

## Utilizing the Voluntary Contribution Election for Payroll Tax Reduction

Currently there are twenty six states that allow a payroll tax option called a Voluntary Contribution (VC), (California is the twenty seventh once F+ tax table not in effect). Voluntary Contributions allow an employer to essentially buy down a payroll tax rate. The implications of this option can be very beneficial to businesses under certain terms.

- Some VC's make sense just on straight calculations. The expense of the buy down will be exceeded by the savings generated.

Example:

**Current Rate 4.5% \* taxable payroll \$1,000,000 = \$45,000 payroll taxes**

**Voluntary Contribution of \$500 to reduce rate to 4.4%**

**New Rate 4.4%\* taxable payroll \$1,000,000 = \$44,000 payroll taxes**

**Net Overall Savings \$1,000 (reduced taxes)- \$500 (cost of the VC) = \$500**

- If projected taxable payroll will increase for a calendar year, the option to elect a VC to reduce a rate while increasing taxable payroll will yield an overall tax savings.
- If an employer is considering an acquisition or other reorganization, a VC to buy down a rate may be beneficial in certain states where a transfer of experience is offered.

As part of our services, UC Advantage provides the analysis to determine if a Voluntary Contribution will be beneficial to our customers. The calculations provided by our Tax Advisors will encompass multiple scenarios and be tailored specifically to clientele based on business activities.

The 26 states that currently allow the VC election are: AR, AZ, CO, GA, IN, KS, KY, LA, ME, MA, MI, MO, MN, NM, NC, ND, NE, NJ, OH, PN, SD, TX, WA, WV, WI.

For one of our clients in Kansas, the VC expense to buy down the rate was \$2,496.00. Estimates are that the employer will save in excess of \$63,000 in 2015. Now that is an excellent return on investment!

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