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unemployment insurance break

The sting of a minimum-wage increase on Hawaii businesses may be salved by a reduction in the unemployment insurance tax.

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The sting of a minimum-wage increase on Hawaii businesses may be salved by a reduction in the unemployment insurance tax.

The Hawaii State House and Senate are expected to exchange legislation this week that would increase the state's \$7.25-an-hour minimum wage for the first time since 2007 and also avert a scheduled rise in the unemployment insurance tax rate that would save businesses \$66 million.

A raise for low-income workers and a tax break for businesses have both political and practical appeal. Gov. Neil Abercrombie and President Barack Obama have called for minimum-wage hikes, while businesses contend that the state's unemployment insurance reserve has recovered enough from insolvency in 2010 to warrant another reprieve.

State senators contend a minimum-wage increase and the unemployment insurance tax break are two separate issues. The Senate wants to push through the unemployment insurance tax break this month — similar to last year, when the Legislature and Abercrombie stopped a scheduled rate increase that saved businesses \$107 million — and work on the minimum wage before the session ends in May.

House lawmakers have combined the minimum wage and the unemployment insurance tax into a single bill. Lawmakers would extend the deadline for businesses to pay unemployment taxes for the first quarter of this year until the end of May, relieving the pressure to approve the tax break this month.

“I thought it was right to give everybody a clear picture: This was the give, and this

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own view, at the end of the day, that's exactly what's going to happen.”

The House and Senate also have different approaches to the minimum wage.

The House — in House Bill 1028 — would gradually raise the \$7.25 hourly wage to \$9 by January 2017, starting with a small bump to \$7.75 in January. Lawmakers would also extend an increase in the maximum weekly unemployment benefit of 75 percent of the average weekly wage, up from 70 percent, through the end of this year, which would provide extra money for the unemployed.

The Senate — in Senate Bill 331 — would raise the \$7.25 hourly wage to \$9.25 by January 2016, starting with a jump to \$8.25 in January. Senators would also tie the minimum wage to the Honolulu consumer price index beginning in January 2017, meaning the wage could rise annually with the cost of inflation.

The House would use the same bill that increases the minimum wage to avert the scheduled rise in the unemployment insurance tax rate, which is projected to cost businesses on average \$150 more per employee, or \$66 million.

The Senate — in Senate Bill 1272 — would avert the scheduled rate increase this year and then keep the rate the same in 2014 because of uncertainty over the impact on unemployment in Hawaii due to the federal spending cuts known as sequestration.

Dwight Takamine, the director of the state Department of Labor and Industrial Relations, supports an increase in the minimum wage. The department estimates that a minimum-wage worker would need to earn \$8.55 an hour this year to maintain the same purchasing power that \$7.25 bought in 2007.

But Takamine has chastised lawmakers for their “repeated disregard” of the original intent of the unemployment insurance reserve.

The reserve is designed to be self-sustaining, building when the economy is strong

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\$125 million, enough to cover four months of unemployment benefits at the highest ratio but one-third of the \$384 million the department argues is necessary. He has urged lawmakers to allow the reserve to grow while unemployment is low — 5.2 percent — to prepare for potential federal spending cuts or another economic downturn that could throw people out of work.

Takamine said in an email that the reserve “is still significantly below the adequate reserve level as prescribed by law, and in light of current economic uncertainties the adequacy of the fund and solvency should be kept in mind.”

Many labor and social-service advocates believe a minimum-wage increase is long overdue, while businesses have cautioned lawmakers about the economic impact. Business interests across the state, however, would welcome an unemployment insurance tax break.

“Every dollar would help, obviously, especially as the economy slowly recovers,” said Sherry Menor-McNamara, the chief operating officer and senior vice president of government affairs for the Chamber of Commerce of Hawaii. “And also there are unknown factors, right? Sequestration and other situations that might be down the road.”

Menor-McNamara said that if the Legislature was going to approve a minimum-wage increase that businesses would prefer the House version, which offers a more incremental rise and does not tie the wage to the consumer price index in the future.

“Businesses’ revenues do not automatically rise with the CPI, and so it would be fiscally unsound to mandate wage increases for every business when there are some businesses that just cannot afford it,” she said.

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