

NJBIA

REPORT TO MEMBERS *By Philip Kirschner, President*

NJ Must Avert \$700-Million Tax Hike on Employers

As unemployment surges, New Jersey employers face the growing threat of an automatic \$350 million to \$700 million increase in their payroll taxes to bail out the state's depleted Unemployment Insurance (UI) Trust Fund.

In early February, the UI Fund was paying out more than \$45 million per week in benefits amid shrinking tax collections and rising claims. Its dwindling balance of \$400 million was enough to last only about 10 weeks. (New Jersey's unemployment rate jumped nearly a full percentage point to 7.1 percent in December, the highest level in 15 years.)

Although the federal stimulus package could provide some additional money to inject into the fund, there was no guarantee that this would be enough money to avert a huge tax hike.

On March 31, if the UI Fund has not received a substantial cash infusion, the law will automatically trigger a 15-30 percent increase in employers' UI taxes to cover future claims.

We have reached the crisis point. New Jersey employers cannot afford to get hit with a huge payroll tax increase when they are struggling to hang on to the workers they've got. Governor Jon Corzine and the Legislature must do everything in their power to avoid such a disastrous increase.

It didn't have to be this way. In fact, the

architects of the current UI system had a very different outcome in mind.

When the Legislature overhauled the UI system in 1984, it had a simple plan. During good times, the Fund balance would grow, allowing it to accumulate enough cash to weather the inevitable economic storms.

The promised benefit to employers was this: Having paid into the fund during periods of growth, they would not be forced to pay higher UI taxes during periods of economic recession.

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Unfortunately, the Legislature and past administrations broke this promise by diverting \$4.7 billion in UI funds over 14 years to pay other bills and balance the state budget.

That's the story. If past administrations and the Legislature had let the Fund balance grow as intended, there would be no need for a cash infusion or a tax hike during a recession that is on track to become one of the worst ever.

Governor Corzine deserves credit for recognizing this mistake and for ending the long-standing practice of diverting UI funds to pay other government bills. Last year, to avert an automatic UI tax increase, the Governor issued an order depositing \$260 million in the fund. More recently, he pledged to deposit another \$250 million.

"We need those dollars now for the people that have lost their jobs and we are going to do what is necessary to make sure our benefits flow," said the Governor, and he pledged: "I will do everything I can to avoid a tax increase."

Governor, we'll work with you to fulfill that promise. **NJB**

