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Subject: First Draft of Due Outs

Attachments: Finance Committee Questions.docx

Katherine – here is a first draft of the due outs. I have attached the comments from this message if you are working on your blackberry.

Joe

Draft Notes/follow-ups from 4.24.12 Sen. Finance Committee

Senator Peeler

1. Does North Carolina have a similar tax rate structure as SC? **No, they do not have a similar structure but their maximum tax rate is higher than our class 20 rate even before they get on a plan to repay their \$2.9 billion in federal loans.**
2. Did North Carolina make changes to service their federal debt, or have they just ‘ignored’ it? **To date North Carolina does not have a plan to repay the federal debt. They have experienced their first FUTA increase in 2011 (paid in 2012) and will continue to see their federal taxes increase until all loans are repaid or they address the situation with an alternative state plan to reach solvency similar to what South Carolina has done.**

Senator Alexander

3. Since NC and GA are ‘ignoring’ their federal debt, does it make SC less competitive than those and other states since it raises our cost of doing business? **Not necessarily. SC continues to have lower tax rates for unemployment compared to NC. Georgia’s head of their employment agency has written an op-ed about how GA will become non-competitive over the next few years if they don’t do something to address their outstanding debt which is at about the same level as SC. Both GA and NC experienced an increase in their federal unemployment costs for 2011 (paid in 2012) and will continue to see those go up each year until the loans are repaid. This gives SC an advantage since the state received the full FUTA credit in 2011 and expects to continue to receive the full credit each year which keeps federal unemployment taxes low**
4. What are the current and historical interest rates charged to borrow from the FUA? **For calendar year 2011 the interest rate was about 4.3% which was substantially higher than market rates. For 2012 the interest rate has dropped to 2.9% which will lower the amount of interest payments required from South Carolina compared to what was projected for 2012. The interest costs for 2012 are likely to be around \$25 million rather than the projected \$35 million, in part due to the interest rate decline. Interest rates are set at the end of each calendar year for the following year by the US Treasury based on what their investments earn in the 4th quarter of each year. The rate for 2013 will not be known until early January 2013 which makes planning for the interest a little more difficult since South Carolina’s unemployment taxes are set in late fall of each year.**

Senator Thomas

5. The maximum tax rate for businesses used to be \$400, now that is in the middle of the road in classes 12/13 and businesses can’t hire anyone now. **The maximum rate for businesses under the old tax structure was \$427 per person per year which was insufficient to fund the unemployment benefits paid in the state. Since 1998 the state had received less in contributions than it paid out in benefits. Taxes had not been raised substantially since 1983 making the old tax structure outdated and unsustainable. The new tax structure is designed to raise the revenues needed to pay benefits, repay the federal loans, and make interest payments.**

This will help to ensure that the state does not need to take future federal loans and regains the recommended level of solvency. The tax rate for “new business” is currently whatever rate is assigned to tax class 12. This is only slightly higher than what was charged to new businesses under the old tax rate system. Previously firms had to pay 3.4% on the first \$7,000 of an individual’s earnings for a total of \$238 per person per year. The current rate for tax class 12 is \$265.44 per person per year. This amount is expected to continue to drop in 2013-2015 as the economy continues to improve. Also, the rate is in line with what surrounding states charge for new businesses:

State	Cost per Worker (New Business)
Alabama	\$216.00
Florida	\$216.00
Georgia	\$222.70
Kentucky	\$216.00
Mississippi	\$154.00
North Carolina	\$236.40
Tennessee	\$243.00

Senator Elliot

6. The Department will schedule a meeting with Senator Elliott to address the UI claim concerning the worker at his golf course.

Leventis

7. How can criminal behavior ever result in anything but denial of UI benefits? Drafting a response for this now.

Joe