CPA Practice Advisor

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Small businesses face many challenges in 2023, including hiring and retaining skilled employees. Nevertheless, according to a recent National Federation of Independent Business (NFIB) Job Report, small business owners are working hard to fill their open positions, with 63% reporting hiring or trying to hire.

Inevitably, your clients with growing businesses will want to hire, so you'll be better

other words, employees cannot collect unemployment if they quit voluntarily, are fired because of performance, or decide not to work.

Employers must pay federal and state unemployment insurance for each employee based on the employee's salary. The federal tax rate is a flat 6%. The state rate (or SUI tax rate) contributes to the state's unemployment fund and varies by state. Each state determines the wage base, or threshold, for when SUI kicks in, and each state also offers a lower rate for new employers. Typically, states also have a special SUI rate for construction companies. Finally, SUI tax rates tend to change from calendar year to calendar year and can rise or fall depending on the economy and the state's unemployment fund status.

Some states require employers to pay additional payroll taxes. For example, in California, employers must also pay an Employment Training Tax (ETT), which provides money to train employees in specific industries, helping make California employers more competitive. Employers there must also withhold a State Disability Insurance (SDI) from employees' paychecks, which temporarily pays workers when they're ill or injured due to non-work activities or for pregnancy, and Paid Family Leave (PFL) benefits. In Kentucky, employers are required to withhold an Occupational Tax from employees' wages.

In all but three states, only employers contribute to SUI. In Alaska, New Jersey, and Pennsylvania, both employers and employees contribute to the fund, with the employee's portion of SUI deducted from their paychecks.

How to Register for SUI

To register for SUI, your clients must register their businesses with the state department responsible for unemployment taxes. In some states, it may be the Department of Revenue, the Department of Employment Security, or another designated Department. Your clients likely already got their Employer Identification

tax agency.

SIT rates vary by state, municipality, and employee wages. Some states have a progressive tax rate based on salary, while others charge a flat SIT rate. Plus, currently, nine states do not levy a state income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming, although Washington does impose a state capital gains tax.

In some states, cities and counties may charge their own additional income tax to aid local infrastructure and other projects, such as education, health, and emergency services.

How to Register for SIT

The department where employers register for SIT also varies by state. It might be the same department where SUI is managed, such as the Department of Revenue. Or it could be the state tax department. In any case, employers must have a federal EIN, and once registered, the company will also be issued a state employer identification number to pay state income taxes. SIT taxes are withheld from each employee's paycheck.

Clients With Multistate Companies

Clients must also register to pay SUI and SIT in all states where their employees reside. Because registering in multiple states is time-consuming and requires numerous compliance deadlines, most companies employ a third-party formation service to ensure they stay on the right side of the law. Many companies also register with a payroll service, so they don't have to worry about each state's tax rates.

Additionally, as soon as your client hires an employee in another state, they are considered to be "doing business" in that state, which requires the company to register for foreign qualification. Foreign qualification is legally registering a

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