

FINDING HIDDEN FUNDS

Some nonprofit rural health clinics are discovering a hidden source of funds from an unexpected source — their state unemployment tax department. While many other nonprofit health care facilities are paying far too much in State Unemployment Insurance (SUI) taxes because they do not know about their options.

Since 1972, by federal law, all nonprofit, 501©(3) organizations can opt out of their state unemployment tax system and just reimburse their state for any claims paid to former employees. Because nonprofits typically have lower unemployment claims than for-profit businesses, the federal government requires all states to provide an option for nonprofits. Typically, the nonprofit clinic or hospital is paying \$2.20 in taxes for every \$1 their state pays in claims.

Most rural organizations do not realize there is an option and have not taken the time to evaluate the costs of paying unemployment taxes vs. being a reimbursing employer and just paying the state for claims.

“We didn’t realize that there was an option for nonprofit clinics to get out of the state unemployment tax system and become a reimbursing employer,” said Hermann Spetzler, CEO, OPEN DOOR Community Health Centers, Arcata, CA.

This unemployment option can be exercised by any nonprofit, but generally is safest for agencies that employ ten or more staff. Some states have relatively low tax rates, so the nonprofit might be better off in their state system.

Nonprofits can become reimbursing employers on their own by contacting their state employment or labor department and requesting the paperwork to change from taxpayer to reimbursing employer. The deadlines vary in each state, but are generally in November or December of each year.

from an unexpected source

There are advantages and disadvantages of paying unemployment taxes or being a reimbursing employer. In both cases, the former employees will never know if their nonprofit employer is reimbursing or taxpaying.

The advantages of paying the unemployment taxes is that your claims are covered — no matter how much or how little you paid in taxes. The disadvantage is that you do not have a lot of control over your tax rate, and the tax rate can increase whether or not your agency had claims, since the rates are determined by the overall cost to the state for unemployment claims. Generally, nonprofits pay more in taxes than the state pays in claims to your former employees.

The key to successfully reimbursing is to budget and manage the unemployment claims since reimbursing

employees are responsible for all unemployment claims paid to their former employees — so it is important to protest any inappropriate claims.

Another option is to become a reimbursing employer, but use a third-party unemployment program. The unemployment programs help the nonprofit take advantage of the reimbursement option, while providing services that reduce the risk. By contacting a third-party unemployment program the nonprofit can evaluate their current tax costs with the anticipated cost of reimbursing to see if they should proceed.

The third-party option of working with an unemployment trust is best for agencies that have payrolls over \$500,000, want control of their unemployment costs, and outsource the time-consuming claims management tasks. Trusts help you budget for claims and build a reserve account which earns interest income. The trusts help unemployment insurance get you out of the state system, and can help cut your costs with a claims management service.

“After the Joint Agencies’ Trust made a presentation to the CA Rural Health

Association, I decided to request an unemployment evaluation. A quote was returned to me very quickly and the savings were substantial. I recommend the Trust to other healthcare agencies,” said Chuck Fernandez, CFO, Mendocino Community Health Clinic.

The bottom line on unemployment coverage is to investigate your options. You may find a hidden source of funding that could save thousands of dollars each year.

For more information, contact the NRHA Services Corporation partner, Joint Agencies’ Trust unemployment program coordinator, Ellen Johnson at 800/442-4867 or by email at Ejohnson@501c.com.

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– Hermann Spetzler

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