

Unemployment Insurance Reforms Target Small Businesses

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The eve of Valentines Day no doubt brought further concern to small business owners as the state Senate passed legislation (SB6885) making permanent the changes made to the unemployment insurance system (UI) in 2005 that caused consternation among entrepreneurs.

The concern over the unemployment system is nothing new. Washington's UI system carries the highest per employee cost in the nation and businesses in Washington must pay taxes on the first \$30,500 of salary for each employee, the second highest wage base in the nation. Businesses in most other states only pay unemployment taxes on the first \$7,000 to \$10,000 of salary; and Washington's maximum weekly unemployment benefit payout is also nearly the highest in the nation at \$496 per week.

Employers are not opposed to employees who collect unemployment checks – their frustration is grounded in the system itself. It is a system that is now costing Washington businesses more than just about any other state in the nation – and now some legislators want to make permanent the damaging policies enacted in 2005.

In November 2005, Washington Policy Center held two Small Business Conferences, one in Eastern Washington and one in Western Washington. Over 400 small business owners and policymakers attended the Conferences to develop policy recommendations to improve the state's business climate. There were several areas of policy that were addressed and unemployment insurance was one of the more popular breakout sessions as small business owners voted on their top three recommendations on improving the UI system.

The resulting report from the Conferences, "Reviving Washington's Small Business Climate," laid out three policy recommendations on the UI system – two of which SB6885 addresses. Small business owners felt the reforms from 2003 were helpful to their businesses and that reversing the 2003 reforms by changing back to the two-quarter averaging system and reinstating the "liberal construction" clause were steps backwards.

With Washington's unemployment insurance taxes the highest in the nation, small business owners are scrambling for meaningful changes to a system that too often punishes employers unfairly and makes Washington state less competitive with neighboring economies.

In 2003, legislators passed reforms that included reconfiguring the baseline standard to determine benefit payouts from a 2 quarter average to a 4 quarter average (thereby making the system more equitable between seasonal and full-time workers). The other major change was striking out the "liberal construction" clause, which essentially slanted the burden of proof unfairly against an employer when there was an employer/employee conflict. Rather than create a level playing field, there had been significant extra pressure on employers.

The 2005 changes reversed these gains – changing the 4 quarter average back to 2 quarters and reinstating the "liberal construction" clause. The 2005 changes were to sunset in 2007.

Proposed legislation would lock in place the policies of 2005 and permanently reverse the reforms from 2003. The 2003 reforms were greatly lauded by small business owners and, even though they left the system far from perfect, business owners began to feel hope about a system that had long imposed unreasonable costs.

Legislators should keep the needs of entrepreneurs in mind as they consider legislation affecting small businesses. The UI system can be very costly to businesses that can ill-afford extra fees for more government regulations and programs. Removing the sunset provisions on the damaging 2005 changes removes the ability of our state to keep moving forward on improving the UI system.

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