METHODOLOGY FOR DETERMINING STATE REVENUE IMPACT OF UNEMPLOYMENT INSURANCE BENEFIT BILLS

Pursuant to Chapter 895 of the 2004 Acts of Assembly

During the 2004 Session, Senator Wagner introduced SB 664 to require that when legislation would increase benefit amounts or benefit eligibility, the Virginia Employment Commission is required to determine the impact of the legislation on General Fund Revenues and the impact must be included in a bill's second enactment clause. The stated rationale for the legislation is that since employers' unemployment insurance taxes are deductible as business expenses, increased benefit costs would increase unemployment insurance taxes, thus increasing tax deductions and reducing general fund tax receipts.

The Virginia Employment Commission consulted with the Department of Planning and Budget and the Department of Taxation to develop a methodology for determining the impact of unemployment benefit increases.

Steps in Determining General Revenue Impact

1. The VEC runs a standard projection of the cost of the bill and the impact on employer taxes. This is the same projection that we would run to determine the cost to the trust fund of a given measure. That process also results in an estimated impact on employer taxes averaged over a five-year period. As a general rule, it takes up to three years before benefit increases translate into increased taxes, so the five-year average uses the five years starting the first year the tax impact is seen. This period would be reduced for bills with sunset clauses of less than 8 years.
2. Using the average tax increase for five years, we apply a blended average of corporate and individual tax rates of 5%. The blended rate is used because some businesses pay corporate tax rates and others pay at the individual rate. So we take 5% of the average tax increase.
3. According to Mr. John Layman of the Department of Taxation, the percentage of businesses that pay corporate or individual taxes is approximately 6% of all businesses. The figure derived for step two above is multiplied by .06 to determine the average annual cost in terms of general fund revenue.
4. The Department of Taxation's standard for reporting tax revenue impact does not include estimates of less than $100,000, reasoning that less than $100,000 could be a rounding error when applied to the scale of total state revenue. The VEC will be reporting figures below $100,000 when they occur in order to meet the requirements of Ch. 895.

Sample Calculation

The unemployment insurance bill with the highest cost in recent years is the most recent benefit increase bill from 2003. That bill was expected to increase unemployment insurance taxes by $49.5 million over a five-year period.

$49,500,000 / 5 = $9,900,000. $9,900,000 x .05 x .06= $29,700 reduction in general fund revenues.