

JAN 25 2006

A BILL FOR AN ACT

RELATING TO EMPLOYMENT SECURITY LAW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. This Act is aimed at providing employers
2 significant tax relief during the next three years. This Act
3 shall be known as "The Hawaii Employers Tax Relief Act of 2006."

4 The legislature recognizes that those receiving benefits
5 from Hawaii's unemployment insurance system receive some of the
6 richest benefits in the nation. The legislature also recognizes
7 that while Hawaii maintains the lowest unemployment rate in the
8 nation and strong job growth, Hawaii's employers pay the highest
9 unemployment insurance taxes in the nation.

10 Further, the legislature recognizes that the current
11 unemployment insurance law benefits claimants in that the
12 maximum benefit level awarded to the unemployed is increased
13 automatically each year. Concurrently, the maximum taxable wage
14 base, the maximum dollar amount of wages that is subject to
15 unemployment insurance taxes imposed upon employers, also
16 automatically increases each year, ensuring that unemployment
17 insurance taxes also increase each year.

1 For 2006, Hawaii's employers will be taxed at the highest
2 maximum taxable wage base in the nation at \$34,000.

3 The purpose of this Act is to provide long needed tax
4 relief, though temporary, to Hawaii's employers for calendar
5 years 2006, 2007, and 2008. This tax relief will help small
6 business growth and provide immediate economic prosperity that
7 will give Hawaii's employers more money to create new jobs,
8 expand benefits, or provide overdue pay increases to their
9 employees.

10 SECTION 2. Section 383-61, Hawaii Revised Statutes, is
11 amended to read as follows:

12 **"§383-61 Payment of contributions; wages not included.**

13 (a) Contributions with respect to wages for employment shall
14 accrue and become payable by each employer for each calendar
15 year in which the employer is subject to this chapter. The
16 contributions shall become due and be paid by each employer to
17 the director of labor and industrial relations for the fund in
18 accordance with such rules as the department of labor and
19 industrial relations may prescribe, and shall not be deducted,
20 in whole or in part, from the wages of individuals in the
21 employer's employ.

1 (b) Except as provided in subsections (c) [~~and~~], (d), and
2 (e), the term "wages" does not include remuneration paid with
3 respect to employment to an individual by an employer during any
4 calendar year which exceeds the average annual wage, rounded to
5 the nearest hundred dollars, for the four calendar quarter
6 period ending on June 30 of the preceding year.

7 The average annual wage shall be computed as follows: on
8 or before November 30 of each year the total remuneration paid
9 by employers, as reported on contribution reports on or before
10 such date, with respect to all employment during the four
11 consecutive calendar quarters ending on June 30 of such year
12 shall be divided by the average monthly number of individuals
13 performing services in such employment during the same four
14 calendar quarters as reported on such contribution reports and
15 rounded to the nearest hundred dollars.

16 (c) For calendar years 2006, 2007, and 2008 only, the term
17 "wages" as used in this part does not include remuneration in
18 excess of \$7,000 paid with respect to employment to an
19 individual by an employer. This subsection shall apply only to
20 the contribution rate paid into the unemployment insurance trust
21 fund."

1 ~~[(e)]~~ (d) For the calendar year 1991 only, the term "wages"
2 does not include remuneration in excess of \$7,000 paid with
3 respect to employment to an individual by an employer.

4 ~~[(d)]~~ (e) For calendar year 1988 only, the term "wages" as
5 used in this part does not include remuneration paid with
6 respect to employment to an individual by an employer during the
7 calendar year which exceeds:

8 (1) One hundred per cent of the average annual wage if the
9 most recently computed ratio of the current reserve
10 fund to the adequate reserve fund prior to that
11 calendar year is equal to or less than .80; or

12 (2) Seventy-five per cent of the average annual wage if
13 the most recently computed ratio of the current
14 reserve fund to the adequate reserve fund prior to
15 that calendar year is greater than .80 but less than
16 1.2; or

17 (3) Fifty per cent of the average annual wage if the most
18 recently computed ratio of the current reserve fund to
19 the adequate reserve fund prior to that calendar year
20 is equal to or more than 1.2;

21 provided that "wages" with respect to which contributions are
22 paid are not less than that part of the remuneration which is

1 subject to tax in accordance with section 3306(b) of the
2 Internal Revenue Code of 1986, as amended.

3 ~~(e)~~ (f) If an employer during any calendar year acquires
4 substantially all the property used in a trade or business, or
5 in a separate unit of a trade or business, of another employer,
6 and after the acquisition employs an individual who prior to the
7 acquisition was employed by the predecessor, then for the
8 purpose of determining whether remuneration in excess of the
9 average annual wages has been paid to the individual for
10 employment, remuneration paid to the individual by the
11 predecessor during the calendar year shall be considered as
12 having been paid by the successor employer. For the purposes of
13 this subsection, the term "employment" includes services
14 constituting employment under any employment security law of
15 another state or of the federal government.

16 ~~(f)~~ (g) Subsections (b) through ~~(e)~~ (f)
17 notwithstanding, for the purposes of this part the term "wages"
18 shall include at least that amount of remuneration paid in a
19 calendar year to an individual by an employer or the employer's
20 predecessor with respect to employment during any calendar year
21 which is subject to a tax under a federal law imposing a tax

1 against which credit may be taken for contributions required to
2 be paid into a state unemployment fund.

3 [~~(g)~~](h) In accordance with section 303(a)(5) of the
4 Social Security Act, as amended, and section 3304(a)(4) of the
5 Internal Revenue Code of 1986, as amended, any contributions
6 overpaid due to a retroactive reduction in the taxable wage base
7 may be credited against the employer's future contributions upon
8 request by the employer; provided that no employer shall be
9 given a cash refund."

10 SECTION 3. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 4. This Act shall take effect upon its approval.

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INTRODUCED BY:

BY REQUEST

JUSTIFICATION SHEET

DEPARTMENT: Labor and Industrial Relations

TITLE: A BILL FOR AN ACT RELATING TO EMPLOYMENT SECURITY LAW.

PURPOSE: To provide temporary tax relief to Hawaii's employers by lowering the maximum taxable wage base from \$34,000 to the federal minimum of \$7,000 for calendar years 2006, 2007, and 2008.

MEANS: Amend section 383-61, Hawaii Revised Statutes.

JUSTIFICATION: Hawaii's unemployment insurance system automatically increases contribution and benefit levels. For example, in 2001, Hawaii's maximum weekly benefit amount was \$383 dollars. In 2002, the maximum weekly benefit rose to \$395 and in 2003, it again rose to \$407. The current maximum weekly benefit amount is \$459.

Hawaii's low unemployment rate and strong job growth has helped the unemployment insurance trust fund balance grow to approximately \$452.9 million. In December 2004 the fund balance was \$387.9 million, with \$104.6 million paid out in benefits. It is estimated that total benefit payments will decrease to \$83.7 million for 2005, \$84 million in 2006, \$88 million for 2007, and \$90 million in 2008. With these estimates, the trust fund will have a projected balance of \$588 million dollars on December 31, 2008.

While it is important to maintain a healthy unemployment insurance trust fund, this bill is intended to ensure tax savings are realized by Hawaii's employers over the next three years, to help stimulate small business growth and provide immediate

economic prosperity that will give Hawaii's employers more money to create new jobs, expand benefits or provide overdue pay raises to Hawaii's working population.

This bill does not decrease benefits, does not impede the annual increase in benefits and does not place the unemployment trust fund in jeopardy. It simply seeks to reward Hawaii's businesses who have ensured Hawaii's strong economic growth through extraordinary world events (SARS, War in Iraq, and 9-11) and helps to provide the resources necessary to further stimulate the economy.

Impact on the public: This tax relief will help small business growth and provide immediate economic prosperity that will give Hawaii's employers more money to create new jobs, expand benefits or provide overdue pay increases to their employees.

Impact on the department and other agencies:
None.

GENERAL FUND:

None.

OTHER FUNDS:

The unemployment insurance trust fund is anticipated to decrease from \$454 million to \$412 million from 2006 to 2008.

PPBS PROGRAM
DESIGNATION:

LBR-171.

OTHER AFFECTED
AGENCIES:

None.

EFFECTIVE DATE:

Upon approval.