BILL SUMMARY

		DATE:	6/5/12
COMMITTEE:	Labor and Industry	**BILL NO.:**	SB 1310
PRIME SPONSOR:	Gordner	**PRINTER'S NO.:**	2234
PREPARED BY:	Bruce Hanson	**PHONE NO.:**	2-2433

A. SYNOPSIS:

Amends the Unemployment Compensation Law to: 1) change partial benefit credit from 40% to 30% of weekly benefit rate; 2) stipulate that earnings for requalification for benefits must be in "employment;" 3) increase taxable wage base and decrease State Adjustment Factor; 4) change Interest Factor to bond debt repayment mechanism; 5) increase trigger solvency percentage to 250% from 125%; 6) enact various administrative changes, including allowing the collection of back payments through Treasury Offset Program; 7) change financial eligibility requirements in base year earnings (20% to 49.5% must be earned outside high quarter); 8) change effective date of Act 6 of 2011 reform with respect to variable credit weeks (from January 1, 2015 to January 1, 2013); 9) permit the PA Economic Development Financing Authority to issue bonds for payment of federal loans to Unemployment Compensation Trust Fund; 10) changes maximum benefit cap to maintain annual maximum benefit at $573 through 2019; and 11) create an amnesty program for collection of unpaid contributions or compensation overpayment**.**

B. BILL SUMMARY:

Partial Benefit Credit Adjustment

PROPOSED CHANGE: Amends Section 4 (m)(3) to change definition of "Partial Benefit Credit" from 40% of weekly benefit rate to 30% of weekly benefit rate.

CURRENT LAW: A claimant collecting unemployment benefits is permitted to earn up to 40% of his weekly benefit rate in part-time work before such earnings are offset against his unemployment benefits.

POLICY NOTES: The department estimates that this change will save the Trust Fund about $9 million per year.

Change to Requalification Requirements for Eligibility

PROPOSED CHANGE: The definition for "Valid Application for Benefits" is changed in Section 4(w) to stipulate an individual's wages must be earned in “employment” (as defined under the law) for the purposes of a valid application for benefits. With respect to claimants who have been found ineligible for benefits due to a disqualifying separation from work, Section 401(f) is amended to clarify that wages earned during the minimum six-week requalification period must be earned in "employment," as defined under the law.

CURRENT LAW: A claimant must earn at least six times his weekly benefit rate in wages before he can reapply for unemployment compensation benefits. However, these wages do not have to be in covered "employment" as defined in Section 4 of the law.

POLICY NOTES: The department argues that this change is an anti-fraud measure because it is often difficult to confirm the "claimed" wages that are not subject to unemployment taxation. This provision already passed House in HB 1852 (Grove). The department estimates that this measure will save about $1 million per year.

Employer Tax Changes

PROPOSED CHANGE: The legislation increases the taxable wage base from $8,000 to $10,000 over a period of six years (beginning in 2013 and ending in 2018), and it decreases the State Adjustment Factor (SAF) from 1.5% to 0.75% over the same six years.

CURRENT LAW: Section 4(x) of the law requires that an employer pay unemployment taxes on the first $8,000 that is paid to each employee in a calendar year (the $8,000 threshold was established in 1984). Section 301.1(e) establishes an employer tax known as the State Adjustment Factor (SAF). The SAF acts as an assessment on all employers and uniformly levies the common benefit costs that are paid out of the Trust Fund, which are not charged to any particular employer account. The SAF is determined annually and ranges from 0% to 1.5%.

POLICY NOTES: The maximum SAF decrease from 1.5% to 0.75% is intended to counteract taxable wage base increase ($8,000 to $10,000) to ensure that the effect on employers is revenue neutral.

Change in Interest Factor Assessment

PROPOSED SB 1310 CHANGE: The legislation amends Section 301.6 to direct revenues collected through the "interest factor" to: 1) pay solvency bond obligations and bond administrative expenses due for a particular calendar year; 2) replenish amounts which have been drawn from solvency bond reserves; 3) maintain adequate debt service ratio; 4) fund early, optional, mandatory redemptions and purchases of outstanding solvency bonds which occur in a particular calendar year; 5) pay the interest on interest bearing federal loans; and 6) repay outstanding loan advances.

The legislation will require contributions paid by employers under the law to first be directed toward meeting the employer's liability under the "interest factor" requirement. If excess monies are collected in a calendar year through the "interest factor,, excess revenues may be applied toward the next year's obligations. The Interest Factor would be capped at 1.1%, and this cap would decrease to 1.0% for years after bond debt is paid in full.

CURRENT LAW: The "Interest Factor" is a charge assessed against each employer on the taxable wage base of each employee. It is assessed for the purpose of paying annual interest on outstanding loans from USDOL. This assessment varies each year, depending on the outstanding loan balance and interest rate being charged by USDOL. For 2011, the Interest Factor was 0.44%, which equated to $35 per employee. For 2012, the Interest Factor is 0.20%, which equates to $16 per employee.

<u>POLICY NOTES:</u> The Interest Factor will be debt service tool to repay bond refinancing obligations.

UC Trust Fund Solvency Trigger Change

<u>PROPOSED CHANGE</u>: The legislation adjusts the solvency trigger schedule to create a larger monetary reserve in the Trust Fund. For calendar years 2013 through the year when federal loan balance/bond is paid off, if the trigger percentage on July 1 of preceding calendar year is less than 250%, the Secretary is tasked with determining the tax rates to raise: 1) $100 million through employer surcharge mechanism; 2) $225 million through additional employer contribution mechanism; 3) $166.67 million through the employee wage tax; and 4) $52 million through benefit reductions. For years in which federal debt/bond debt is paid off, and trigger percentage is less than 250%, the Secretary is tasked with determining the tax rates to raise: 1) $138 million through employer surcharge mechanism; 2) $310 million through additional employer contribution mechanism, plus 20% of amount that was transferred from the Trust Fund to make bond service payments during previous five years, and 20% of the amount not recoverable by additional contributions during previous five years; 3) $230 million through employee tax; and 4) $72 million through benefit reductions.

<u>CURRENT LAW:</u> Section 301.8 of the law establishes a "trigger" mechanism for the imposition of tax surcharges/employee taxes/benefit reductions when the balance of Trust Fund gets below 125%. Under the law's current solvency formula, the Trust Fund is now at 0% solvency. The current trigger mechanisms/taxes for 2012 are those required by law when the Trust Fund is less than 50% solvent; accordingly, the Secretary must set tax rates to raise $100 million through an employee surcharge mechanism (which was calculated to be 5.8%), $225 million through an additional contribution mechanism (which was calculated to be 0.65%), $166.67 million through the employee wage tax (which was calculated to be 0.08%), and a benefit reduction of $52 million.

It is important to note that the maximum amount of surcharges/benefit reductions current law permits is $544 million.

POLICY NOTES: In order to prevent future situations where tax surcharges are imposed on employers when economy is poor (large amount of benefits being paid out), the prime sponsor believes that the Trust Fund should build up a higher reserve to "ride out" economic downturns. Thus, the solvency percentage is being raised to create a larger reserve. The proposed change increases current level of $544 million in solvency triggers to $750 million after bond is paid off; surcharges equate to 60% employer share, and 40% employee share.

It is important to note that this provision creates an almost permanent employee tax at its current level of 0.08%, which equates to a tax of 80 cents per $1,000 of employee wages. In 2011, an employee making the statewide average annual wage of $46,162 paid $37 into the Trust Fund.

Administrative Changes

PROPOSED CHANGE: Section 304 is amended to allow the department to mail assessments via email, and is amended to stipulate that the Office of General Counsel shall have supervision of rules of evidence/procedure under unemployment compensation appeals process. Section 308.1 is amended to eliminate the need for the department to re-file liens every five years to maintain their validity. Section 309 is amended to add language formally recognizing the department's ability to collect contributions, interest, penalties and other liabilities under the U.S Treasury's "Treasury Offset Program" (TOP). Section 313 is amended to increase penalties for dishonored payments (an increase from $100 to $1,000 maximum penalty for single check/payment), and minimum penalty of $25 (up from $10).

CURRENT LAW: Section 308.1 permits the department to impose a lien on the franchises and property (both real and personal) of an employer for contributions and interest that are owed; however, the law requires that the department re-file liens every five years. Section 309 establishes a process that permits the department to collect unpaid contributions/interest via a civil action. A judgment obtained in such a civil action can lead to a court injunction enjoining any employer from continuing in business in the Commonwealth.

The department has already been utilizing the provisions of the federal TOP which allows collection of UC penalties/interests/overpayments through offset of IRS tax refunds. As of March 8th, the department recovered $6.5 million in monies owed to Trust Fund.

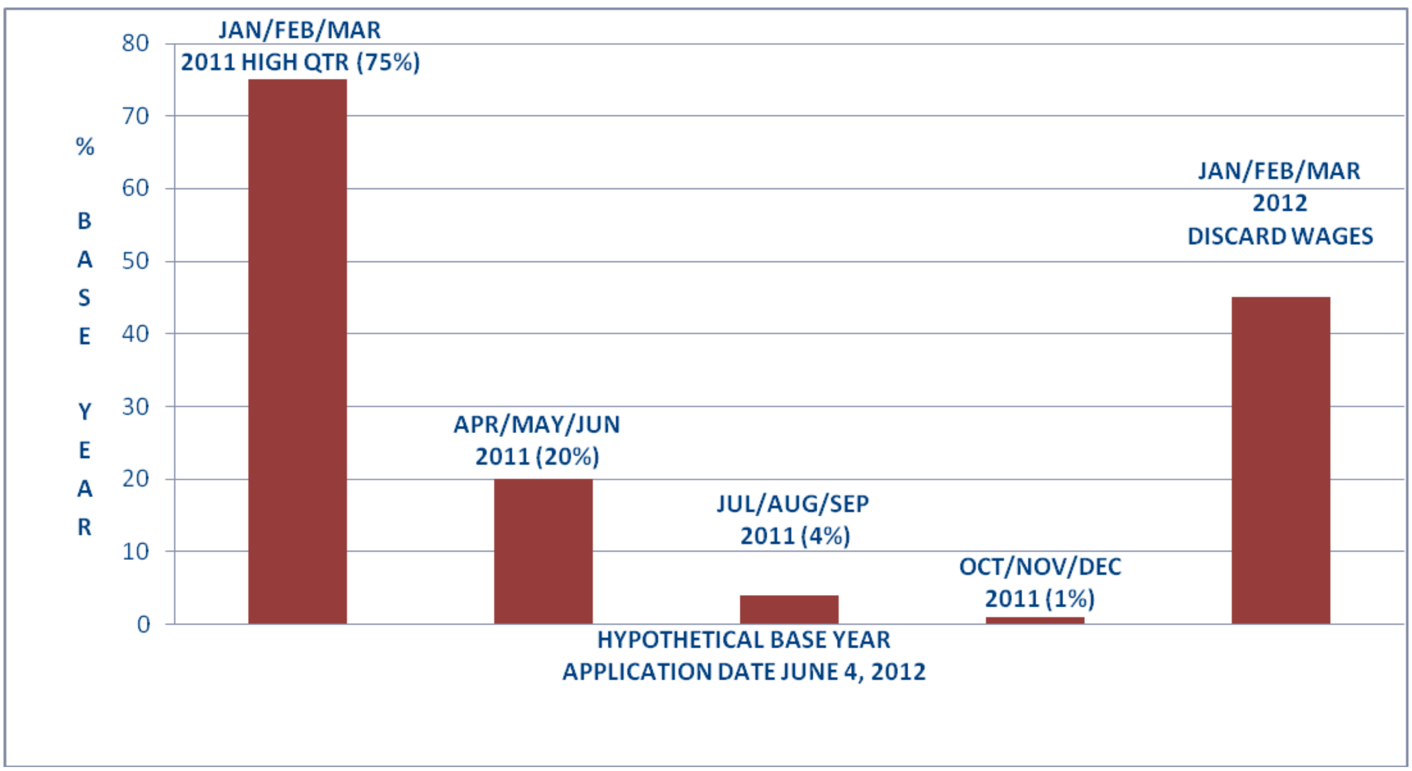
In December 2010, President Obama signed into law the "Claims Resolution Act of 2010," which authorized states to collect delinquent unemployment compensation contributions by accessing federal tax refunds.

POLICY NOTES: With the adoption of the federal Claims Resolution Act of 2010, TOP was amended to allow an offset of federal tax refund payments to collect unemployment compensation debts due to failure to report earnings or delinquent contributions. Previously, only debts incurred as a result of fraud was eligible for collection by tax refund offset. The new law also allows the U.S. Department of the Treasury to institute offsets, regardless of where the debtor currently resides or how long the debt has been outstanding.

Base Year Eligibility Changes

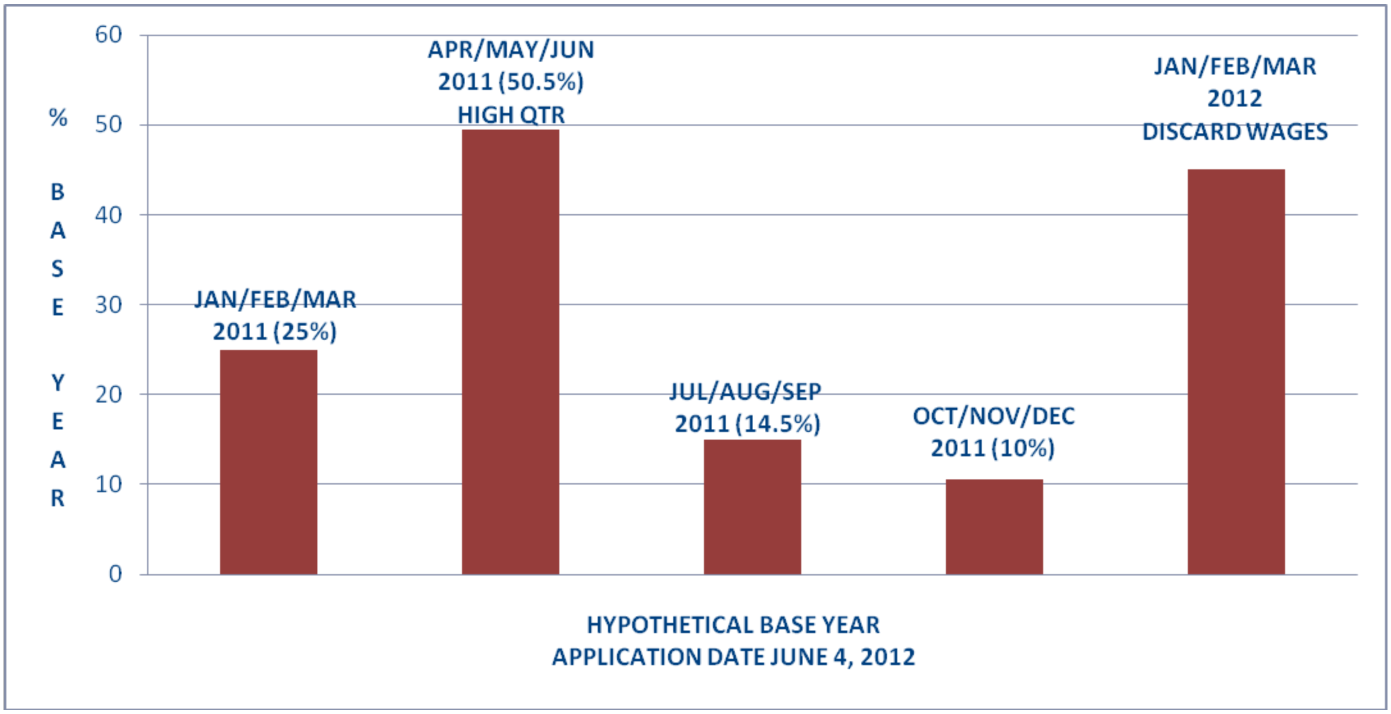
PROPOSED CHANGE: Section 401(a) is amended to increase amount of base year wages that must be earned outside of highest quarter from 20% to 49.5%. Also, Section 404(a) is amended to eliminate "third step-down" provision in benefits table, and instead make it two.

CURRENT LAW: A claimant's eligibility for benefits is based on two factors: 1) financial eligibility; and 2) eligible separation from employer. A claimant's financial eligibility for benefits is based on an analysis of qualifying wages that the individual earned in his base year (the first four of the last five completed calendar quarters before application date). Section 401 requires that, in this base year, at least 20% of the wages were earned outside the claimant's highest quarter, as illustrated in the example below.



Under Section 404(a), if a claimant's base year wages are not sufficient to qualify for the weekly benefit rate as determined by his high quarter wage, the law permits the benefit rate to be determined at the highest of next two lower rates for which he qualifies (as the Benefits Table dictates).

POLICY NOTES: The philosophy behind the 49.5% highest quarter rule change is that a claimant demonstrate a true attachment to the workforce by showing more year-round employment. Increasing the base year wage requirement does not disproportionately affect any one industry. Less than 10% of unemployed claimants will be impacted; 90% will be completely unaffected. The department estimates that these changes will save the Trust Fund about $276 million annually. The chart below illustrates an example of eligibility under the 49.5% rule.



Change in Effective Date of Variable Claim Duration

PROPOSED CHANGE: Act 6 of 2011 amended Section 404 to state that the total amount of benefits claimants can receive is their weekly benefit rate multiplied by the number of qualifying credit weeks that they had (although it must be a minimum of 18), up to a maximum of 26 weeks. Act 6 made this change effective on January 1, 2015, and this legislation moves up the effective date of this change to January 1, 2013.

CURRENT LAW**:** Section 404 states that, if a claimant establishes 18 credit weeks, they are entitled to a full 26 weeks of benefit entitlement. This section also states that in no instance shall claimants be eligible for benefits if they have less than 16 credit weeks in their base year.

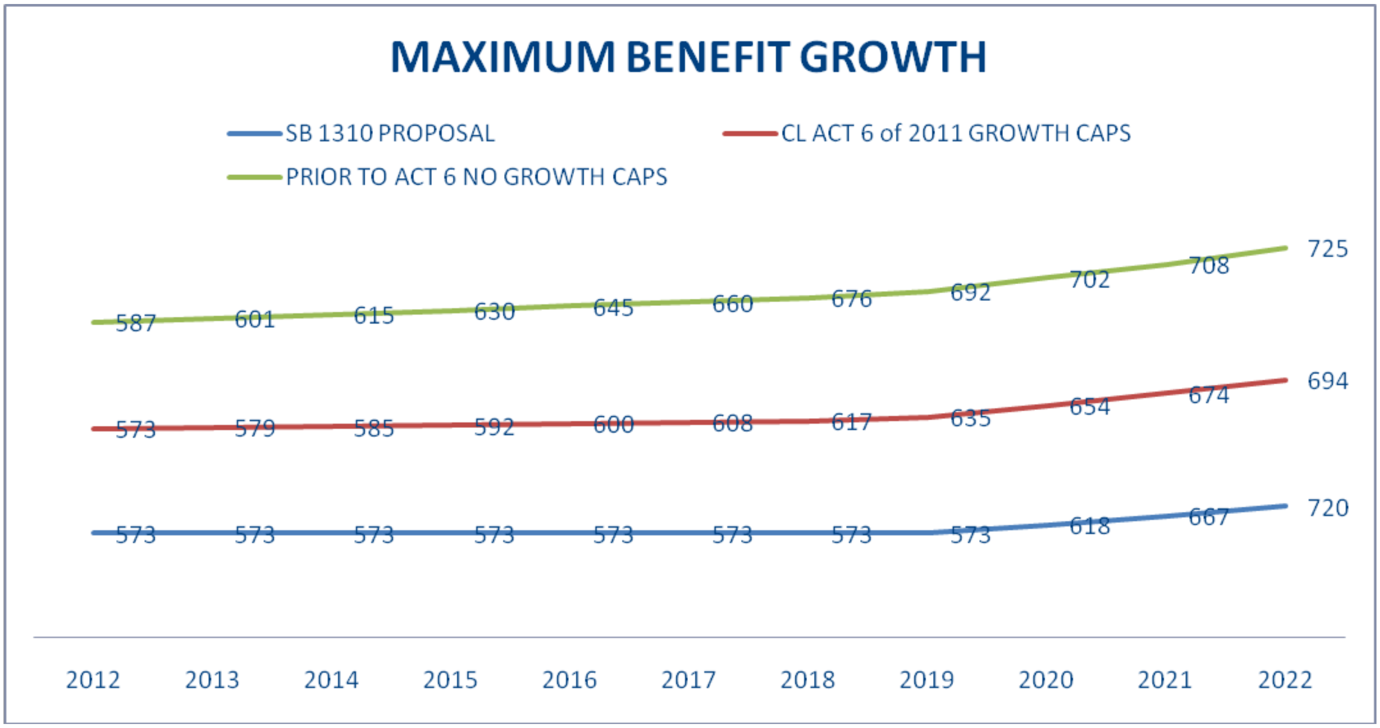
POLICY NOTES**:** There is no consistent requirement amongst the states in this area. However, there are 40 states that have variable benefit week payouts. Requiring more credit weeks to qualify for benefits will display more of an actual attachment to the workforce. New Jersey requires 20 weeks with at least $145 in earnings. The department estimates that this reform could save the Trust Fund about $13 million annually.

Limitations on Annual Maximum Compensation Increases

PROPOSED SB1310 CHANGE: Section 404 ("Rate and Amount of Compensation") is amended to extend, through 2019, the current one-year freeze on the maximum weekly benefit rate (frozen at $573). Starting in 2020 through 2023, the annual growth is then capped at 8% and the normal growth rate resumed in 2023**.**

CURRENT LAW: Section 404 states that the maximum weekly benefit rate shall equal 66 2/3rds of the average weekly wage for the 36-month period ending June 30 preceding each calendar year. The law freezes the maximum weekly benefit rate for 2012 at the 2011 level of $573. With respect to calendar years 2013 through 2018, the law states that, irrespective of the provisions of what law calls for with respect to annual increase in maximum benefit rate, the maximum weekly benefit rate established for 2013 shall be no greater than a 1% increase from the 2012 rate, the rate established for 2014 shall be no greater than a 1.1% increase from the 2013 rate, the rate established for 2015 shall be no greater than a 1.2% from the 2014 rate, the rate established for 2016 shall be no greater than a 1.3% increase from the 2015 rate, the rate for 2017 shall be no greater than 1.4% from the 2016 rate, and the rate for 2018 shall be no greater increase than 1.5% from the 2017 rate. The caps instituted for years 2013 through 2018 will end in December 31, 2018, or in the calendar year in which employers no longer are assessed federal debt surcharges, whichever is earlier.

POLICY NOTES: This change to law would save an average of $33 million annually to the Trust Fund. The chart below illustrates maximum benefit growth projections under the SB 1310 proposal, current law as imposed by Act 6 of 2011, and growth if no caps were ever instituted.



Unemployment Compensation Solvency Bonds

<u>PROPOSED SB 1310 CHANGE</u>: The legislation amends the law to allow for the issuance of limited obligation revenue bonds, if the Department of Labor and Industry determines that the issuance of bonds to repay federal unemployment compensation loans will result in a savings to employers in the Commonwealth.

The legislation will allow the department, with the approval of the Governor's Office of the Budget, to apply to the PA Economic Development Financing Authority (PEDFA) for funding for the repayment of federal loans to the Unemployment Compensation Trust Fund, and such funding will constitute a "project" for the purposes of the authority's enabling statute, the Economic Development Financing Law (Act 102 of 1967). PEDFA may issue bonds to finance a departmental request for federal loan repayment monies, and the total amount in bonds the department may request is $4.5 billion. Bonds issued by the authority for purposes of federal loan repayment will not be a direct obligation of the Commonwealth.

Upon issuance of bonds, the proceeds could only used to: 1) pay the costs associated with the issuance of the bonds; 2) fund bond reserves; 3) deposit in an appropriate fund monies to pay capitalized interest for a period determined by the department, not to exceed two years; 4) refund outstanding bonds; 5) make any other deposit required under the trust indenture; 6) repay principal and interest of federal loans; and 7) deposit into an unemployment compensation program fund. The bond proceeds shall be used as follows: 1) repay the principal and interest of the previous federal advances; 2) pay unemployment compensation benefits; 3) pay bond administrative expenses; 4) redeem or purchase outstanding bonds or pay bond obligations; and 5) pay bond obligations.

A separate account is established in the State Treasury to be known as the "Debt Service Fund." Unemployment contributions collected for purposes of bond debt payment are to be deposited into the fund. The monies in the fund will be used for the following purposes, in priority order: 1) payment of bond obligations and bond administrative expenses, replenishment of bond reserves, and for redemption or purchase of outstanding bonds; 2) payment of annual federal loan interest obligations; 3) repayment of outstanding federal loan interest; and 4) transfer to the Unemployment Compensation Trust Fund if bonds and loans are paid off.

The PEDFA must consider issuance of bonds when requested by the department. For the benefit of bond holders and the obligees under the credit agreements, the bonds will be secured by specific unemployment contributions (termed "interest factor") and money that is in the Debt Service Fund. The maximum term of the bonds is not to exceed 20 years.

For each calendar year in which the bond obligations and administrative expenses are due, PEDFA must notify the department of the amount of bond administrative expenses in order to permit the department to determine the amount of additional unemployment contributions required for that year for deposit into the Debt Service Fund. If there is a deficiency in the Debt Service Fund, that part of the principal owed on bonds may be paid from the Unemployment Compensation Fund.

Language is included in the legislation to require that PEDFA give first consideration to issuing the bonds by an open, public sale at not less than 98% of the principal amount which must be sold by the authority to the highest and best bidder after public advertisement. If, in the judgment of the authority, a public sale will not produce the most advantageous terms, the authority could adopt a resolution setting forth the details for the determination. A copy of the resolution would have to be transmitted to the Governor, and the Chairmen of the House and Senate Labor and Industry Committees. The authority could then pursue a public negotiated sale.

<u>CURRENT LAW</u>: There is currently no provision in the law that permits the issuance of bonds to pay off federal loan advances to the Unemployment Compensation Trust Fund.

The most relevant statute on requiring competitive bidding for bond issuances is Section 309 of the Capital Facilities Debt Enabling Act (Act 1 of 1999). This provision requires that bonds must be offered for sale at not less than 98% of the principal amount and accrued interest, and must be sold to the highest and best bidder or bidders after public advertisement and after open competitive bidding. Any portion of a bond issue that cannot be sold may be disposed of through a private sale.

Establishment of Re-employment Fund

PROPOSED CHANGE: A new Section 601.5 ("Reemployment Fund") is added into the law to establish the "Reemployment Fund," which will be a restricted revenue account within the State Treasury. The purpose of the fund will be to promote programs and services to assist individuals to become employed, and fund research/studies/technology upgrades to improve the department's ability to provide employment services. The monies that are deposited in fund annually must be expended or obligated for expenditure by June 30 of following year, or they revert back to Trust Fund. The department is required to issue a report to the Governor/General Assembly by June 30th describing the activities provided by the fund during previous calendar year

Section 301.4 ("Contributions by Employees") is amended to allocate 5% of unemployment contributions to the Reemployment Fund, but this allocation would only be for years 2013-2017.

CURRENT LAW: There is no Reemployment Fund.

POLICY NOTES: The department agreed to create this fund at the request of some stakeholders. The purpose is to address employment needs of those who might be affected by 49.5% base year rule change.

Increase in Statute of Limitations

PROPOSED SB 1310 CHANGE: Section 804 ("Recovery and Recoupment of Compensation") is amended to increase the statute of limitation from six years to ten years for the collection of fault overpayments. The amendment of Section 804 shall apply to benefit years that begin on or after the effective date of the section**,** which is effective immediately.

CURRENT LAW: Section 804 establishes a statute of limitations of six years (from the end of the applicable benefit year) for the initiation of legal proceedings against a person who had a fault overpayment. In addition, this section also states that for non-fault overpayments, payments can only be obtained from a person's unemployment compensation for a period of three years after applicable benefit year.

POLICY NOTES: The department requested this change. HB 1852 (Grove), which already passed the House, had similar language in it which increased from 6 to 12 years the statute of limitations.

Unemployment Compensation Amnesty Program

PROPOSED SB 1310 CHANGE: The legislation amends the law to establish the "Unemployment Compensation Amnesty Program." The program will exist for a period of three consecutive calendar months, designated by the department, which start no later than 360 days after the effective date of the act.

The amnesty program will apply to: 1) unpaid employer contributions through the first quarter of 2012; 2) unpaid reimbursements due on or before April 30, 2012; and 3) unpaid interest due on contributions through the first quarter of 2012, or on reimbursements due on or before April 30, 2012; and 4) unpaid penalties for reports filed late through the first quarter of 2012.

The amnesty program will also apply to: 1) a fault overpayment of compensation determined before June 30, 2012; 2) a non-fault overpayment determined before June 30, 2012; 3) fault overpayment for weeks before June 30, 2012 for which a determination has not been issued, but claimant acknowledges; and 4) unpaid interest on overpayments that were repaid on or before June 30, 2012.

During the amnesty period, an employer or employee will have to file an amnesty form containing all information required by the department. The employer/claimant must include the required payment along with the application. With respect to unpaid contributions, employers must pay all unpaid contributions/reimbursements/interest/penalties, lien filing costs (if applicable), and one-half of the interest and penalties due. Claimants must pay the outstanding balance of all fault overpayments, lien filing costs (if applicable), and one-half of the interest due. For non-fault overpayments, claimants must pay 50% of the outstanding balance of a non-fault overpayment. With respect to unpaid interest, claimants must pay one-half of any interest due and all of the lien filing costs (if applicable).

If a payment agreement exists between the department and an employer or claimant, the employer or claimant may participate in the amnesty program notwithstanding any terms of the agreements to the contrary. It also provides that the department shall not commence any administrative or judicial proceedings against an employer or claimant participating in the amnesty program, unless the liability was understated.

The department must establish guidelines to implement the amnesty provisions and publish the guidelines in the *PA Bulletin* no less than 90 days prior to the commencement of the amnesty period. The department shall publicize the amnesty program and notify all employers and claimants who are known to have liabilities that are eligible for the amnesty program.

CURRENT LAW: There is currently no "tax amnesty" program that exists under the Unemployment Compensation Law. The department estimates that through this program it can recover about $10 million in claimant overpayments, and about $7 million in delinquent employer contributions. The department estimates administrative costs of $500,000-$1,000,000 to start up the program.

As of September 30, 2011, the department reports that there was a total of $228 million in detected benefit overpayments that remain uncollected (for regular, EB, and EUC); the claimant is at fault in approximately 60% of total overpayments. Also, as of September 30, 2011, there was a total of $46 million in delinquent employer unemployment taxes/reimbursements.

POLICY NOTES: N/A

Required Reports

PROPOSED SB 1310 CHANGE: The legislation requires the department to submit to the Majority and Minority Chairmen of the House and Senate Labor and Industry Committees an annual report detailing all data on bonds issued and other relevant data for the previous year; the report must be submitted by March 1st each year.

In addition, the department must submit to the Majority and Minority Chairmen of the House and Senate Labor and Industry Committees a report detailing data/info on tax amnesty program; this report must be submitted within 240 days after the end of amnesty period.

Effective Date: Immediately.

C. CURRENT LAW:

State Law in General

The PA Unemployment Compensation Law provides unemployment benefits to those individuals who become unemployed through no fault of their own. In order to be eligible for benefits, a claimant must first meet the financial eligibility requirements established by the Department of Labor and Industry in their base year; a claimant's base year is the first four of last five completed calendar quarters prior to their application date. A claimant's financial eligibility is based on a combination of the total amount of wages paid in base year, highest quarterly earnings in base year, and total credit weeks (weeks where $50 or more was made) in base year. If a claimant meets the financial eligibility requirements of the law, his weekly benefit rate is determined using the previous factors. A claimant's weekly unemployment compensation benefit amount should equal roughly half of his normal weekly earnings. The maximum weekly benefit for 2012 is $573, and the minimum weekly benefit is $35.

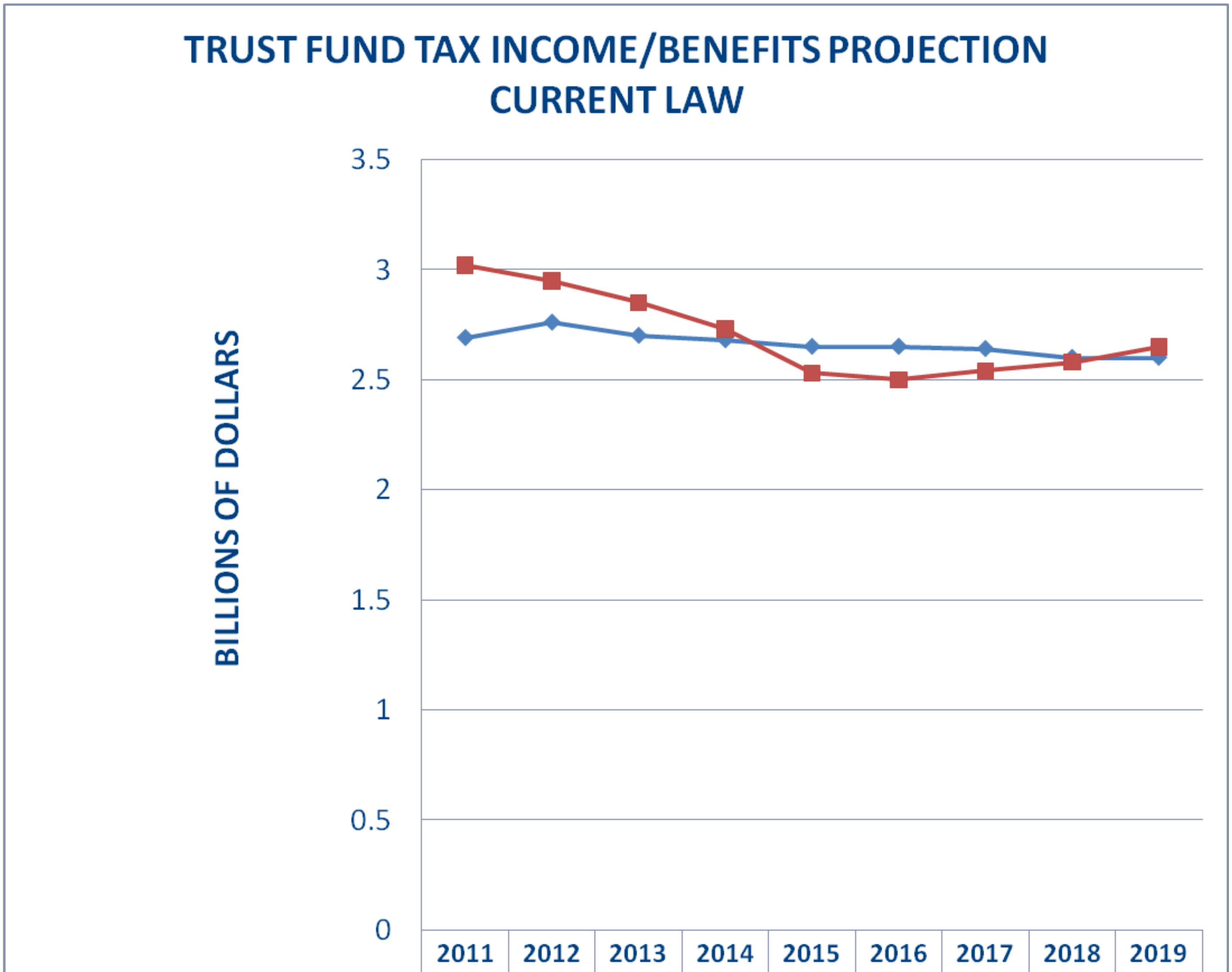
If a claimant meets the financial eligibility requirements of the law, he must next meet separation (nature of separation from employer) in order to collect unemployment benefits. As a general rule, a claimant must be unemployed in order to collect benefits, although a claimant may be eligible for benefits if: 1) his regular hours of work were reduced because of lack of work; 2) he was separated from his full time job and obtained other employment with fewer hours of work; and 3) he was separated from one job but continues part-time employment with another job.

The maximum amount of weekly benefits that a claimant can be eligible for is directly dependent on the number of credit weeks the claimant has in his base year. If a claimant has less than 16 credit weeks, he is eligible for no benefits. If the claimant has 16 or 17 credit weeks, he is eligible for 16 weeks of benefits. If he has 18 or more credit weeks, he is eligible for the full 26 weeks of unemployment benefits.

The unemployment compensation system is supported mainly by employer taxes on the first $8,000 of each employee's wages in a calendar year. During periods of fund insolvency, a "Trigger Mechanism" in Section 301.7 of the law imposes surcharges on employers and employees (this mechanism has been in effect since 2002). These surcharges are now at their maximum ($544 million) due to the serious nature of the Trust Fund's insolvency. In 2011, employers had state solvency surcharges of $325 million imposed in addition to their regular unemployment taxes, and surcharges on employees amounted to $219 million (employee tax and benefit reduction).

Status of Trust Fund Solvency

It is important to note that PA’s Unemployment Compensation Trust Fund is running a structural deficit that is projected to last into the foreseeable future. In 2011, revenue raised through UC taxes was $2.69 billion, with an estimated benefit payout of $3.03 billion. This revenue shortfall is taking place even with all solvency trigger mechanism measures in effect (tax surcharges, employee wage taxes). The department has had to borrow money from USDOL to fund the obligations of the unemployment system, which left an outstanding net loan balance of $3.85 billion as of May 24, 2012. The department estimates that it will have an estimated USDOL outstanding loan balance of $286 million still existing in 2018. The chart below illustrates Trust Fund solvency problem:



	2011	2012	2013	2014	2015	2016	2017	2018	2019
TRUST FUND TAX REVENUE	2.69	2.76	2.7	2.68	2.65	2.65	2.64	2.6	2.6
BENEFITS PAID	3.02	2.95	2.85	2.73	2.53	2.5	2.54	2.58	2.65

Federal Law

In order to ensure that a state will repay the loans from USDOL, the Federal Unemployment Tax Act (FUTA) provides that, when a state has an outstanding loan balance on January 1 for two consecutive years, the full amount of the loan must be repaid before November 10th of the second year; if not repaid, the FUTA tax credit of 5.4% is reduced by 0.3% every year there is an outstanding loan balance.

The reduction of the 5.4% tax credit began with wages paid by employers in 2011. The 0.3% surcharge for 2011 was assessed retroactively on employers on January 1, 2012. This surcharge increases in successive increments of 0.3% for each year in which a loan balance exists. The normal FUTA tax equates to $42 per employee, and the 0.3% surcharge equates to an additional assessment of $21 per employee.

In addition, states with outstanding loan balances must pay interest on the monies borrowed from USDOL, and for 2012 this interest charge is 0.20% of PA wage threshold of $8,000, which equates to about $16 per employer. The increasing schedule of additional growing federal taxes associated with outstanding loan is illustrated below:

Calendar Year	Normal FUTA	FUTA Surcharge	Federal Interest	Total USDOL Loan Surcharges/Interest
2011	$42	$21	$35	$56
2012	$42	$42	$16	$58
2013	$42	$63	$35	$98
2014	$42	$84	$33	$117
2015	$42	$105	$31	$136
2016	$42	$126	$29	$155
2017	$42	$147	$25	$172
2018	$42	$168	$21	$189
2019	$42	$189	$16*	$205