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BILL ANALYSIS



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House Bill 5756 (as passed by the House)
Sponsor: Representative Steven Lindberg
House Committee: Labor
Senate Committee: Commerce and Tourism

Date Completed: 5-18-10

CONTENT

The bill would amend the Michigan Employment Security Act to prohibit unemployment benefits from being reduced, as otherwise required, for receipt of a pension, retirement pay, annuity, or other similar payment that was part of a rollover distribution.

The Act provides for a person's weekly benefit rate to be reduced if he or she receives a retirement benefit from the chargeable employer. Under the bill, however, if the reduction would impair the full tax credit against the tax imposed by the Federal Unemployment Tax Act, unemployment benefits could not be reduced for receipt of any governmental or other pension, retirement or retired pay, annuity, or other similar payment that was not includable in the individual's gross income for the taxable year in which it was received because it was a part of a rollover distribution.

(The Federal Unemployment Tax Act prohibits the amount of compensation from being reduced on account of those payments (26 USC 3304(a)(15)(B)).)

MCL 421.27

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would bring the State's unemployment insurance system into compliance with Federal law that governs the treatment of rollover distributions in determining unemployment benefits. Federal law requires these payments to be excluded from consideration in benefit determination, while current Michigan law requires them to be considered, potentially reducing unemployment benefits to affected individuals. Compliance with Federal law would tend to increase the level of unemployment benefits in some situations, which could increase the chargeable benefits component of the State unemployment insurance (UI) tax for an affected company. Failure to comply with the Federal law, however, would subject the State's employers to Federal penalties, specifically the loss of the Federal Unemployment Tax Act (FUTA) credit against Federal unemployment taxes that is currently available to employers who have properly paid their State unemployment insurance taxes. The FUTA credit currently reduces the Federal UI tax rate from 6.2% to 1.1% of the taxable wage base of \$7,000 per employee. The Michigan Unemployment Insurance Agency has estimated the value of the FUTA credit to employers at \$357 per covered employee. The FUTA tax credit is not available to employers in states that are out of compliance with the Federal Unemployment Tax Act.

Fiscal Analyst: Elizabeth Pratt
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