



Don't let unemployment insurance fleece your nonprofit

Is your not-for-profit overpaying unemployment tax? Many employers are and don't know it. Here's how to find out and possibly reduce unemployment costs.

Ensure accuracy

The burden is on employers to ensure unemployment charges are accurate and to seek repayment if they believe they've been overcharged due to errors. First, make sure you've kept the state up to date on new hires and other employment events. Then perform periodic audits of benefit statements to uncover possible instances of overcharging, such as:

- Duplicate charges for the same period,
- Charges assessed during a waiting period, or
- Sums in excess of the approved benefit amount.

Although your state agency may be responsible for inaccuracies, it's also possible that former workers are falsifying claims. For example, claimants may not report that they have other sources of income or that they've found a new job. If you suspect this type of fraud, notify your state agency so it can investigate.

By monitoring unemployment costs as closely and regularly as you would other expenses, you may be able to rein in — or at least better estimate — payouts. It's also critical to participate in your state agency's decisions about awarding or denying benefits to claimants. If you disagree with decisions, appeal them.

Become a reimbursing employer

Many 501(c)(3) organizations have the option of becoming a “reimbursing employer.” This means that, instead of paying periodic unemployment taxes to the state, you reimburse the state only for actual claims paid out to former employees. The advantage is that the actual benefits you pay often will be lower than state unemployment tax rates.

However, there are risks. States generally mandate dollar-for-dollar payment from reimbursing employers as soon as unemployment benefit claims are made. Your organization could face a temporary cash crunch or even more serious financial hardship if it needs to pay out more in claims than it budgeted for.

If your nonprofit chooses to become a reimbursing employer, you can handle the reimbursement process yourself or use a third-party reimbursing, such as a membership association. Third-party reimbursers can save your nonprofit significant time and effort by handling administrative work and monitoring claims for accuracy. Also, they usually offer trust accounts to help with cash management.

Be vigilant

By monitoring statements for accuracy and ensuring all claims are legitimate, you may be able to reduce unemployment tax costs. Also be sure to weigh the pros and cons of becoming a reimbursing employer. Contact us for more information.

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