



Arizona State Senate Issue Brief

December 5, 2024

Note to Reader:

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UNEMPLOYMENT INSURANCE

INTRODUCTION

Arizona's Unemployment Insurance (UI) program is administered by the Department of Economic Security (DES) and provides a measure of economic security to the individual worker and the community when unemployment occurs beyond the worker's control. When an employee is eligible for benefits, the state pays those benefits out of the UI Trust Fund. Funding for the UI Trust Fund comes from Arizona's unemployment tax paid by employers; workers in Arizona do not make any payments into the UI Trust Fund. Employers also pay the federal unemployment tax, known as FUTA, which is collected by the federal government and is used to administer the UI program at the federal and state levels.

HISTORY AND OVERVIEW

The amount an employer must pay for the Arizona unemployment tax is partially dependent on the employer's "experience rating." Companies with stable workforces that have had few layoffs have better experience ratings and therefore pay less into the UI Trust Fund. Firms with a history of laying off employees in the last few years have poorer experience ratings and pay more into the UI Trust Fund.¹ Certain nonprofit organizations, state and local governments and Indian tribes can elect to make payments in lieu of paying taxes. Such payments are a reimbursement to the UI Trust Fund equal to the employer's proportionate share of benefits paid to its former employees.²

An unemployed worker's monetary eligibility for UI benefits is based on the unemployed worker's insured wages paid during a one-year period, known as the base period. The base period is, in most instances, the first four of the last five completed calendar quarters prior to the date when the applicant first applied for UI.³ An unemployed worker's eligibility is also based on the individual's nonmonetary eligibility, which includes the reason for separation from the last employer and whether the individual is able to work and

¹ A.R.S. §§ [23-728](#); [23-729](#); and [23-730](#)

² [A.R.S. § 23-750](#)

³ A.R.S. §§ [23-605](#) and [23-771](#)

is seeking full-time work.⁴ The maximum weekly UI benefit varies from state to state; in Arizona it is \$320.⁵

STATE UNEMPLOYMENT TAX

Arizona unemployment tax is paid on the first \$8,000 in wages paid to each employee in a calendar year.⁶ The unemployment tax is used solely for UI benefits. The actual taxes are calculated by multiplying the quarterly taxable wages by the tax rate. New employers are assigned a tax rate of two percent for a minimum of two calendar years. After that, employers may be eligible for a higher or lower tax rate depending on:

- the amount of taxes paid.
- the amount of unemployment benefits paid to former employees and charged to the employer.
- the average size of the annual taxable payroll.
- the overall solvency of the UI Trust Fund.

These four factors are used to compute the tax rate using a “reserve ratio” system – basically a cost-accounting system. The taxes paid minus the amount of benefits attributable to the business are divided by the firm’s average annual taxable payroll to produce a reserve ratio. Therefore, the higher the reserve ratio, the lower the tax rates.⁷

Arizona's statutory fund control schedule is designed to be self-adjusting and to keep the UI Trust Fund balance between 5 and 5.5 percent of total state-wide taxable payrolls. This is considered adequate to pay benefits in a recession for 18 months.⁸ According to the 2022 State UI Trust Fund Solvency Report from the U.S. Department of Labor, Arizona’s UI Trust Fund balance is approximately \$1.6 billion as of January 1, 2024.⁹

⁴ [A.R.S. § 23-775](#)

⁵ [A.R.S. § 23-779](#)

⁶ [A.R.S. § 23-622](#)

⁷ [A.R.S. §§ 23-728; 23-729; and 23-730](#)

⁸ [DES: UI Employer Handbook](#)

⁹ [U.S. DOL: UI Trust Fund Report](#)

FUTA

Most employers who pay Arizona’s state unemployment tax are required to pay the FUTA tax. The annual FUTA tax is used to fund the administrative costs of the UI program, while the Arizona state unemployment tax is used solely for the payment of benefits to unemployed workers.

The FUTA tax of 6.0 percent is assessed on the first \$7,000 in wages paid to each worker in a calendar year. When state taxes are paid on time, a tax credit of 5.4 percent is awarded to reduce the FUTA tax, regardless of the Arizona unemployment tax rate. The credit is equal to the actual tax rate, plus the difference between that percentage and 5.4 percent. This means that Arizona employers who pay their state taxes timely pay a net federal tax of 0.6 percent. If an employer does not pay state taxes on time, the employer will only receive 90 percent of the allowable credit.¹⁰

SUTA DUMPING

When a person acquires all or part of a business, the person becomes the “successor” for unemployment tax purposes. As the successor, the person is immediately liable for unemployment taxes regardless of the amount of wages the successor pays or the number of employees. If a successor acquires an entire business and continues its operations, the successor is assigned the tax rate and experience rating account of the former owner. The experience rating includes the record of wages and taxes previously paid. Therefore, any unemployment benefits awarded are based on wages paid by the former owner and may be charged to the new employer’s account.

Federal and state UI agencies found that companies were able to manipulate state experience rating systems so that the employers paid lower state unemployment compensation taxes than their unemployment experience rates would otherwise have allowed. Companies took

¹⁰ [26 U.S.C. 23 §§ 3301 – 3311](#)

two different approaches. Some formed a new corporation, transferred their employees to that company and used the new company's lower experience rating to reduce the original firm's unemployment tax liability. Others bought a different firm with a lower unemployment tax liability and used the purchased business' rate to gain a lower experience rating.¹¹

This practice became known as SUTA dumping (SUTA refers to state unemployment tax acts). In 2004, the federal SUTA Dumping Prevention Act of 2004 was adopted. The SUTA Act required state unemployment compensation laws, as a condition of participating in the federal -state UI program, to provide for the transfer of unemployment experience ratings upon the transfer or acquisition of a business.¹² In 2005, the Legislature adopted a measure in response to the SUTA Act, requiring experience ratings to be transferred upon the transfer or acquisition of a business, specifying requirements for DES when determining if the successor acquired the business to obtain a lower contribution rate and providing penalties for violating the experience rating requirements.¹³

DISCONTINUED SURCHARGES

Special Assessment

Arizona was one of more than 30 states that borrowed money from the federal government after their unemployment trust funds were depleted during the Great Recession. This enabled the states to continue paying unemployment benefits to eligible claimants as required by federal law. Arizona first borrowed in March 2010 and collected special assessment monies were used to repay the loan principal with interest. Interest on the loans began accruing on January 1, 2011. Laws 2011, Chapter 218 required employers to pay a special assessment in both calendar years 2011 and 2012.¹⁴ The UI

Trust Fund cleared its federal debt in May 2015 and the special assessment was discontinued.¹⁵

Job Training

From January 1, 2001, through December 31, 2015, a 0.1 percent job training tax was imposed on taxable wages.¹⁶ The job training tax was not part of an employer's experience rating or included in the unemployment tax rate. Certain employer groups were exempt from the liability to pay job training tax, including employers who chose the reimbursement option or those assigned a tax rate of 2.00 percent or 2.70 percent. The job training tax monies funded the Arizona Job Training Program which supported the design and delivery of training plans that met unique industry standards and challenges. The Legislature extended the Arizona Job Training Program until December 31, 2022, to spend down the fund balance.¹⁷

ADDITIONAL RESOURCES

- Arizona Department of Economic Security
<https://des.az.gov/>
- Online Unemployment Insurance Services
<https://des.az.gov/services/employment/unemployment-individual>
- DES UI Benefit Call Centers
Toll Free: (877) 600-2722
Phoenix: (602) 364-2722
Tucson: (520) 791-2722
Telecommunications Relay Service for the Deaf/Hard of Hearing: 711
- Unemployment Insurance Statutes:
[Arizona Revised Statutes, Title 23, Chapter 4](#)

¹¹ [DES: SUTA Dumping](#)

¹² [42 U.S.C. § 503](#)

¹³ [A.R.S. §§ 23-613 and 23-733.01](#)

¹⁴ [Laws 2011, Ch. 218](#)

¹⁵ ["DES Announces Repayment of Unemployment Trust Fund Borrowing to U.S. Department of Labor"](#)

¹⁶ [Laws 2000, Ch. 383; Laws 2015, Ch. 10](#)

¹⁷ [Laws 2017, Ch. 307](#)