covered wages = Ratio**

The Schedule of Contribution Rates below reflects the range of rates in each rate schedule. For example, in 2010, Rate Schedule **V** is in effect, which means that experience rated employers' rates range from 0.42% to 6.12%.

<b>SCHEDULE OF CONTRIBUTION RATES</b>											
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
Minimum Ratio of Fund to Total Wages:	(.0260)	(.0245)	(.0225)	(.0200)	<b>(.0170)</b>	(.0135)	(.0095)	(.0075)	(.0050)	(.0025)	(...)
Average Tax Rate:	1.12	1.32	1.52	1.72	<b>1.92</b>	2.12	2.32	2.52	2.72	2.92	3.12
Rate Class	Contribution Rates for Eligible Employers										
1	0.0%	0.00%	0.02%	0.22%	<b>0.42%</b>	0.62%	.82%	1.02%	1.22%	1.42%	1.62%
2	0.00	0.02	0.22	0.42	<b>0.62</b>	0.82	1.02	1.22	1.42	1.62	1.82
3	0.02	0.22	0.42	0.62	<b>0.82</b>	1.02	1.22	1.42	1.62	1.82	2.02
4	0.22	0.42	0.62	0.82	<b>1.02</b>	1.22	1.42	1.62	1.82	2.02	2.22
5	0.42	0.62	1.82	1.02	<b>1.22</b>	1.42	1.62	1.82	2.02	2.22	2.42
6	0.62	0.82	1.02	1.22	<b>1.42</b>	1.62	1.82	2.02	2.22	2.42	2.62
7	0.82	1.02	1.22	1.42	<b>1.62</b>	1.82	2.02	2.22	2.42	2.62	2.82
8	1.02	1.22	1.42	1.62	<b>1.82</b>	2.02	2.22	2.42	2.62	2.82	3.02
9	1.22	1.42	1.62	1.82	<b>2.02</b>	2.22	2.42	2.62	2.82	3.02	3.22
10	1.42	1.62	1.82	2.02	<b>2.22</b>	2.42	2.62	2.82	3.02	3.22	3.42
Rate Class	Contribution Rates for Deficit Employers										
1	2.92%	3.12%	3.32%	3.52%	<b>3.72%</b>	3.92%	4.12%	4.32%	4.52%	4.72%	4.92%
2	3.12	3.32	3.52	3.72	<b>3.92</b>	4.12	4.32	4.52	4.72	4.92	5.12
3	3.32	3.52	3.72	3.92	<b>4.12</b>	4.32	4.52	4.72	4.92	5.12	5.32

4	3.52	3.72	3.92	4.12	<b>4.32</b>	4.52	4.72	4.92	5.12	5.32	5.52
5	3.72	3.92	4.12	4.32	<b>4.52</b>	4.72	4.92	5.12	5.32	5.52	5.92
6	3.92	4.12	4.32	4.52	<b>4.72</b>	4.92	5.12	5.32	5.52	5.92	5.92
7	4.12	4.32	4.52	4.72	<b>4.92</b>	5.12	5.32	5.52	5.72	5.92	6.12
8	4.32	4.52	4.72	4.92	<b>5.12</b>	5.32	5.52	5.72	5.92	6.12	6.12
9	4.52	4.72	4.92	5.12	<b>5.32</b>	5.52	5.92	5.92	6.12	6.12	6.12
10	6.12	6.12	6.12	6.12	<b>6.12</b>	6.12	6.12	6.12	6.12	6.12	6.12

To calculate your reserve ratio for the current calendar year, the department subtracts the benefits charged to your account from the contributions you paid for the same period (beginning October 1, 1981, through September 30th of the year prior to the effective rate year). The reserve is divided by the average annual taxable payroll for the last three completed federal fiscal years (October 1 - September 30) to arrive at your reserve ratio. The department computes your reserve ratio yearly.

$$\text{Contributions paid} - \text{benefit charges} = \text{Reserve}$$

$$\text{Reserve} / \text{average taxable payroll} = \text{Reserve ratio}$$

You are assigned a rate class based on your reserve ratio. Your contribution rate is determined by comparing your reserve ratio to all other employers' reserve ratios. The highest positive reserve ratio is assigned the lowest contribution rate.

### Is there only one type of experience-rated account?

There are three types of experience-rated accounts: Eligible, Deficit and New.

**Eligible:** An eligible employer has been subject to UI (covered) for the entire three federal fiscal years ending September 30 immediately preceding the computation date, and has:

- > filed all required quarterly payroll reports;
- > paid all taxes, penalties and interest;
- > established a positive record (paid more in contributions than the UI benefits charged to their account); and,
- > paid wages in at least 1 of the 8 calendar quarters preceding the computation date.

**Deficit:** Deficit employers are covered employers who have more UI benefits charged to (paid out of) their account than they have paid in contributions.

**New:** A new employer has not been subject for the three entire federal fiscal years immediately preceding the computation date and has established a positive record. New employer rates are the average contribution rate for employers in the same industry classification.

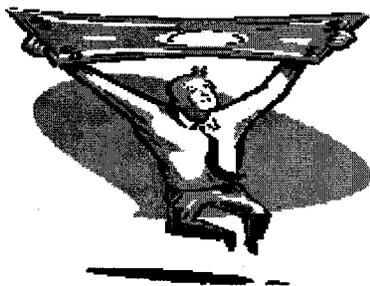
### Can the experience rate from the business I purchased be transferred to me?

Yes. If you acquire a business, you can request the experience rating record of the previous employer be transferred to you. You and the previous employer must apply jointly within 90 days of the date you acquire the business. Contact the Unemployment Insurance Contributions Bureau at (406) 444-3834 to discuss if it would be beneficial to transfer the experience rating record. If the previous and new owners have not filed all the required wage reports or paid all monies due, all the delinquencies must be satisfied before the department may assign a rate based on the previous owner's experience. If the new ownership, control and/or management of the business is substantially the same as the prior ownership, control and/or management, you will assume the prior owner's contribution rate and the related experience.

### How may I take steps to control my contribution rate?

When a current or former employee files a claim for Unemployment Insurance benefits, a Notice of Potential Benefit Charge or a Notice of Filing of Claim for Benefits is mailed to employers who paid wages to the claimant in the base period of the claim. If the employee left work for reasons other than lack of work, return the notice, within 8 days, providing an explanation of the reason the claimant left your employ. Please be specific about the final incident that caused the separation and provide complete information. You will receive a determination if your account will be charged or if the charges will be relieved. If you are a chargeable employer, you will also receive a Statement of Benefits Paid each quarter. If you have any questions about charges to your account, return the "Charging Information Request" form enclosed with your statement or call the Claims Processing Center at (406) 444-2545 or (406) 247-1000.

Also, you can avoid a **penalty rate** (equal to 150% of your assigned experience rate) simply by filing all reports and payments timely.



### Is a claimant's entire work history used to calculate benefit charges?

No. Benefits are based on the wages a claimant earned during a certain period of time - the base period. The regular base period is the first four of the last five completed calendar quarters at the time an initial claim for benefits is filed. If a claimant does not qualify using the regular base period, the claim may be established using wages paid in the last four completed calendar quarters. If you employed the claimant during the base period, your account may be charged.

The claimant's regular base period is the shaded area below, if the claim is filed in quarter indicated:

Oct Nov Dec	Jan Feb Mar	Apr May Jun	Jul Aug Sep		Jan Feb Mar		
	Jan Feb Mar	Apr May Jun	Jul Aug Sep	Oct Nov Dec		Apr May Jun	Claims Filed Here
Have This Base Period		Apr May Jun	Jul Aug Sept	Oct Nov Dec	Jan Feb Mar		Jul Aug Sept
			Jul Aug Sept	Oct Nov Dec	Jan Feb Mar	Apr May June	Oct Nov Dec

<b>Months filed claim</b>	<b>Base Period</b>
Jan, Feb, or Mar	October 1 two prior years - end of September previous year
Apr, May, or Jun	January 1 previous year - end of December previous year
Jul, Aug, or Sept	April 1 previous year - end of March current year
Oct, Nov, or Dec	July 1 previous year - end of June current year

For Example: If a claim is filed in January, February, or March of 2010, the regular base period is October 2008 through September 2009.

If the claimant doesn't qualify using the regular base period, the alternate base period, January 2009 through December 2009, would be used.

**As an experience-rated employer, do I pay taxes on all the wages I pay my employees?**

It depends. You must report all wages you pay your employees on your quarterly report. However, each year you pay taxes on wages paid to each employee up to and including the taxable wage base. The taxable wage base is listed in the upper right hand corner of the quarterly report form and may change from year to year. The taxable wage base for 2010 is \$26,000. Any wages you pay an employee over the taxable wage base are considered excess wages. The example below illustrates taxable wages versus excess wages, using the 2010 wage base.

**Computing Excess Wages per Employee (based on 2010 UI wage base of \$26,000)**

Quarter	Total Wages Paid In Quarter	Total Wages Paid To Date	Taxable Wages	Excess Wages
First	\$ 9,000	\$ 9,000	\$ 9,000	\$ 0
Second	9,000	18,000	9,000	0
Third	9,000	27,000	8,000	1,000
Fourth	9,000	36,000	0	9,000

If the department transfers the experience rating record of the predecessor employer to your account, you may use the wages paid by the previous employer to calculate your excess and taxable wages for the year the experience was transferred.

**What is a reimbursable employer? What taxes do they pay?**

Some non-profit organizations may choose to reimburse the UI Trust Fund for benefit payments. To be a reimbursable employer, a non-profit organization must meet the criteria defined in the Internal Revenue Code (IRC), Section 501(c)(3), provide the UI Contributions Bureau with a copy of the

Internal Revenue Service (IRS) exemption letter and apply to the UI Contributions Bureau for approval. For more information on the IRS code, please contact the IRS office at 1-800-829-1040. The election must last two years.

As a reimbursable employer, you must pay into the UI Trust Fund an amount equal to the benefits charged to your account. You will be charged for **all** benefits paid to former employees **regardless** of the reason they left your employment. Benefit charges are prorated according to the percentage of wages you paid to the total wages in the claimant's base period.

Example: Your employee, Jane Doe, is offered a better-paying job with another employer. She quits your employ and accepts the job. The other business suffers a set back and Jane is laid off. She files for unemployment insurance benefits and is found eligible. You paid Jane 64% of the total wages Jane received during her base period. Your reimbursable account is charged for 64% of the benefits paid to Jane even though she quit your business.

Example: An individual had two steady jobs; one of them with a private, for-profit employer and the other a reimbursable employer. The individual was laid off from the private employer and filed for partial benefits. The reimbursable employer would not be charged for benefits paid if there has been a reduction of 10% or less in hours or wages in the four weeks after the claim is filed as compared with the four weeks prior to the claim effective date.

You must advise the UI Claims Processing Bureau if there has been no change in employment for the charges to be relieved.

Reimbursable employers must submit quarterly wage reports and pay a 0.08% (.0008) Administrative Fund Tax on **total** wages paid each quarter. The UI Contributions Bureau will notify you monthly of the benefits charged to your account and you may pay these monthly or pay the entire quarterly charges within thirty days following the end of the quarter.

### **What taxes do governmental employers pay?**

Governmental entities may also choose coverage as a reimbursable employer (see above) or to make tax payments based on the government experience rating system where the tax rate is applied to **total** wages. Governmental entities choosing experience rating pay a 0.09% (.0009) Administrative Fund Tax (AFT) on total wages paid each quarter.

Governmental employers who paid wages to the claimant during the base period are charged for UI benefits paid regardless of the reason the claimant left the employment. Benefit charges are prorated according to the percentage of wages paid by the governmental entity to the claimant's total wages in their base period.

Benefit charges can only be removed from a governmental employer if there has been no change in the employment.

**Example:** Your employee, Jane Doe, is offered a better-paying job. She quits your employ and accepts the job. Jane's new employer suffers a set back and Jane is laid off. She files for unemployment insurance benefits and is found eligible. You paid Jane 64% of the total wages Jane received during her base period. Your governmental account is charged for 64% of the benefits paid to Jane even though she quit your business.

**Example:** An individual had two jobs, one of them with a private, for-profit employer and the other with a governmental employer. The individual was then laid off from the private employer. The governmental employer would not be charged for the benefits paid if there has been a reduction of 10% or less in hours or wages in the four weeks after the claim is filed as compared with the four weeks prior to the claim effective date.

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