

Managing Unemployment Costs

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Of course you're familiar with State Unemployment Insurance Tax (SUI).

But did you know as a nonprofit organization, you have the legal option not to pay it? Probably not. Few folks do.

IRS code Title 26, Section 3309(a) was quietly passed in 1972.

You'll forgive the IRS. Although it's been 35 years, you probably haven't received a personal phone call or letter in the mail. They tend to be enforcement focused rather than education focused.

Let's briefly dissect this law to understand what it can mean to your organization.

Here's what it says:

"...requires that approved State unemployment programs allow a "religious, charitable, educational, or other organization described in Section 501(c)(3) which is exempt from income tax under section 501(a)" **to elect whether (a) to contribute to the State program in accordance with State law or (b) to pay into the State program annually an amount equal to the actual unemployment benefits paid out** by the State program on account of employment services previously provided to the organization."

Here's what it means:

As a nonprofit **you can choose** to pay into your State unemployment insurance fund,

— **or** —

You can elect to **pay as you go...** reimburse the State for only those benefits actually paid on your behalf.

Why bother?

The simple reason is for many organizations it will result in lower unemployment costs.

The States use a pooled insurance model. This model balances out for the group as a whole. But on an individual basis some under pay, many over pay.

With your State tax program each employer in the State – for-profit, government, nonprofit – pays into the fund at rates determined by State law. Some States have maximum rates up to 10%.

On the surface using the same taxable ratio for every employer seems fair.

But **averages** can be misleading. You can add 40 and 60 and get an average of 50. You'll also get that same average (50) adding together 10 and 90.

Historically nonprofits have lower turn-over and, hence, a **lower than average** claim rate. Nationwide, for every \$2.20 paid in SUI tax,

nonprofits only incurred \$1.00 in actual claims.

Herein lies a significant gap. A gap that can be managed to lower unemployment costs for your organization.

As enticing as lowering your unemployment cost is, I'm sure you're astutely questioning:

- What about the upside risk of a high claim year, and
- What about the burden of complying with regulation?

Download a special **Executive Briefing** to discover how you can use this tax option to your advantage to not only **reduce your unemployment cost**, but also **contain your upside risk** and **reduce your administration burden** as well.

Over 30 members of the National Rural Health Association are currently using this strategy.

Grab this free Executive Briefing here:

www.501cTrust.org/Briefing

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