Pennsylvania Unemployment Compensation - Employer Contributions

In the United States, unemployment insurance is financed through a combination of federal and state payroll taxes. The Federal Unemployment Tax Act (FUTA) authorizes the Internal Revenue Service (IRS) to collect annual federal taxes from employers. These taxes are used, in part, to fund unemployment insurance programs in all 50 states, the District of Columbia and Puerto Rico.

In addition, the Pennsylvania Unemployment Compensation Act (PUCA) requires employers in Pennsylvania to make contributions to sustain the Pennsylvania Unemployment Compensation Fund (UC Fund). This fund provides temporary financial support for eligible individuals in the event of a job loss.

RATE OF CONTRIBUTION

Employers must contribute to the UC Fund an amount equal to their contribution rate multiplied by their **taxable wage base**. Pennsylvania assigns employers a contribution rate on a yearly basis.

An employer's taxable wage base for 2018 unemployment compensation purposes is the sum of **the first $10,000 in wages** paid to each employee for the year. When calculating their contribution amounts, employers must include all employee compensation, including the cash value of salaries, commissions, bonuses, tips and other benefits.

Employers may choose to contribute more than their required sum. The Pennsylvania Department of Labor and Industry (PDLI) will credit an employer's additional contributions to that employer's reserve account. The PDLI may recalculate contribution rates for employers who make significant additional contributions.

ADJUSTED CONTRIBUTIONS AND EXPERIENCE RATING

Employers may apply for adjusted contribution rates by submitting a written application to the PDLI. The PDLI will only consider applications from employers that are current with all reporting requirements.

The PDLI uses **experience ratings** to adjust employer contribution rates. An experience rating is a number created by the PDLI to determine whether employers frequently and substantially lay off employees and cause heavy expenses to the UC Fund. The PDLI considers an employer's reserve account balance and benefit ratios when determining that employer's experience rating. Employers with a low experience rating may see a reduction of their contribution rate, while employers with a high experience rating may see an increase in their contribution rate.

BUSINESS SUCCESSION AND TRANSFER OF CONTRIBUTION RATE

Employers transferring personnel to successors (by merger, consolidation, sale, descent or in any other manner) must also transfer all records and reserve account balances for the personnel transferred to the successors. If the transfer is a complete transfer, employers must transfer all records and reserves. If the transfer is a partial transfer, employers must transfer only the records and reserve funds associated with the personnel transferred.

Successors are responsible for paying unemployment contributions for all personnel transferred at the same contribution rate as the original employer for the remainder of the calendar year when the transfer takes place.

ADDITIONAL CONTRIBUTIONS IN TIMES OF HIGH UNEMPLOYMENT

When excessive benefit payments deplete the UC Fund, the PDLI may require employers to pay additional contributions. If additional contributions are necessary, the PDLI will use the rates specified by the PUCA to calculate additional charges. The PDLI must notify employers of additional contributions they are required to make to the UC Fund.

PAYMENTS IN LIEU OF CONTRIBUTIONS

Nonprofit employers have the option to make reimbursement payments in lieu of contributions when authorized by the PDLI. Two or more nonprofit employers may also file a joint application for group payments in lieu of contributions. The PDLI determines these employers' financing methods and prescribes either a contributory or a reimbursement payment plan.

If approved, nonprofit employers opting for reimbursement in lieu of contributions must insure their plan with funds amounting to **one percent** of the organization's taxable wages for the four quarters prior to the election. The funds can be in the form of an approved **surety bond**, properly filed with the PDLI, or **deposits of funds and securities** in a PDLI account.

PAYMENT OF CONTRIBUTION AND ACCOUNT CHARGES

Each year, the state must notify employers of their contribution rates for the calendar year. Contribution rates become **final after 90 days** of mailing if employers do not contest the notice. Employers contesting a contribution rate notice are entitled to a fair hearing.

The PDLI must notify employers of any errors it makes on contribution rate notices and of any adjustments employers must make to remain in compliance with PUCA requirements before the end of the calendar year. Employers have **30 days** after this notification to cover unpaid contributions without interest.

However, if the state finds that the employer has contributed to the error (directly or indirectly), the notification deadline does not apply and the PDLI may require the employer to cover unpaid contributions with interest.

QUARTERLY CONTRIBUTION PAYMENTS

Employers are required to pay quarterly contributions using established PUCA reporting conventions. This means that employers must submit their payments within the month immediately following the end of the calendar quarter. If the last day of the month immediately following the end of the calendar quarter is a Saturday, Sunday or official holiday, employers have until the first business day of the second month following the end of the calendar quarter to file their report. Employers must use the PDLI's electronic filing system to make their quarterly payments.

EMPLOYER RESERVE ACCOUNT CHARGES

The PDLI creates and maintains unemployment compensation reserve accounts for each registered employer. The PDLI will charge employer reserve accounts only after disbursing benefits to individuals who filed a claim against them. The PDLI must send employers monthly statements with an itemized list of the charges made to their reserve accounts.

The PDLI will charge employer reserve accounts in an amount proportional to the expense caused to the UC Fund by benefits paid to individuals who filed a claim against them. Employers must pay all charges made to their reserve accounts. Employers may be relieved from reserve account charges when:

- Individuals are ineligible to receive unemployment benefits;
- Individuals are separated from employment due to a natural disaster; or
- Individuals continue to work for employers, after separation, on a part-time basis as long as this part-time work continues without material change.

The PDLI automatically relieves employers from account charges when individuals are ineligible to receive compensation. However, employers seeking relief from charges for other reasons must file a petition with the PDLI.

EMPLOYEE WAGE DEDUCTIONS

Every year, the PDLI compares the UC Fund balance and the amount of benefits paid for the previous three years to determine whether additional contributions are necessary. When excessive benefit payments deplete the UC Fund, the PDLI may require employers to withhold employee contributions from payable wages. If additional contributions are necessary, the PDLI will use the rates specified by the PUCA to calculate them. The PDLI must notify employers of additional contribution requirements.

Employee contributions are a multiple of gross wages and are not subject to the $10,000 taxable wage base limitation that applies to employer contributions. Employers must include these withholdings in their quarterly reports and transfer them with their quarterly contributions.

PROHIBITED PRACTICES

Employers may not enter into agreements with their employees to avoid their obligation to contribute to the UC Fund. In addition, employers may not require or enter into an agreement to have their employees pay any portion of their required contributions.