



June 21, 2011

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### Special Assessment for Interest on Outstanding Federal Loans

Over the recent extended recessionary cycle, Wisconsin's Unemployment Fund exhausted its reserves and has been forced to borrow from the Federal Unemployment Trust Fund to continue paying benefits. The current outstanding loan balance is \$1.3 billion.

Federal law requires states to pay interest on these loans. Interest was waived for 2009 and 2010. Currently, proposals are circulating at the federal level, which could provide additional relief for this interest if these proposals were to pass. However, under current law, without the passage of a new provision to waive the interest payments by states for 2011, interest began accruing on January 1, 2011 and a payment on that interest is currently scheduled to be made on September 30 of this year. We estimate the payment due on that date will be \$48 million.

Federal law prohibits states from using unemployment tax revenue to fund these interest payments. Therefore, Wisconsin's unemployment law contains a provision (ss. 108.19(1m)) to assess employers separately for the payment of interest due on these loans.

As required by law, the assessment will be made at a fixed rate calculated to generate the interest amount due. The rate will be applied to employer's **taxable** payroll for 2010. Taxable payroll per employee was \$12,000 in 2010. Employers whose total taxable payroll is \$25,000 or less for 2010 will not be assessed under existing law. We currently estimate that the assessment rate for employers who pay quarterly taxes will be .2% (two tenths of one percent). The rate for employers who reimburse us for benefits paid on their behalf is estimated to be .15%. We anticipate an assessment bill will be mailed to employers the beginning of August with payment due the first week of September.

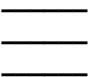
The above rates are estimates and could change slightly when the assessment is finalized in late July.



## **Projected Improvements in Wisconsin's Economy**

Although the recent recessionary cycle resulted in paying record unemployment benefits during 2009, payments decreased significantly during 2010 and continue to decline in 2011. In addition, the recent economic forecast prepared by IHS Global Insight, Inc. and used by the Wisconsin Department of Revenue in making the State's revenue estimates, forecasts continued improvement in Wisconsin's economy. Total wages and salaries paid in Wisconsin are projected to increase 3.8% during 2011, 4.6% during 2012 and 4.7% during 2013. In addition, the unemployment rate is projected to decrease to 7.3% in 2011, 6.7% in 2012, and 6.0% in 2013. These latest projections are improvements over the projections made by IHS Global Insight in December last year.

If you have questions, contact us via email at [taxnet@dwd.wisconsin.gov](mailto:taxnet@dwd.wisconsin.gov) or telephone at 608-261-6700.



## **Special Assessment for Interest - FAQ's**

### **Q1. What is the Special Assessment for Interest?**

- Due to the recent national recession, many states including Wisconsin exhausted their state funds to pay Unemployment Insurance (UI) benefits to record numbers of UI claimants. As a result, states such as Wisconsin were required to borrow from the federal government to pay this record number of claims. Currently, Wisconsin is one of 30 states with outstanding balances to the federal government. The federal government began charging states interest on these borrowed funds effective 1/1/2011, and the Special Assessment for Interest is the mechanism Wisconsin has in statute to cover this interest payment.

### **Q2. Are other states implementing a Special Assessment for Interest?**

- Currently, there are 30 states with outstanding loan balances with the Federal Government that will need to raise money to pay interest. Failure to pay the interest by 9/30/11 will expose the state to loss of federal grant funding to administer the UI program, as well as the loss of federal unemployment tax credits for employers, which are currently 5.4%.

### **Q3. How long has the Fund been negative, and why have we not had to pay interest prior to this?**

- The Trust Fund for Wisconsin was depleted in February 2009, during the what was the worst national recession since the Great Depression. Wisconsin was one of many states that were required to borrow from the U.S. Treasury to pay for a record number of UI claims. The current Trust Fund loan balance is \$1.3 billion.
- The American Recovery and Reinvestment Act of 2009 (ARRA) waived interest due from 2/17/2009 – 12/31/2010. Interest began to accrue on 1/1/2011.

### **Q4. When is this interest due?**

- The federal government requires the first interest payment to be made on or before 9/30/2011, and annual interest payments will be required on 9/30 of each year until the loan is paid off.

### **Q5. When will I know my exact rate and bill?**

- Special Assessment for Interest statements will be mailed to affected Wisconsin employers in early August 2011.

### **Q6. When will my payment be due?**

- Payments will be due in September 2011. The Special Assessment for Interest statement will include the due date, as well as instructions on payment options.

### **Q7. Who is being assessed this interest?**

- In accordance with Wisconsin statute, the employers who are affected are those whose taxable payrolls for calendar year 2010 were greater than \$25,000.

**Q8. How will my interest bill be calculated?**

- The bill will be calculated as a fixed rate multiplied by an employer's 2010 calendar year taxable payroll.

**Q9. What if the payment is not made by the due date?**

- If your payment is not received by the due date specified on the Special Assessment for Interest statement, interest at a rate of 1% per month will begin to accrue on your outstanding balance.

**Q10. I've never laid anyone off and or I know I have a positive reserve fund balance. Why am I being assessed?**

- As required by statute, the Special Assessment for Interest is a flat assessment for all employers subject to unemployment tax whose taxable payroll for calendar year 2010 was greater than \$25,000.