

# Unemployment Insurance (UI) Tax Rate Buydown

This is a reminder for you (and your clients, if you are a practitioner or payroll agent) of an opportunity to reduce the cost for unemployment insurance in Minnesota. A law change passed during the 2010 session of the Minnesota legislature provided for a three year reduction in the cost of “buying down” an employer’s tax rate.

Reference: Minnesota Law, [268.051 Subd.7](#)

Employers, who are assigned an experience rating and have had benefits paid to former employees during the experience rating period, can make a buydown payment to cancel some or all of the benefits paid charges on their account, thereby reducing their unemployment insurance tax rate.

Tax rate buydown payments:

- Must be made within the first 120 days of the calendar year for which the tax rate is to be effective (and, cannot be made any sooner than the beginning of that calendar year), and
- Usually include a 25 percent surcharge; **however, due to a the law change passed during the 2010 legislative session, the 25 percent surcharge will not be applied to tax rate buydowns for calendar years 2012 and 2013.**

**Note:** If you or your client intends to process a tax rate buydown, be certain to process the tax rate buydown before the submission of the first quarter wage detail report. Employers cannot request a tax rate buydown if they have any unpaid debt on their account, and there will be a balance due on their account between the time they process their first quarter wage detail and the time the tax payment is processed (generally on or about April 30th).

Employers who make a buydown payment, will have their tax rate recomputed using the reduced amount of unemployment benefits for the experience rating period. This rate will be applied to the first quarter of the year of the rate buydown. The buydown request must be reviewed and approved by UI staff prior to being applied to the account. Therefore, the closer the buydown payment is made to the processing date of the first quarter wage detail, the better the chances are that the rate recalculation will not be effective at the time the first quarter taxes are processed, causing taxes to be due on the account at the pre-buydown tax rate. Buydowns processed earlier in the 120 day window of opportunity will help to eliminate this problem.

To decide whether a buydown payment will save an employer money, they should compare the cost of making a buydown payment to get a reduced tax rate to that of paying tax at their assigned tax rate (the estimated effect of the buydown over the four year experience rating period should also be considered in this analysis).

Benefits paid charges that are canceled by a buydown payment are permanently removed from the employers account. Therefore, a buydown payment will likely provide tax savings for several years. The full effect of a buydown payment becomes more apparent if the employer can accurately estimate their taxable payroll for several years.

Two tools are available within the Minnesota Unemployment Insurance Online Employer Self-Service System to help employers with these projections:

- Forecast Tax Calculator
- Process Tax Rate Buydown

**NOTE:** Employers may want to use the Forecast Tax Calculator several times until they reach the tax rate buydown amount that is the most financially acceptable to them. Reference the ***Employer Self-Service System User Guide*** on the UI website at [www.uimn.org/tax/user-guide/acct\\_maint\\_PTRB.htm](http://www.uimn.org/tax/user-guide/acct_maint_PTRB.htm) for step-by-step instructions.

Contact Information:

**Gary Johnson | Employer/Agent Liaison**

*Department of Employment and Economic Development*

*Unemployment Insurance Division*

PO Box 75576, Saint Paul, MN 55175-0576

Direct: 651-259-7220 Fax: 651-296-0050

[www.uimn.org](http://www.uimn.org)