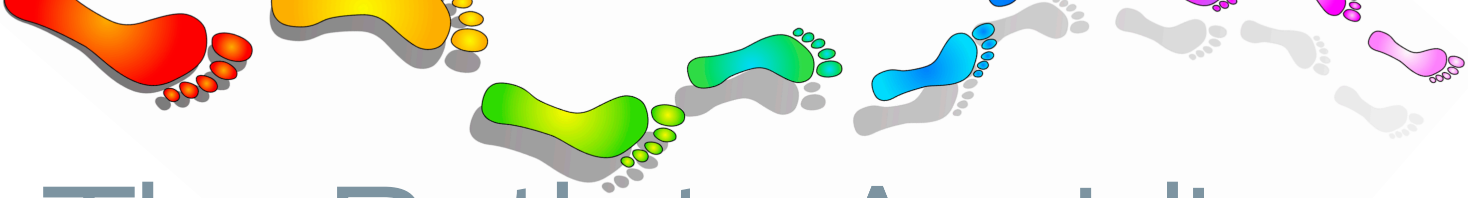

The Path to Avoiding State Unemployment Tax

Don't overlook this cost-cutting measure.

By James Gow Jr. & Ron Lucki

In looking for ways to save money, there's one possibility you may not have considered. You can opt out of paying state unemployment taxes. It's a choice available to all 501(c)(3) nonprofits.

This opportunity makes sense, because nonprofits generally pay more into the state unemployment tax program than the benefits they receive. On average, they pay $2 for every $1 paid out. That's because unemployment compensation payments are pooled so that all employers share administration costs. Employers in other industries like healthcare or construction get more value out of the state unemployment system simply due to the nature of their work and frequent changes in their workforces. As a result, many nonprofits end up funding other organizations' unemployment benefits and paying more than what they use. A nonprofit can solve this problem by opting out of the system.

Here's how it works: The Federal Unemployment Tax Act of 1972 allows 501(c)(3) nonprofits to opt out of the state unemployment insurance system to become a "reimbursable employer." When an organization operates as a reimbursable employer, it reimburses the state for unemployment benefits actually paid to each employee rather than paying unemployment taxes.

Obviously, opting out of state unemployment taxes means that if your employees are laid off, you're responsible for paying benefits. To keep this risk from being too great, you have two options:

1. **You can self-fund unemployment insurance and pay out benefits dollar for dollar.** This option can save you money; however, if a large-scale layoff occurs, the dollar-for-dollar cost could become unmanageable. In addition, the amount of time it takes to file paperwork, attend hearings, and administer unemployment benefits for former employees takes away from other human resources matters.
2. **You can purchase unemployment insurance.** Your organization can pay a fixed annual premium based on a few years of unemployment claims, payroll, and number of employees. The insurer will handle all the administration that goes along with unemployment claims. This could mean handling paperwork when an employee files for unemployment, attending hearings on behalf of your organization, and managing appeals. The insurer also helps to audit claims as they are paid, which could further save you money.

> **"It's an opportunity available to all 501(c)(3) nonprofits."**

The reimbursable employer option for 501(c)(3) nonprofits is a good source of "found" dollars. It's an easy option to investigate, and the savings can be great.

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More Cost-Cutting Ideas

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How to Cut Overhead Costs (Vol. 30, No. 4)

Sitting on a Gold Mine: Uncovering Hidden Profit Centers (Vol. 30, No. 4)

Finding Value & Income Where you Least Expect It (Vol. 33, No. 1)

How to Save Money through Bottoms-Up Budgeting (Vol 14, No. 1)

25 Ways to Cut Costs (Vol. 26, No. 2)