Blackbaud

Fundraising Well

a newsletter about fundraising effectively in today's world

Save Money on Your Unemployment Insurance Costs

by Woody Clark

Nonprofits have two options for unemployment insurance while a for-profit corporation only has one. Typically, a nonprofit and for-profit pay for unemployment claims through State Unemployment Insurance tax (SUI). But unlike their counterparts, nonprofits have an alternative choice: becoming a "reimbursing employer." This means that it can pay the state only for claims paid out to former employees.

Because the SUI tax rate method varies, a nonprofit could end up paying more than if it had used the reimbursement method. Many nonprofits however don't realize they are eligible for this method and continue to pay into the state's unemployment tax system.

For example: A nonprofit that had $20,000 in claims for a given year but was paying the state $40,000 in SUI, would find itself overpaying by $20,000 a year! By becoming a reimbursing employer, the money that was being wasted in taxes could be used for other expenses such as fundraising, office supplies, or even hiring more employees. Imagine what your nonprofit could do with that extra money.

Under the reimbursement method, a nonprofit reimburses the state unemployment compensation fund for the amount of unemployment compensation benefits actually paid to former employees.

This method works best for agencies that have stable employment and low unemployment claims. A Nonprofit with an annual gross payroll of $500,000 or more, however, likely can realize substantial savings.

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