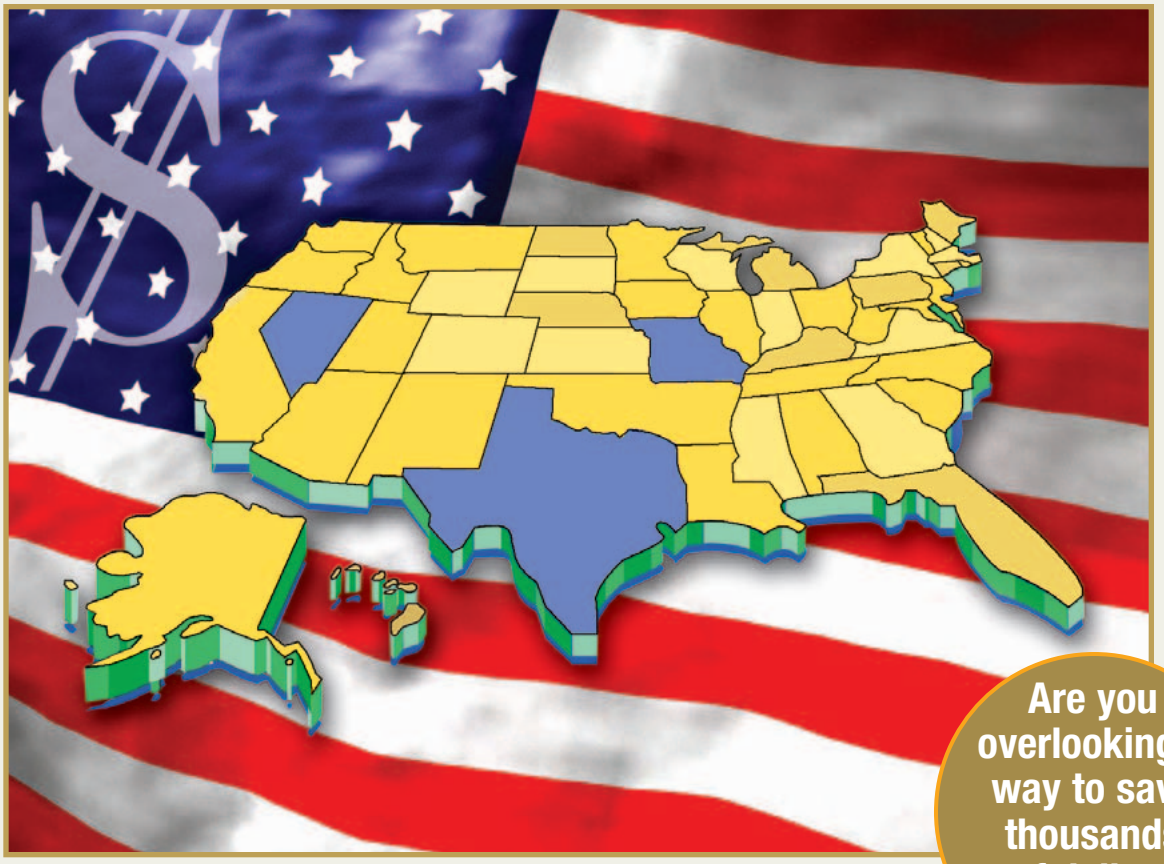
A Creative Way to Save Money

Stop Paying State Unemployment Taxes



Are you overlooking a way to save thousands of dollars a year?

By Cecilia Piazza

Thinking outside your routine is uncomfortable, but in the long run it can have great benefits. Nowhere is this more true than when it comes to money management. While you probably put a lot of energy into finding new ways to raise money, you may be overlooking out-of-the-box options for *saving* money. One such option is to leave your state unemployment system. Doing so could save you thousands of dollars a year.

Is It Legal?

Not only is this option legal, it is available *only* to nonprofit organizations. The Internal Revenue Code notes that "the states are required to provide nonprofit organizations, or groups of such organizations, with the option of reimbursing the state for unemployment compensation payments attributable to the service with the organization in lieu of paying contributions under the normal tax provisions of the state law."[1] Simply put, nonprofit organizations can switch from contributing into the state tax system and become reimbursers for their own unemployment claims.

Is It Financially Viable?

By reimbursing for your own claims, you'll likely save between 40% and 60% of your current payments to the state system. With the state, you pay a fixed amount every year whether your unemployment

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claims reached that amount or not. So year after year, you're overpaying into the state system. And the state never refunds that money to you.

So becoming a reimburser and paying only for your own claims is definitely the way to save money. It's amazing how many nonprofit organizations are unaware of the savings they could realize by withdrawing from the state program.

Is it Safe?

Many nonprofits are hesitant to leave the state program due to the serious risks involved. For instance, in a year when a nonprofit loses funding and runs into unanticipated layoffs, the dollar amounts of filed claims could potentially devastate an organization. But there's a safe alternative to paying state unemployment insurance taxes: You can join an unemployment administration program.

Such programs are safer than self-insurance and more affordable than state plans. In an unemployment administration program, you don't subsidize the high rates generated because of turnover in the for-profit industry. And with a good unemployment administration program, you won't be paying a fixed rate every year as you do with the state. Instead, you reimburse the state dollar for dollar.

Are Nonprofits Using This Option?

First Nonprofit Mutual Insurance Company decided to see how many nonprofits use their option to withdraw from the state program. With the support of United Way, they surveyed a sampling of nonprofit organizations. The survey revealed that very few nonprofit organizations were using this option – either because they knew nothing about it or because they thought it was too risky.[2]

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Based on the survey, First Nonprofit Companies formed the First Nonprofit Unemployment Savings Program, LLC, to educate nonprofits about using this option. Last year this program saved nonprofit organizations a total of $282,879 off their total unemployment costs.

How Can You Take Advantage of This Opportunity?

Once you've elected to take advantage of this tax break, find an unemployment program specialist to help you transfer from state-paying to reimburser status. When choosing an unemployment program, look for the following features:

- expert claims advice
- expert claims investigation
- stop-loss protection in the event of unforeseen financial circumstances
- interest on your account
- a program administrator dedicated to nonprofit organizations
- a program in which each nonprofit is evaluated individually
- a growing membership.

Is It Worth Your While?

This opportunity is a goldmine that only nonprofits can access. It gives them additional dollars every year without any hassles or strings attached. The benefits are real, and the law supports this method.

And remember, the money you save is unrestricted income — unlike the money you raise through donations and grants, which is usually earmarked for certain purposes. Thus, you can use it for any purpose at all.[3] ■

Footnotes

[1]IRC Section 3309 (a)(2).

[2]The survey concluded that 819 Illinois nonprofits were paying unemployment taxes of $11,800,000 and that they could reduce their annual unemployment costs by 50% or $5,900,000. For more information on the survey, call 800-526-4352.

[3]See Ries & Alstadter in"References."

Resources

Chupack, Marla, "Don't be Blinded by Fundraising: Have You Looked at Your State Unemployment Taxes Lately?", *Nonprofit World*, Vol. 14, No. 1.

Ries, Ronald and Eric Alstadter, "Thirteen Ways to Cut Costs: Rate Your Organization," *Nonprofit World*, Vol. 12, No. 4.

These resources are available from the Society's Resource Center. The articles from Volumes 14-23 are available free on-line at www.snpo.org/members, and articles prior to Volume 14 are available on CD-ROM at http://www. snpo.org/resources/productcatalog.php.

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