ELIMINATING A TAX ON HIRING

WHAT

In November 2015 Governor Pence directed $250M be advanced to the Indiana Department of Workforce Development to pay off the outstanding balance on the federal loan that Indiana began borrowing to supplement its state unemployment insurance program in 2008. This temporary advance will be reimbursed by the end of Fiscal Year 2016 through collections on existing state unemployment taxes that employers pay.

WHEN

Because the loan was paid off in November of 2015, businesses avoided paying $327 million in additional federal unemployment insurance taxes.

HOW

The Process

Governor Pence directed the Office of Management and Budget to enter into a memorandum of understanding (MOU) with the Department of Workforce Development to advance funds from the General Fund to pay off the Federal Unemployment Tax Act (FUTA) loan.

In November of 2015, the funds were transferred to DWD and DWD paid off the entire existing unemployment insurance loan.

In January 2016, businesses avoided the FUTA penalty tax on top of the federally-required 0.6 percent. Below is a summary table of how the penalty tax grew over time, how that will change, and what the projected rate will be now that the FUTA loan is paid off.

Payable Year	Addl Rate (%)	Addl Rate ($) /Employee	Total FUTA Rate
2011	0.3%	$21	1.10%
2012	0.6%	$42	1.40%/1.20%*
2013	0.9%	$63	1.50%
2014	1.2%	$84	1.80%
2015	1.5%	$105	2.10%
2016 no changes	1.8%	$126	2.4%
2016 with changes	0%	$0	0.6%

* 1.40% through 6/30/2011; 1.20% after 7/1/2011

Employers pay state unemployment insurance taxes annually - 60 percent of those are generally collected in the first quarter of the year.

The full advance amount is expected to be collected and paid back to the state by the end of fiscal year 2016.

Businesses will save a total of $327 million that they would have paid, which equates to $126 per employee. This advance was possible because of the strong fiscal position of the state.

Ultimately, this means businesses have more resources to hire new employees, invest in training, raise wages, and grow their companies.

WHY

Retiring this loan in November of 2015 allows Indiana employers to avoid $327 million in Federal Unemployment Tax Act (FUTA) penalties. This amount represented one of the highest FUTA penalties in the country and was essentially a tax on hiring. Governor Pence believes that removing this burden on employers will free up resources that can be invested in hiring new employees, growing existing companies, expanding employee training and increasing wages.