

SESSION OF 2014

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2576

As Amended by Senate Committee on
Commerce

Brief*

HB 2576, as amended, would revise provisions of employment security law, commonly referred to as Unemployment Insurance (UI), pertaining to the contribution rates of employers.

Starting in rate year 2015, all new employers—both non-construction and construction employers—who started doing business in Kansas as of July 1, 2014, would be eligible for a UI contribution rate equal to either 2.7 percent of wages paid or, in the alternative, the UI rate paid by the employer in another state prior to moving to Kansas. To be eligible for the alternative rate, a new employer would file a request with the Department of Labor within 30 days of receiving notice of contributions owed and provide the following information:

- The new employer has been in operation in another state for a minimum of three years;
- Authenticated account history from the employer's operations; and
- The business operations established in Kansas are of the same nature, as defined by the North American Industrial System, as the operations in another state.

In no event would the alternative contribution rate be less than 1.0 percent.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

Under current law, new non-construction employers who have less than 24 months of payroll history pay a contribution rate equal to 2.7 percent of wages paid, and new construction employers pay a rate equal to 6.0 percent.

The bill also would create a new classification for employers, called "Entering and Expanding Employers". An Entering and Expanding Employer would be eligible to receive a new employer rate of 2.7 percent for four years, subject to approval by the Secretary of Labor. To be classified as such, an employer would be required to meet the following criteria:

- There has been a 100 percent increase in the taxable payroll over the previous year, due to employment growth and not because of a change in the taxable wage base;
- The employer has a positive account balance, meaning the employer has contributed more to the UI System than what has been paid out in benefits to workers previously employed; and
- The employer maintains a positive account balance throughout the four-year period.

Starting in rate year 2014, employers who are not classified as negative balance employers, which are employers who have contributed less to the UI Trust Fund than what their former employees have taken out as benefits, would be eligible for a rate discount of 15.0 percent if all contributions have been paid by January 31.

Finally, the bill would remove the cap placed on voluntary contributions made to the UI System that annually limits employers from reducing their rates by no more than five rate groups.

The bill would be in effect upon publication in the *Kansas Register*.

Background

During the House Committee hearing, representatives of the Kansas Chamber, the Kansas Society for Human Resource Management (SHRM), Cerner Corporation, Estes Enterprises, and Unemployment Insurance Services spoke in favor of the bill. Proponents stated the bill would encourage employers to invest and expand in Kansas. The current rate structures, in their view, unnecessarily penalize employers when they experience significant increases in payroll. The bill would assist employers to predict future payroll tax liabilities. The Department of Labor provided neutral testimony, and there was no opponent testimony.

The House Committee on Commerce, Labor, and Economic Development amended the bill to include the requirement that Entering and Expanding Employers maintain a positive account balance for four years.

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The Senate Committee amended the bill to:

- Specify the proposed Entering and Expanding Employer rate could be applicable if the growth in payroll is due to employment;
- Provide for a 15.0 percent discount for certain employers, starting in rate year 2014; and

- Change the effective date of the bill to publication in the *Kansas Register* instead of publication in the statute book.

According to the fiscal note prepared by the Division of the Budget, in consultation with the Department of Labor, the bill, as introduced, would reduce contributions to the Employment Security Trust Fund; however, the amount is estimated to be negligible. In subsequent testimony, the Department of Labor estimated the Senate Committee amendment allowing for a 15.0 percent discount in contributions by certain employers would result in a savings of approximately \$42.0 million. The Department estimates the ending balance for the UI Trust Fund to be \$189.0 million as of July 31, 2014.