COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

October 5, 2022

The Honorable Ned Lamont
Governor of Connecticut
State Capitol
210 Capitol Avenue
Hartford, CT 06106

Dear Governor Lamont,

Connecticut is among only four states that have not yet acted to eliminate outstanding state unemployment trust fund account loan balances.

Without repayment, Main Street businesses are at risk of facing higher taxes that will undercut job creation and drive prices higher just as families and small businesses are struggling with record-high inflation and a looming recession.

This self-imposed pain is preventable. As Ranking Member of the House Ways and Means Committee that oversees unemployment benefits, I urge you to address this delinquency promptly and responsibly by tapping your significant budget surplus or applying federal coronavirus aid to ensure Connecticut employers and workers across the state do not bear the burden of the state's inaction.

Connecticut has received an unprecedented amount of federal aid and has a reported budget surplus of $4.3 billion.[1] Yet as of October 3, 2022, Connecticut has an outstanding pandemic-era federal unemployment insurance loan of $98 million.[2] While many states had to borrow from the federal government to support a surge in unemployment claims during the pandemic, Connecticut is one of only four states that continue to be in debt.

On top of the already increasing wage demands of inflation, Connecticut employers could see an increase in their net federal unemployment taxes in 2023, with the maximum rate going from $42 per covered employee up to $63 employee.

Twenty-two states were forced to take federal loans during the pandemic and most used COVID relief funds to pay back those loans to responsibly restore their trust funds and avoid raising taxes on employers.

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[1] https://ctmirror.org/2022/07/20/ct-budget-surplus-shatters-the-4b-mark/

[2] https://fiscaldata.treasury.gov/datasets/ssa-title-xii-advance-activities/advances-to-state-unemployment-funds-social-security-act-title-xii

Despite receiving $1.3 billion in federal Coronavirus Relief Funds, Connecticut has failed to pay back its outstanding loan in a timely manner.[3] As a result, on November 10th, businesses in Connecticut could face a Federal Unemployment Tax Act (FUTA) tax offset credit reduction resulting in a FUTA tax increase.

FUTA imposes a 6.0 percent gross federal unemployment tax rate on the first $7,000 paid annually by employers to each employee, resulting in a maximum federal tax of $420 per employee per year. Employers in states with programs approved by the Department of Labor, may credit up to 5.4 percentage points of state unemployment taxes paid against the 6.0 percent tax rate, making the minimum net federal unemployment tax rate 0.6 percent. Because most employees earn more than the $7,000 taxable wage ceiling in a calendar year, the FUTA tax typically is $42 per worker per year.

However, employers in states whose unemployment insurance funds have outstanding federal advances for of two or more consecutive years, like Connecticut, could have their FUTA credit reduced by 0.3 percent for each year of outstanding balances if they fail to make repayment by November 10th. For outstanding balances of more than 3 years, a second credit reduction applies, and after 5 years, a different FUTA credit reduction calculation kicks in.

I urge you and the state's legislature to prioritize repayment of this outstanding federal loan to prevent any additional economic burden on employers and workers in Connecticut.

Sincerely,

Kevin Brady

Republican Leader

Committee on Ways and Means

[3] https://home.treasury.gov/system/files/136/Payments-to-States-and-Units-of-Local-Government.pdf