

The Minnesota Unemployment Insurance (UI) Program produced this handbook to help employers comply with Minnesota Unemployment Insurance Law and to promote understanding of the program.

This handbook is based on current UI legislation; statements are intended for general information and **do not have the effect of law**. This handbook is not designed to cover all phases of the law or to answer all questions; it is designed as an overview. The Minnesota Unemployment Insurance Law - MN Statutes §268.001 to §268.23 and Administrative Rules 3310 and 3315 - can be accessed through our Web site at www.uimn.org by clicking on the [UI Law](#) link.

For detailed information on any of the processes discussed in this handbook refer to the [Employer Self-Service System User Guide](#) available online at www.uimn.org/tax

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Obligations of Employers

To be in compliance with Minnesota Unemployment Insurance Law, employers must:

1. Register for an employer account,
2. Display current version of the “Unemployed?” poster,
3. Maintain current account information,
4. Submit Quarterly Wage Detail Report by due date,
5. Submit payment by due date, and
6. Maintain complete payroll records.

New Employer Registration

Who Needs to Register

Reference: Minnesota Law, §268.042 Subd.1 (2008)

Under Minnesota Unemployment Insurance Law, every individual or organization that pays covered wages in Minnesota must register with the Minnesota Unemployment Insurance (UI) Program. Registration should be done as soon as possible after first wages are paid for covered employment in Minnesota. Registration must occur prior to the due date of the first quarterly wage detail report the employer is required to submit. Please **do not** register until covered wages have actually been paid.

Federal and State Registration Requirements

All employers must comply with federal and state registration requirements before registering for a Minnesota Unemployment Insurance Employer Account.

State of Minnesota

Minnesota Secretary of State

651-296-2803 | 1-877-551-6767 | TTY 1-800-3529 or 711

www.sos.state.mn.us

Minnesota Department of Revenue

651-282-9999 | 1-800-657-3594 | TTY users call Minnesota Relay at 711

www.taxes.state.mn.us

Federal Government

Business and Specialty Tax

1-800-829-4933

www.irs.gov

Certain employers are exempt from unemployment insurance tax, depending on their legal organization and/or their type of business. For more information, reference the following sections of this handbook: *Agricultural Employment*, *Domestic Employment* and *Special Provisions Relating to Business Entities*.

How to Register

Register for an employer account using the Employer Self-Service System available online and by phone:



Online at www.uimn.org

click on *Employer Login*

Refer to [Register a New Account](#) in the *Employer Self-Service System User Guide* for step-by-step instructions.



By phone using the automated phone system (IVR). This option should only be used by employers who do not have access to the internet.

- 651-296-6141 (press option 2)

Before you start the online or phone registration, you should know or have available the following information:

- Type of legal entity (corporation, sole proprietorship, LLC, etc.);
- Name of legal entity as registered with the Secretary of State (if required);
- Doing business as name, if different than legal name;
- Physical address of the business;
- Mailing address (if different from the physical address);
- Federal Employment Identification Number (FEIN);
- Minnesota Department of Revenue Taxpayer ID Number;
- Primary business activity performed in Minnesota;
- If a corporation: state and date of incorporation;
- Name, Social Security number, home address, and percentage of ownership for **all** owners / officers;
- Source of business (is the business new, or was it acquired from another entity?);
- Dates that covered employees first performed services in Minnesota;
- Date that first wages were paid to covered employees (including owner/officers owning 25 percent or more, if coverage has been elected);
- Number of covered employees in Minnesota; and
- Agent ID (if applicable).

If the business is a result of a reorganization of, or acquisition from another business, additional information will oftentimes be required before a tax rate can be assigned.

Reportable Wages and Exclusions

Reportable Wages

Reference: Minnesota Law, §268.035 Subd.29 (2008)

All payments in cash, goods, or any other medium to employees, for services performed in covered employment, are wages and must be reported; however, not all wages are taxable. Reference the *Taxable Wage Base* section of this handbook for more information.

The following types of compensation are included in the definition of "wages" and need to be reported on the quarterly wage detail report.

- Salary.
- Cash wages.
- Commissions.
- Bonuses.
- Tips and gratuities.
- Awards and prizes.
- Severance payments.
- Vacation and holiday pay.
- Standby pay.
- Reasonable value of meals, rent, housing, or any similar advantage.
- Back pay as of the date of payment.
- Sick pay and accident disability payments, except as provided under "*Excluded Wages*".
- Payments made under a deferred compensation or cafeteria plan, discussed under "*Employee Benefit Plans*".

Employee Benefit Plans

Employee benefit plans offer favorable treatment of contributions for federal and state income tax purposes. Payments made under such benefit plans are exempt from income tax; however, this **does not** mean that the payments are also exempt from unemployment insurance tax.

401(k) plan. Also known as a deferred compensation plan or a salary reduction plan, is an employee profit sharing or stock bonus plan authorized by Section 401(k) of the Internal Revenue Code. Payments made under this plan or any plan based on a trust described in Section 401(a) or Section 403(a) of the Internal Revenue Code must be reported if the employee can choose to receive the payments in cash.

Cafeteria plan. Allows participants to choose from two or more cash and statutory nontaxable benefits. Because cash is an option, all payments to cafeteria plans are wages and must be reported.

Excluded Wages

Reference: Minnesota Law, §268.035 Subd.29 (2008)

The following types of compensation are excluded from the definition of "wages" and do not need to be reported on the quarterly wage detail report.

- Payments for retirement, medical and hospitalization expenses, and death, if the payments are made under a plan or system for employees generally or for a class or classes of employees. Exempt payments include those paid for insurance or annuities or into a fund to provide for eventual payment to the employee.
- Sick pay paid for periods of sickness or injury **after** the end of six calendar months after the calendar month in which the employee last worked.
- Sick pay paid by a third party, such as an insurance company, or disability payments made under a workers' compensation law.

- Payments made into a fund, or for the purchase of insurance or an annuity, to provide for sickness or accident disability payments to employees under a plan or system established by the employer which provides for employees generally or for a class or classes of employees.
- The value of any special discount or markdown allowed to an employee in goods purchased or services supplied by the employer if the purchases are optional and do not constitute regular or systematic remuneration for services rendered.
- Customary and reasonable director's fees paid to individuals who are not otherwise employed by the corporation of which they are directors.
- Allowances to employees for reimbursement of meal expenses when employees are required to perform work after their regular hours.
- Payments made to or on behalf of an employee for legal or dental services plans, if provided for all employees generally or for a class or classes of employees.
- Royalties to an owner of a franchise, license, copyright, patent, oil, mineral, or other right.
- Amounts paid specifically as advances or reimbursements for traveling or other bona fide ordinary and necessary expenses. The payments must be identified either by making separate payments or by specifically indicating the separate amounts where both wages and expense allowances are combined in a single payment.
- Residual payments to radio and television artists that accrues after the production of musical jingles, spot announcements, radio transcriptions, and film sound tracks.
- Payment by an employer of a domestic or agricultural employee's portion of Social Security tax.
- The value of parking facilities provided or paid for by an employer, in whole or in part, if provided for all employees generally or for a class or classes of employees.
- Any payment made to, or on behalf of, an employer or beneficiary from or to a trust, section 401(a) of the federal Internal Revenue Code, that is exempt from tax under section 501(a) at the time of the payment unless the payment is made to an employee of the trust, or to an annuity plan that, at the time of the payment, is a plan described in section 403(a).

Covered/Non-Covered Employment

Covered Employment

Covered employment is when an employee performs a service for a person or organization in return for compensation in the form of covered wages. Wages paid to employees in covered employment are used as a basis in establishing an unemployment insurance benefit account, if an employee becomes unemployed by no fault of their own.

Covered employment includes, but is not limited* to:

- Services performed by an individual who is an employee under the law of employer-employee,
- Services performed by an officer of a corporation who owns **less** than 25 percent of the corporation, and
- Services performed in the employ of any agency, instrumentality or political subdivision of Minnesota.

Employers with covered employment are required to pay state unemployment insurance tax on the taxable wages paid to employees or reimburse unemployment insurance benefits collected by former employees.

*For a complete listing of covered employment, Reference: Minnesota Law, §268.035 Subd.12 (2008)

Non-Covered Employment

Non-covered employment is when an employer pays wages and, according to Minnesota Unemployment Insurance Law, does not have to pay unemployment insurance tax on those wages.

Non-covered employment includes, but is not limited* to:

- Services performed by a sole proprietor or a member of a partnership,
- Services performed for a sole proprietor by his or her parent, spouse, or child under the age of 18,
- Services performed on or after January 1, 2005, for a corporation by an officer who owns 25 percent **or more** of the corporation,
- Services performed for a limited liability company by a member who owns 25 percent **or more** of the limited liability company, and
- Services performed for a church, convention or association of churches, or any other religious organization that is supervised, controlled or principally supported by a church, if the employer is operated primarily for religious purposes.

NOTE: For information about voluntarily electing coverage for non-covered employees, reference the *Elect Coverage for Non-Covered Employees* section of this handbook.

*For a complete listing of non-covered employment, reference Minnesota Law, §268.035 Subd.20 (2008)

Agricultural Employment

Reference: Minnesota Law, §268.035 Subd.2 (2008), §268.035 Subd.11 (5) (6) (2008), and §268.035 Subd.16 (2008)

Agricultural employment is any service performed by an employee on a farm in connection with cultivating the soil or in raising or harvesting an agricultural or horticultural commodity. A farm is land or buildings used primarily for raising agricultural or horticultural commodities or as part of a ranch, range, livestock or dairy operation. Feedlots, hatcheries, and horse breeding and training enterprises are not farms.

NOTE: Farms include: stock, dairy, poultry, fruit, truck and fur-bearing animal farms, as well as orchards, plantations, ranches, nurseries, ranges, and greenhouses. Service performed in connection with the operation, management, conservation, improvement, and maintenance of a farm is agricultural if the employer is the owner, tenant, or operator of the farm and the major part of the service is performed on the farm.

An agricultural employer must register for an employer account when it meets one of the following conditions:

- The employer pays 10 or more employees for at least 20 weeks during a single calendar year,
- The employer pays \$20,000 or more to employees during a calendar quarter,
- The employer pays 4 employees for at least 20 weeks, excluding family farm officers and workers 16 and under, or
- The employer pays \$20,000 or more in cash or non-cash wages, excluding family farm officers and workers 16 and under.

Special Treatment of Family Farm Corporations

Service performed by an officer or shareholder of a family farm corporation is excluded from agricultural labor and employment unless the corporation is an employer as defined by the Federal Unemployment Tax Act (FUTA).

A family farm corporation must meet three requirements:

1. It must be founded for the purposes of farming and the ownership of agricultural land,
2. At least one related member must live on or actively operate the farm, and
3. The majority of the stockholders must be related to each other within the third degree of kindred*.

*Kindred include the following family relationships: parents and children are relatives in the first degree of kindred; grandparents, grandchildren, brothers, and sisters are relatives in the second degree of kindred; uncles, aunts, nephews, nieces, and great-grandparents are relatives in the third degree of kindred.

Domestic Employment (household employees)

Reference: Minnesota Law, §268.035 Subd.20 (17) (2008)

Domestic employment includes duties in an employer's household that administer to the personal wants and comforts of the employer and other household members. Domestic employment can be performed in a private home, local college club, or local chapter of a college fraternity or sorority. A private home can be any shelter used as a dwelling, or a room or suite in a hospital, hotel or nursing home.

Employers of domestic workers must pay state unemployment insurance tax if \$1,000 in total gross wages, including the value of room, board, and other advantages, is paid for domestic service in a calendar quarter. Once the quarterly \$1,000 liability threshold is met, all covered wages paid for domestic service during that calendar year are reportable.

Domestic service includes duties performed by:

- Cooks, waiters and waitresses;
- Butlers, maids and housekeepers;
- Caretakers, gardeners and handymen;
- Governesses, babysitters and nursemaids;
- Chauffeurs, housemen, footmen and watchmen;
- Valets, companions and grooms; and
- Laundresses and seamstresses.

Certain services performed in a private home are not domestic employment, because they do not administer to the personal wants and comforts of the employer. Examples include services performed by a private or social secretary, tutor, librarian and medical nurse.

Special Situations

- **Domestic Service Performed by a Relative.** Domestic service performed by a relative of an individual who is a domestic employer is covered employment, with the following exceptions:
 - Service performed for an individual by his or her spouse,
 - Service performed by a child under the age of 18 for his or her parent or parents, and
 - Service performed for an individual by his or her parent.
- **Workers Placed Through Referral or a Placement Agency.** Domestic workers referred to jobs through employment placement agencies that neither supervise nor pay them directly are employees of the recipient of the services. However, if the agency is in the business of providing temporary services to clients, the agency is the employer, and the services are considered nondomestic.

- **Registered and Licensed Practical Nurses.** Registered nurses and licensed practical nurses who are engaged by hospitals, nursing homes, physicians, government agencies or commercial businesses generally are nondomestic workers.
- **Nurses Aides and Patient Helpers.** Nurses aides and patient helpers who perform services in a private home are usually performing domestic services. Patient helpers selected by patients who require their services are generally employed by the patient.
- **Service Performed for a Member of a Religious Order.** Service performed in the private home of a member of a religious order is domestic if the worker is employed by the member of the order, or if the funds for the worker's wages are not specifically provided by the church or religious order. Funds provided by the congregation of a church are considered as being provided by the church.
If the worker is in the employ of the church or religious order, the service is excluded from coverage for unemployment insurance tax purposes. If the spouse of the member hires and directs the worker, the spouse is the employer.
- **Service Performed by an Employee of a Landlord.** Service performed in and around rental units by an employee of a landlord is not domestic service, unless it is performed in the private residence of the landlord.

Special Provisions Relating to Business Entities

Reference: Minnesota Law, §268.035 Subd.20 (18) (2008) and §268.035 Subd.29 (f) (2008)

Under Minnesota Unemployment Insurance Law, every individual or organization that pays covered wages in Minnesota must register with the Minnesota Unemployment Insurance (UI) Program. Registration with the UI Program should be done as soon as possible after first wages are paid for covered employment in Minnesota. Reference the *New Employer Registration* section of this handbook for more information.

Special provisions exist for business entities in determining whether or not employment is covered. The following are not covered for Minnesota unemployment insurance tax purposes:

- **Sole Proprietorship.** Services performed by a sole proprietor's spouse, parents, or child under the age of 18. A sole proprietor only paying these employees does not have to register.
- **Partnership.** Services performed by the partners of a partnership. A partnership paying only these individuals does not have to register.
- **Corporations and LLCs (Limited Liability Companies).** Wages of members who own 25 percent or more of a corporation or LLC. A corporation or LLC paying only these owner/officers does not have to register for an employer account. Employers may elect to extend coverage to these employees by electing optional coverage for non-covered employees.

For information about voluntarily electing coverage for non-covered employees, reference the *Elect Coverage for Non-Covered Employees* section of this handbook.

Special Provisions Related to S-Corporations

- **Domestic Corporations.** Domestic corporations that meet certain requirements may elect to be subject to the provisions of Subchapter "S" of the Internal Revenue Code in lieu of paying federal income taxes. These corporations generally do not pay a tax on their income. Instead, the income, expense and credit items of the corporation are passed through to the shareholders, who then report them on their personal income tax returns. In essence, the corporation is treated like a partnership for income tax purposes.
- **Status of Officers and Shareholders.** Under Minnesota Unemployment Insurance Law, officers of any corporation who perform services for the corporation are considered employees of the corporation. Electing to be treated as a partnership for

income tax purposes does not change the corporation into a partnership, or the employment status of the corporate officers.

- **Wages to Officers and Shareholders.** All wages paid and wages due and payable to officers or shareholders in covered employment who perform service for an "S" corporation are reportable for Minnesota unemployment insurance tax purposes. In addition to cash, wages can take the form of commissions, bonuses, profit sharing, and the cash value of room, board, or any other advantage provided to an employee. These wages are also usable as wage credits if an officer or shareholder applies for unemployment insurance benefits.
- **Other Types of Payments.** Certain types of payments by corporations are not reportable as wages if the following conditions are met:
 - **Dividend and Earnings Distributions.** All dividends and earnings distributed by the corporation must be declared as such in corporate minutes. All shareholders must be paid on the basis of percentage of ownership.
 - **Expense Reimbursement.** Expenses incurred by an officer or shareholder must be reasonable, must be documented by a written expense voucher, and must be recorded on the corporate records as a corporate expense.
 - **Loans to Officers and Shareholders.** A loan must be documented by an actual loan instrument that sets the rate of interest and a repayment schedule. It must be evidenced by a promissory note signed by an officer before the payment of the loan proceeds, and recorded on the books and records of the corporation as a loan to an officer or shareholder. The loan must appear on the corporate balance sheet.
 - **Corporate Repayment of Loans or Interest to Officers and Shareholders.** A repayment of a loan or payment of interest on a loan made by an officer or shareholder to the corporation must be recorded on corporate records as a liability of the corporation.
 - **Rental Payments on Property Personally Owned by an Officer or Shareholder.** A rental payment must be for a tangible asset and must reflect a reasonable rate of return on the value of the asset. As a rule, rental payments on real estate should not exceed 15 percent of the assessed market value of the real estate. When assessing the value of an asset other than real estate, the expected life of the asset should be considered. The payment must be recorded on the corporate records as a corporate expense.

Elect Coverage for Non-Covered Employees (Voluntary Election of Coverage)

Reference: Minnesota Law, §268.042 Subd.3 (2008)

Employers, who are not required to pay Minnesota unemployment insurance tax on wages paid to their employees, may elect to extend coverage to those employees. Elections of coverage are effective the quarter after they have been requested and remain in effect for a minimum of two calendar years. To terminate an election, an employer must notify the Minnesota Unemployment Insurance (UI) Program by December 1st for the coverage to be terminated the following January 1st. The UI Program may grant or deny elections at its discretion. Voluntary election of coverage will not be available if there is any debt on an employer's account. The election must apply to all owners as a class. Employers, who elect to cover these services, will be required to pay unemployment insurance tax on wages paid to the affected owners. The owners may also be eligible to collect unemployment insurance benefits.

NOTE: Federal Unemployment Tax Act (FUTA) liability may increase if an employer **does not** elect to cover non-covered owner/officer's wages. Payment of state unemployment insurance tax by the due date creates an offset credit towards FUTA tax liability. Employers should contact their accountant or tax advisor for more information.

Employment in More Than One State

Reference: Minnesota Law, §268.035 Subd.12 (2008)

When an employee performs services in Minnesota and at least one other state, use the following information to determine whether wages paid to the worker must be reported to the Minnesota Unemployment Insurance (UI) Program.

- The employment is performed primarily in Minnesota, and the employment performed outside Minnesota is incidental to the employment in Minnesota, or
- The employment is performed in Minnesota and the base of operations or the place from which the employment is directed or controlled is in Minnesota, or
- The base of operations or place from which the employment is directed or controlled is not in any state where part of the employment is performed, but the employee's residence is in Minnesota.

If the information above does not apply and the individual's services are not covered under the laws of another state or Canada, the services are covered in Minnesota if the employer directs and controls them from Minnesota.

Wages paid to an employee who was covered under the unemployment insurance law of another state **do not** count toward the Minnesota taxable wage base.

Independent Contractors

Reference: Minnesota Law, §3315.0555 (2008) and §268.035 Subd. 25b (2008)

Proper classification of workers can be a complex task for any business. The Minnesota Unemployment Insurance (UI) Program reserves the right to determine whether services performed by a worker constitute employment.

Independent contractors are common in certain industries, construction being the most familiar example. However, it is not unusual to find full time clerical workers, janitors, managers, and nurses, as well as employees who are performing services on a part time, temporary or probationary basis in a variety of job classifications being misclassified as independent contractors. The following paragraphs summarize the key elements involved in determining whether a worker is an employee or an independent contractor.

Common Law Factors

Minnesota state agencies use a [common law factor](#) analysis similar to the Internal Revenue Service to determine the status of a worker. Minnesota's common law factors have been defined by the Minnesota court system. Of the twenty factors defined by the courts, the five factors that carry the most "weight" are:

1. **Control.** Does the firm or does the worker control the means and manner in which the services are performed?
2. **Discharge.** Can either party sue for breach of contract or can the firm or worker terminate at will without incurring any legal liability?
3. **Payment.** Does the firm or the worker dictate the value placed on these services? Is the worker paid by the job or in a regular and routine manner?
4. **Investment.** Does the firm or does the worker furnish any car or truck; tools or equipment; and/or materials or supplies necessary to perform these services?
5. **Premises.** Does the firm or does the worker control the premises where these services are performed?

Essential Characteristics of Employment

- The firm has the right to control the means and manner in which the services are performed.
- The firm has the right to discharge the worker without incurring legal liability.
- The worker is paid in a regular and routine manner for services performed.
- The firm furnishes the worker with:
 - Company car or truck,
 - Tools or equipment, or
 - Materials or supplies.
- The firm controls the premises where services are performed.

Essential Characteristics of Independence

- The firm's only concern is the end result.
- The firm and worker are in a **binding** contract, where failure to complete services is a breach of contract in which a legal remedy may be pursued by **either** party.
- The worker is paid by the job, on a bid basis, by percentage completion, etc.
- The worker furnishes **all** tools, equipment, materials and supplies necessary to complete the work.
- The worker has substantial investment in the tools and equipment used to perform the services.
- The worker makes his or her services available to the public on a continuing basis.

Unique Treatment of Independent Contractors in the Construction Industry

Reference: Minnesota Department of Labor & Industry Law, §181.723

Legislation passed in 2007 requires that, effective Jan. 1, 2009, certain individuals who wish to work as independent contractors in the construction industry in Minnesota must apply for and be granted an "[independent contractor exemption certificate](#)" from the Department of Labor and Industry. Refer to the Department of Labor and Industry Web site for details www.dli.mn.gov/CCLD/ICEC.asp

A worker doing commercial or residential building construction or improvement, in the public or private sector, performing services in the course of the trade, business, profession, or occupation of the employer, is considered an employee and **not** an "independent contractor" unless the worker meets **all** the following conditions:

1. Maintains a separate business with the independent contractor's own office, equipment, materials, and other facilities,
2. Holds or has applied for a federal employer identification number or has filed business or self-employment income tax returns with the federal Internal Revenue Service based on that work or service in the previous year,
3. Operates under contracts to perform specific services or work for specific amounts of money under which the independent contractor controls the means of performing the services or work,
4. Incurs the main expenses related to the service or work that the independent contractor performs under contract,
5. Is responsible for the satisfactory completion of work or services that the independent contractor contracts to perform and is liable for a failure to complete the work or service,
6. Receives compensation for work or service performed under a contract on a commission or per job or competitive bid basis and not on any other basis,
7. May realize a profit or suffer a loss under contracts to perform work or service,
8. Has continuing or recurring business liabilities or obligations, and
9. The success or failure of the independent contractor's business depends on the relationship of business receipts to expenditures.

For additional information about independent contractors, contact:

MN Unemployment Insurance Program

651-296-6141 | www.uimn.org

Internal Revenue Service

1-800-829-1040 | www.irs.gov

MN Department of Labor & Industry

651-284-5005 | 1-800-342-5354 | www.dli.mn.gov

MN Department of Revenue

651-282-9999 | www.taxes.state.mn.us

Leased Employees

Reference: Minnesota Law, §268.046 Subd.1 (2008)

The term “leased employees” refers to a relationship where one legal entity provides labor to another legal entity on a continuing basis for a fee. All employee leasing firms that operate in Minnesota must register with the Minnesota Department of Commerce before registering with the Minnesota Unemployment Insurance (UI) Program. Employee leasing firms must maintain separate employer accounts for each of their clients.

Tax Rate Information

Employers with covered employment must pay quarterly unemployment insurance tax into the Minnesota Unemployment Insurance Trust Fund (the Fund), which is used solely to pay unemployment benefits. This tax is a percentage of the taxable wages paid to employees and may not be withheld from employee wages.

Employers who have only paid wages for a short time will be assigned one of two new employer tax rates, depending on their type of business - a rate which is the computed average rate of all employers or a rate which is assigned to employers in a “high experience rating industry” - each year until the employer qualifies for an experience rating. Each employer’s tax rate is comprised of several factors, which may change yearly depending on the balance in the Fund.

Once an employer qualifies for an experience rating, their tax rate will be determined by dividing the total unemployment benefits paid to former employees by the total taxable wages paid to all of their employees. Reference the *Experience Rating* section of this handbook for more information.

Employers with an active employer account will receive a *Tax Rate Notice* in the mail every December that assigns the upcoming year’s tax rate components and taxable wage base. The *Tax Rate Notice* informs the employer of their right to appeal if they disagree with the tax rate assigned to their account.

View unemployment insurance tax rates online at www.uimn.org by clicking on *Employer Information*, then *Tax Rates*.

Taxable Wage and Rate Information

Reference: Minnesota Law, §268.051 Subd.2 (b)(d) (2008), §268.051 Subd.5 (2008), §268.051 Subd.5 (b) (2008), §268.051 Subd.8 (2008), and §116L.20 (2008)

View unemployment insurance tax rates online at www.uimn.org by clicking on *Employer Information*, then [Tax Rates](#).

Taxable Wage Base. All wages paid for covered employment must be reported, but not all of those wages are taxable. Each year, a taxable wage base is set that is 60 percent of Minnesota’s average annual wage. Unemployment insurance tax is paid on only the gross wages paid to each employee up to the taxable wage base for that year.

EXAMPLE: An employee works in Minnesota and is paid \$7,000 in gross wages during each quarter of **2008**. All wages paid during the first three quarters (\$21,000) are taxable. In the fourth quarter, only \$4,000 paid to the employee is taxable, because the taxable wage base of \$25,000 for **2008** has been reached. The remaining \$3,000 paid during the fourth quarter is not taxed for Minnesota Unemployment Insurance purposes.

Wages reported to another state for unemployment insurance tax purposes do not count toward the taxable wage base in Minnesota.

NOTE: If any person or organization acquires all of a Minnesota organization, trade, business and their predecessor's experience rating record is transferred to their employer account, during the year of acquisition, the successor may count the wages paid to the predecessor's employees toward their taxable wage base for that year, if the predecessor's employees continue employment with them. Reference the *Experience Rating Successorship* section of this handbook for more information.

Base Tax Rate. The base tax rate can range from 0.10 percent to 0.50 percent, and is determined each year by the amount in the Minnesota Unemployment Insurance Trust Fund (the Fund) on March 31 of the prior year. The base tax rate is intended to provide a financial reserve for periods of high unemployment, and to cover unemployment benefits paid from the Fund that cannot be directly recovered from a specific employer.

New Employer Tax Rate. An employer who has only paid wages for a short time is assigned a new employer tax rate. There are two possible tax rates for new employers, depending on their type of business - a rate which is the computed average rate of all employers or a rate which is assigned to employers in a "high experience rating industry". The computed average rate of all employers is determined by the ratio of all unemployment benefits paid to Minnesota applicants to all wages reported by Minnesota employers, plus the base tax rate. Eventually, each employer receives an experience rating based on the unemployment benefits paid and taxable payroll in their own account.

High Experience Rating Industries. High experience rating industries are classified as those that have historically had a high amount of unemployment, these include:

- Residential, commercial or industrial construction, including general contractors,
- Sand, gravel or limestone mining,
- Manufacturing of concrete, concrete products or asphalt, and
- Road building, repair or resurfacing, including bridges, tunnels, and residential and commercial driveways and parking lots.

The employer tax rate for high experience rating industries is set by statute at 8 percent.

Additional Assessment. When the balance in the Fund on March 31 falls below certain levels, an assessment is added to the base tax rate for the following year to replenish the amount in the Fund.

Special Assessment for Interest on Federal Loan. Unemployment benefit payments are made from the state trust fund which is held in the federal treasury. When the state trust fund is depleted because of high payouts during a recession, the state trust fund borrows money from the federal unemployment trust fund. States must pay interest on the borrowed funds. The special assessment for interest on federal loan is used to pay the interest.

Workforce Development (Enhancement) Fee. This fee is collected and deposited in the Minnesota Workforce Development Fund. The Fund supports employment and training programs for workers who have permanently lost their jobs.

Computing Tax Rates

An experience rating is computed for each employer with covered employment by dividing 125 percent of the benefits paid to an employer's former employees during the experience rating period by the total taxable payroll reported for the same period. The rating is computed to the nearest one-hundredth of a percent. Each December, employers are notified of their tax rates for the following year. The lowest tax rate that can be assigned is the base tax rate. The highest tax rate that can be assigned is 9.30 percent. When all of the factors are combined (tax rate, assessments and fees), the total amount due will range from 0.5560 percent to 10.7020 percent of taxable wages.

Experience Rating Information

Reference: Minnesota Law, §268.051 Subd.3 (2008) and §268.051 Subd.4 (2008)

Experience Rating. Experience rating assigns an unemployment insurance tax rate to employers who have paid covered wages for a sufficient period to rate their experience with unemployment insurance. The less unemployment an employer's workers experience, the lower the unemployment insurance tax rate will be. By relating tax rates to taxable wages and benefits paid charges, experience rating causes each employer to pay at a rate that covers the cost of the unemployment for which the employer is responsible. Experience ratings are computed to the nearest one-hundredth of a percent, to a maximum of 8.90 percent.

Experience Rating Period. To receive an experience rating, an employer must have paid wages for a specific period of time, 48 months. This is called the experience rating period. It ends on June 30 of the year prior to the year for which the rate is computed. For example, experience ratings assigned to employers for 2008 are based on the time period beginning July 1, 2003, and ending June 30, 2007.

Employers are not required to have had employees during the entire 48 month period to receive an experience rating. If an employer paid wages before July 1 of their first year of coverage, they will be eligible for an experience rating in the third year. For example, an employer first paid wages on or before June 30, 2008, they will receive an experience rating in the year 2010.

Experience Rating Successorship. Acquiring a business can affect an employer's unemployment insurance tax rate if they share 25 percent or more common ownership with a predecessor. Common ownership includes ownership by a spouse, parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece, nephew, or first cousin, by birth, marriage. Common ownership is assumed if both the predecessor and successor are publicly held corporations.

If an employer acquires all or part of the organization, trade, business or assets of a predecessor and they share 25 percent or more common ownership with that predecessor, the related factors in the predecessor's experience rating account (i.e. the benefits paid charges and taxable payroll associated with the percentage acquired) will automatically be transferred to the successor's account. The predecessor's taxable wages and benefits paid charges will be included when computing the successor's experience rating in future years. If the successor only acquires a portion of the predecessor's business, only the related portion of the predecessor's taxable wages and benefits paid charges will be used to calculate the successor's future tax rate(s). No transfer will occur without common ownership unless it is found that ownership was transferred to avoid an unfavorable tax rate.

Tax Rate Buydown

Reference: Minnesota Law, §268.051 Subd.7 (2008)

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 all or part of the benefits paid charges on their account, reducing their unemployment insurance tax rate.

A buydown payment:

- Must be made within 120 days from the beginning of the calendar year for which the tax rate is effective, and
- Will include a 25 percent surcharge. For example, to remove each dollar in benefits, a payment of \$1.25 is required.

Employers who make a buydown payment, will have their tax rate recomputed using the reduced amount of unemployment benefits.

To decide whether a buydown payment will save the employer money, they should compare the cost of making a buydown payment to get a reduced tax rate to paying tax at their assigned tax rate. To do this:

1. Calculate the total cost (benefits to be canceled plus the 25 percent surcharge) of the buydown payment, then
2. Add to that amount the tax the employer would pay on their estimated total taxable payroll for the current year at the lower rate that would result from the buydown payment.

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

Two tools are available in 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. Reference the *Employer Self-Service System User Guide* for step-by-step instructions.

Reports and Payments

Wage Reports

Reference: Minnesota Law, §268.044 Subd.1 (2008)

Each quarter, employers that have employees in covered employment are required to submit a wage detail report electronically; reports must be received on or before the last day of the month following the end of the calendar quarter. Employers with an active employer account must submit a wage detail report even when no covered wages were paid.

