

Business owners face possible tax increase if UC Trust Fund not solvent by November

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July 14, 2022 4:34 pm

Business owners could be hit with increased taxes starting next year if the state Unemployment Compensation (UC) Trust Fund is not solvent.

Alex Halper, director of government affairs for the Pennsylvania Chamber of Commerce, said the chamber is working with legislators to make sure the UC Trust Fund is funded so business owners don't see the tax increases.

"The pandemic and broad business shutdown orders prompted historic demand on Pennsylvania's UC system, eventually depleting the UC Trust Fund and forcing the Commonwealth to borrow from the federal government to pay the state's share of benefits," he wrote in a memorandum to the state legislature.

The federal government has allowed states to use American Rescue Plan funds to replenish UC Trust Funds, he said, which would keep taxes at current rates. "Many states have already opted to do that," he said.

He cited Democratic-majority states like Connecticut and Washington; Republican-majority states like Alabama and Texas; and neighboring states Ohio and Maryland.

If nothing is done, Halper said there will be a \$360 million increase in corporate income taxes over the next several years.

"We've seen this before during the Great Recession," he said. Employers were hit with tax increases and the state issued bonds to pay off the debt. Employers were assessed a fee until 2020 to pay off the bonds, he said.

But the current situation, caused by forced business closures due to the pandemic and fraudulent unemployment claims, that Halper said is estimated to be in the billions of dollars, is not anything businesses could control.

"The new budget allocated \$42 million to the trust fund and is viewed as a first installment," he said. "The agreement going forward is that employers' taxes won't be increased."

However, if Pennsylvania still owes money to the federal government by November, a tax increase will automatically be triggered starting next year. "We are working hard to avoid that," he said.

"We will continue working with the legislature to find the options that are out there. We need to make sure they understand the timeline and are committed to addressing the issue," he said.

Countless employers have reported a large amount of fraudulent UC claims and while there is an effort to crack down on them, it is difficult to recoup any losses, he added.

While new UC claims have slowed, the need to borrow from the federal government remains, which will trigger the automatic increases in the years ahead, costing employers hundreds of millions of dollars beyond the billions in UC taxes already paid annually.

"Employers understand their responsibility to fund the UC, but they had no control over this situation," he said. "We need to help them avoid any increases."

One of the big problems the chamber sees is the extra incentive that was paid to UC claimants. "There was a disincentive to return to work as people made more money staying home," Halper said. "Those incentives have expired but the impact is still being felt."