

More Nonprofits Opting Out of State Unemployment Tax System Written by Unemployment Services Trust

Unlike for-profits, nonprofits have choices when it comes to paying the state for unemployment. Recent trends have shown that, with the rise in unemployment taxes nationwide, more nonprofits are opting out of their state unemployment tax system and just paying the state dollar-for-dollar for their own employees' claims. Nonprofit organizations essentially have three options regarding paying unemployment expenses. Here are the pros and cons of each:

- 1) Pay into the state unemployment (UI) tax system. PRO: If you have high claims, other employers subsidize you through paying taxes. CON: Your rate can go up due to factors outside of your control (such as the state taking a federal loan to pay unemployment benefits) and typically employers pay about \$2.00 in taxes for every \$1.00 in actual benefits to their former employees.
- 2) Opt out of the state unemployment tax system and become a direct reimbursing employer on your own. PRO: You only pay for your own claims, dolloar-for-dollar. CON: You have to monitor and dispute unemployment claims to keep claims charges in line, which can be burdensome. Also, one year of high claims could dry up your funding.
- 3) Opt out of the state unemployment tax system and join an unemployment trust. PRO: A trust monitors your claims, helps protest unemployment claims in court when needed, and sets up a reserve of funds that belongs to your organization, which helps even out the highs and lows of claims costs so one bad year won't sink your organization. CON: Short-term, you could pay a higher rate than you would to the state if you have a particularly bad year of claims, although over time it is proven that nonprofits typically pay less as a reimbursing employer.

The Unemployment Services Trust (UST), the largest trust in the U.S., reports that hundreds of nonprofits have looked into direct reimbursing in the past couple years due to lingering national unemployment issues and rising tax rates. UST says that the option is really best for nonprofits with 10 or more employees, and trusts should be carefully evaluated before joining, as some provide more protection than others. UST offers no-cost evaluations for nonprofits looking to direct reimburse or join the trust at www.ChooseUST.org.