Calculating SUTA Rates

All new contributory employers are taxed at the same initial rate, which currently is 2.7 percent for all Ohio employers except those in the construction industry. After two years, employers are taxed a different amount based on their experience ratings. Experience ratings are based on a variety of factors.

1 Reserve Account Balance

First, an employer's "reserve account balance" is taken into consideration. This is calculated by taking the amount of UI benefits paid to the employer's former employees over the lifetime of the business and subtracting it from the total amount of UI tax payments the employer has made.

2 Reserve to Payroll Ratio

Then, to avoid giving an unfair advantage to larger or high-wage employers, the state compares the size of an employer's reserve account balance to the size of its payroll. The employer's reserve account balance is divided by the average annual taxable payroll (the first $9,000 paid annually to each employee) for the last three fiscal years (July 1 through June 30). Employers with higher ratios typically have lower SUTA tax rates.

3 Minimum Safe Level Adjustment

The minimum safe level is the minimum balance a state must have in its UI trust fund to pay benefits during a moderate recession. If Ohio's UI trust fund is above or below the "minimum safe level" as of July 1 of each year, employer tax rates may decrease or increase for the following calendar year. When employers pay additional SUTA taxes to reach the minimum safe level, those taxes are credited 50 percent to the "mutualized account" (see below) and 50 percent to the employer's account.

4 Mutualized Tax Rate

Ohio businesses also sometimes pay a "mutualized tax" to recover the cost of unemployment benefits the state pays that are not chargeable to individual employers. This tax is assessed only if the mutualized account has a negative balance.

Reimbursing Employers

Both federal and Ohio law require that state and local government entities and 501(c)(3) "not-for-profit" entities be given the option to self-finance their benefit costs by reimbursing the trust fund dollar-for-dollar for benefits charged to their account. Ohio has about 5,000 reimbursing employers.

Questions?

For more information, please call the Office of Unemployment Compensation's Contribution Section at (614) 466-2319.

Ohio | Department of Job and Family Services
John R. Kasich, Governor
Michael B. Colbert, Director
Ohio Department of Job and Family Services
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An Equal Opportunity Employer and Service Provider

Employers' Guide to the Unemployment System

Unemployment Insurance

The unemployment insurance (UI) program provides short-term income to unemployed workers who lose their jobs through no fault of their own. It reduces the hardship felt by families during periods of temporary unemployment and bolsters local economies by maintaining the purchasing power of the unemployed workers. UI is financed by premiums paid by employers to both the federal and state governments, through the Federal Unemployment Tax Act (FUTA) and State UnemploymentTax Act (SUTA) programs.

FUTA

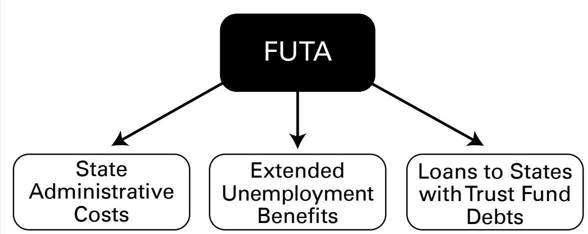
The Internal Revenue Service (IRS) collects FUTA taxes for three purposes:

1. To pay states' UI administrative costs.
2. To pay extended benefits during periods of high unemployment.
3. To provide loans so states with insufficient UI trust fund balances can continue to pay unemployment benefits.

Currently, the FUTA tax rate is 6 percent of the first $7,000 in gross wages paid to an employee during the calendar year. Employers in eligible states receive a 5.4 percent FUTA credit if they pay their SUTA taxes on time. This means that employers typically pay a net FUTA tax of 0.6 percent on the first $7,000 of wages.

To be eligible for the 5.4 percent offset, a state must have an "experience rating system" that conforms with federal mandates and requirements. Experience rating systems rate employers based on how much they have paid in unemployment taxes and how much their former employees have been paid in unemployment benefits. Eligible states also must not have outstanding loan balances older than two years.

How FUTA Taxes are Used



If a state borrows money to pay UI benefits and does not repay the loan within two years, its FUTA tax credit will be reduced by 0.3 percent each year until the loan is repaid. The revenue generated by this reduced credit is applied to the balance of the state's loan. For more information about FUTA credit reductions, see IRS Form 940, Schedule A, and IRS Publication 15. Both can be found at **www.irs.gov**.

SUTA

The Ohio Department of Job and Family Services collects SUTA taxes and uses them solely to pay unemployment benefits to individuals.

In Ohio, private, for-profit employers are required to begin paying SUTA taxes when:

1. They pay $1,500 or more in wages during a calendar quarter, or
2. They have one or more employees for at least 20 weeks of a calendar year, or
3. They already are required to pay FUTA taxes.

An employer that pays SUTA taxes is classified as "contributory" and is required to file and pay SUTA taxes each quarter.

How SUTA Taxes are Used