Arizona Department of Economic Security
Unemployment Insurance Tax

Employer Handbook

A Guide to Unemployment Insurance Taxes and Benefits

DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Revised 8/9/2017

INTRODUCTION – ARIZONA UNEMPLOYMENT INSURANCE TAXES

The Unemployment Insurance Program is a State and Federal partnership, to temporarily provide eligible unemployed workers, who are actively seeking new employment, with a measure of financial assistance that does not eliminate their incentive to become re-employed.

By providing certain benefits to disenfranchised workers the program helps to stabilize the economy during periods of recessions by partially replacing the lost purchasing power of the unemployed portion of the workforce.

Under the Unemployment Insurance Program all employers in Arizona (with noted exceptions) must pay Federal Unemployment Insurance Taxes under the Federal Unemployment Tax Act (FUTA). Those taxes are used to fund the costs incurred by the states in administering the program.

The Unemployment Insurance Taxes pay to the State are used solely for the payment of Unemployment Insurance benefits to eligible unemployed workers.

Table of Contents

1. Applying for an Arizona Unemployment Insurance Account 1
2. Employers and Unemployment Insurance Coverage 2
   2.1. Who Pays Unemployment Taxes? ARS §23-613, §23-614, §23-751.01 2
   2.2. Successor Employers ARS §23-613(A)(3), §23-733.01 2
      2.2.1. Acquisition of an Entire Business ARS §23-613(A)(4), §23-733(A) 3
      2.2.2. Acquisition of a Portion of a Business ARS §23-725 3
   2.3. Termination of Account 3
3. Employment and Wages 4
   3.1. Defining an Employee ARS §23-613.01 4
   3.2. Temporary and Part-Time Employees ARS §23-613.01 4
   3.3. Domestic Employees ARS §23-617(2) 5
   3.4. Employees in Multiple States 5
   3.5. Exempt Employment ARS §23-617 7
   3.6. Wages to Report ARS §23-622 7
   3.7. Corporate Officers ARS §23-615(A)(4) 8
   3.8. Member/Manager of LLC ARS §23-613.01(A) 8
   3.9. Voluntary Coverage ARS §23-725(D), (E) 9
4. Unemployment Insurance Taxes (and other Employment Taxes) 10
   4.1. Calculating Unemployment Tax Rates ARS §23-728, §23-729, §23-730 10
   4.2. Voluntary Payments to Lower Tax Rate 11
   4.3. Reimbursement Payment Option ARS §23-750 11
   4.4. Federal Unemployment Tax (FUTA) 12
   4.5. Arizona Job Training Tax 13
   4.6. Arizona Withholding Tax 13
5. Reporting Wages and Paying Unemployment Insurance Taxes 14
   5.1. Reporting Wages 14
      5.1.1. Reporting Wages under the Reimbursement Payment Method for Nonprofits 14
   5.2. Paying Taxes ARS §23-726, §23-723 14
      5.2.1. Reimbursement in Lieu of Paying Quarterly Taxes ARS §23-750 15
   5.3. Wage Reporting Schedule ARS §23-610, §23-723 16
   5.4. Gross, Total and Taxable Wages 16
   5.5. Filing Wage Reports without a Tax Account Number 17
   5.6. Completing the Wage Report 17
   5.7. Report Corrections 18
      5.7.1. Correcting Taxes and Wages on a Previously Submitted Report 18
      5.7.2. Correcting Names or Social Security Numbers on a Previously Submitted Report 18
   5.8. No Employees to Report / Account Suspension 18
   5.9. Penalties for Late Wage Reports and/or Tax Payments ARS §23-723.A 19
   5.10. Additional Questions about Wage Reports and/or Tax Payments 19
6. Additional Employer Requirements 20
   6.1. Record Keeping 20
   6.2. Reporting Business Changes 20
   6.3. Providing Information to Your Employees 21
   6.4. Reporting New Hires 21
      6.4.1. Reporting New Hires to the Arizona New Hire Reporting Center 21

6.4.2. Employers Can Make a Big Difference for Employees Who Pay Child Support 22
7. Audits 23
8. Employer Appeals 24
8.1. Information about the Employer Appeal Process 24
8.1.1. Liability for Unemployment Insurance / Determination of Unemployment Insurance Liability (UC-016 or UC-015A) 24
8.1.2. Liability for Specific Services or Remuneration / Determination of Liability for Employment or Wages (UC-016A) 25
8.1.3. Assessment of Unemployment Taxes Due / Notice of Assessment (UC-018A) 26
8.1.4. Charges if Benefits are paid to Former Employee(s) / Notice to Employer (UB-110) or Determination of Deputy (UB-100) 26
8.1.5. Account Has Been Charged for Benefits Paid to Former Employee(s) / Benefit Charge Notice (UC-602) 27
8.1.6. Determination of Unemployment Tax Rate (UC-603) 27
9. Tax Evasion 29
9.1. State Unemployment Tax Act (SUTA) Dumping 29
9.2. What Harm Does SUTA Dumping Cause? 29
9.3. SUTA Dumping Schemes 29
9.4. Illegality and Penalties 30
9.5. How Do I Report It? 31
10. Introduction to Arizona Unemployment Insurance Benefits 32
10.1. Determining Eligibility for Benefits 32
10.1.1. Monetary Eligibility Factors §23-771 32
10.1.2. Non-Monetary Eligibility Factors 33
10.2. Notice to Employer of Benefit Claim Filing / Protesting s Benefit Claim ARS §23-772(B), §23-773(C) 36
10.3. How Your UI Taxes Fund Benefit Payments 36
10.3.1. Quarterly Notice of Benefit Charges 37
10.3.2. Reimbursement Employer Billings 37
11. Detection and Prevention of Improper Benefit Payments 38
11.1. Quality Control 38
11.2. Post Audit 38
11.3. "New Hire" Directory Audit 38
12. Interstate Unemployment Benefits 38
13. Extended Unemployment Benefits ARS §23-627, §23-628 38
14. Labor Disputes ARS §23-777 39
15. How to Keep Your UI Cost Down 39
15.1. Stabilize Employment 39
15.2. Minimize Charges to Your Account 39
15.3. Maintain a Good Tax Rate 39

1. Applying for an Arizona Unemployment Insurance Account

As soon as you begin business in Arizona, you must register with the Arizona Department of Economic Security (DES) and Arizona Department of Revenue (DOR). You register with both agencies at the same time by completing an Arizona Joint Tax Application (form JT-1/UC-001) and submitting it to the License & Registration Section of DOR. DOR will then forward a copy to DES. The information you provide to DES on this form will be used to determine whether or not you are liable to pay Arizona Unemployment Insurance (UI) taxes.

NOTE: Your application cannot be processed if you do not record your Federal Employer Identification Number (EIN) in the section of the form provided for this purpose. If you do not have a Federal EIN, contact the Internal Revenue Service to apply for one.

Register your business with both DOR and DES by completing and submitting the Application online (www.aztaxes.gov)

DOR and DES process your application separately, and each agency will notify you separately after its processing is completed. If you are determined liable to pay UI taxes, a “Determination of Unemployment Insurance Liability” (UC-016 or UC-015A) will be mailed to you by DES. It will specify the legal basis for your liability, the date your UI coverage starts, your tax rate, and your Arizona UI employer account number (be sure to include this account number on any correspondence with DES). If you have questions about registering your business after reading these instructions, contact the Employer Registration Unit.

2. Employers and Unemployment Insurance Coverage

2.1. Who Pays Unemployment Taxes? ARS §23-613, §23-614, §23-751.01

In Arizona, most employers are required by law to pay unemployment taxes on the first $7,000 in gross wages paid to each employee in a calendar year. An employer can be an individual, partnership, corporation, Limited Liability Company or any other entity for which a worker performs services. If you meet one of the following conditions, you are an employer required to pay unemployment taxes:

1. Pay wages of at least $1,500 during a calendar quarter, or (ARS §23-613(A)(2)(b))
2. Employ at least one worker for some part of a day in each of 20 different weeks in a calendar year, or (ARS §23-613(A))
3. Acquire the business or part of the business of an employer already subject to unemployment taxes, or (ARS §23-613(A)(3))
4. Are required to pay Federal Unemployment Tax because you employed any individuals in any other state or for any other reason, or (ARS §23-613(A)(6))
5. Own or control two or more businesses in Arizona which together meet any of the other conditions described here, or (ARS §23-613(A)(5))
6. Pay domestic/household workers at least $1,000 cash wages in a calendar quarter, or
7. Pay agricultural workers at least $20,000 cash wages in a calendar quarter, or employ at least 10 agricultural workers for some part of a day in each of 20 different weeks in a calendar year, or (ARS §23-6139(B))
8. Are a nonprofit organization exempt under section 501(c)(3) of the Internal Revenue Code, and employ four or more individuals for some part of a day in each of 20 different weeks in a calendar year, or
9. Voluntarily elect to provide unemployment coverage to your workers even though it is not required, or (ARS §23-613(A)(8))
10. Are a leasing or temporary services business which leases or provides workers to other businesses, or (ARS §23-614(E))
11. Are an Indian tribe, or are any subdivision, subsidiary, or business enterprise wholly owned by such Indian tribe. (ARS §23-751.01)

When you meet one of the above conditions during a calendar year, you must report all gross wages and pay taxes on all taxable wages you paid during that entire calendar year. You must continue paying taxes each subsequent calendar year until your account is terminated.

2.2. Successor Employers ARS §23-613(A)(3), §23-733.01

When you acquire all or part of a business that was required to pay unemployment taxes in this state, you are a "successor" for unemployment tax purposes. As a successor, you are immediately liable for unemployment taxes regardless of the amount of wages you pay or the number of workers you employ.

As a successor, you may also take into account wages paid by the former owner in determining the amount of wages on which you must pay taxes during the year in which you acquired the business. For example, if the former owner has paid wages in excess of $7,000 to a worker you continue to employ, you will not have to pay taxes on any additional wages you pay this worker in the year you

acquire the business.

2.2.1. Acquisition of an Entire Business ARS §23-613(A)(4), §23-733(A)

When you acquire an entire Arizona business and continue its operation, you are assigned the tax rate and experience rating account of the former owner, although you will receive a different account number. The experience rating account includes the record of wages and taxes previously paid.

Therefore, any unemployment benefits awarded based on wages paid by the former owner may be charged to your account. Additionally, you may be liable for taxes unpaid by the former owner. When acquiring a business, determine and consider whether any unemployment taxes remain unpaid by the seller.

2.2.2. Acquisition of a Portion of a Business ARS §23-725

If you acquire a portion of an Arizona business and continue to operate it you may be assigned the rate and a portion of the experience rating account of the predecessor if there is common ownership or control of the 2 businesses. See the SUTA Dumping provisions in section 10 for further information.

If there is no common ownership or control you are not automatically assigned the tax rate and experience rating account of the former owner. If you choose to apply for a portion of the account and its corresponding tax rate, you must file an Application & Agreement for Severable Portion Experience Rating Transfer (300 KB PDF) within 180 days of acquiring the business. The former owner must agree and provide payroll information for the portions of the business acquired and retained.

2.3. Termination of Account

After you become liable for unemployment insurance coverage, your liability continues until it is terminated. Your coverage, and along with it your tax account, may be terminated if you:

- Make a written request for it between January 1 and March 31, and
- Did not meet any of the applicable conditions that require payment of unemployment taxes in the prior calendar year. See ARS §23-725 and ARS §23-614.H.

Your coverage and account will also be terminated if you transfer your entire business to a successor employer. Termination of your coverage and account does not relieve you of liability for unpaid taxes. If at any time after termination, you meet any conditions requiring you to pay unemployment taxes again, you cannot reopen your previous account, but must apply for a new one.

3. Employment and Wages

3.1. Defining an Employee ARS §23-613.01

Who is an employee?

The relationship between you and your workers determines whether your workers are employees.

An employment relationship exists when

- A worker performs services for you that are subject to your control, or right to control, whether or not you actually exercise the control.
- When the services performed are a regular part of your business. It is presumed that, in order to protect your business interests, you have the right to control the manner in which workers perform services for you.

The services may be performed on a

- full-time
- part-time
- temporary
- seasonal, or
- probationary basis.

They may be performed

- on or off your premises
- or in employees' own homes.

Corporate officers, including officers of closely held corporations, are employees of the corporation whether or not they receive wages.

In contrast, "independent contractors" are customarily

- engaged in an independent trade, occupation, profession, or business
- advertise their services
- are in a position to realize profit or suffer a loss as a result of their services, and
- have a significant investment in the business.

Individuals who have been found not to be employees for federal unemployment tax purposes by the IRS will not be considered employees for state unemployment tax purposes for the periods determined in the IRS writing. For more information about the difference between employees and Independent Contractors, visit the following IRS website.

If you have any questions about whether your workers are employees, please contact any of the Tax Audit Offices listed in our Field Office Directory.

3.2. Temporary and Part-Time Employees ARS §23-613.01

Do I report the wages of part-time or temporary employees?

- There is no distinction between part-time and full-time employees in terms of coverage under wage reporting and claim filing laws. Employers must report the wages of all employees, both part-time and full-time.

- The exceptions are:
  - You should not report employees who work for you less than 13 days in a calendar quarter if you never intended to employ them for a longer period or on an on-call or other recurring basis.
  - You should not report students participating in a work study program (DECA or internship) who are hired and receive school credit while working during the school year; however, if they are retained for summer employment, then wages earned during the summer are to be reported.

3.3. Domestic Employees ARS §23-617(2)

I have a domestic employee in my home. Do I need to pay unemployment tax on these wages?

Once the total amount of wages you pay for domestic services in a calendar quarter equals or exceeds $1,000, you will be liable for state unemployment taxes on the first $7,000 gross wages you pay each domestic worker in that entire calendar year and each year thereafter.

All wages paid must be reported and any taxes owed will be due on a quarterly basis. These wages should not be confused with federal unemployment tax, which is due annually on domestic service and is filed with your 1040 return on a schedule H by April 15 of each year.

See Arizona Revised Statutes, Section 23-613(C) for the legal definition of "Employer" as it pertains to domestic services.

3.4. Employees in Multiple States

What if my employees work in more than one state?

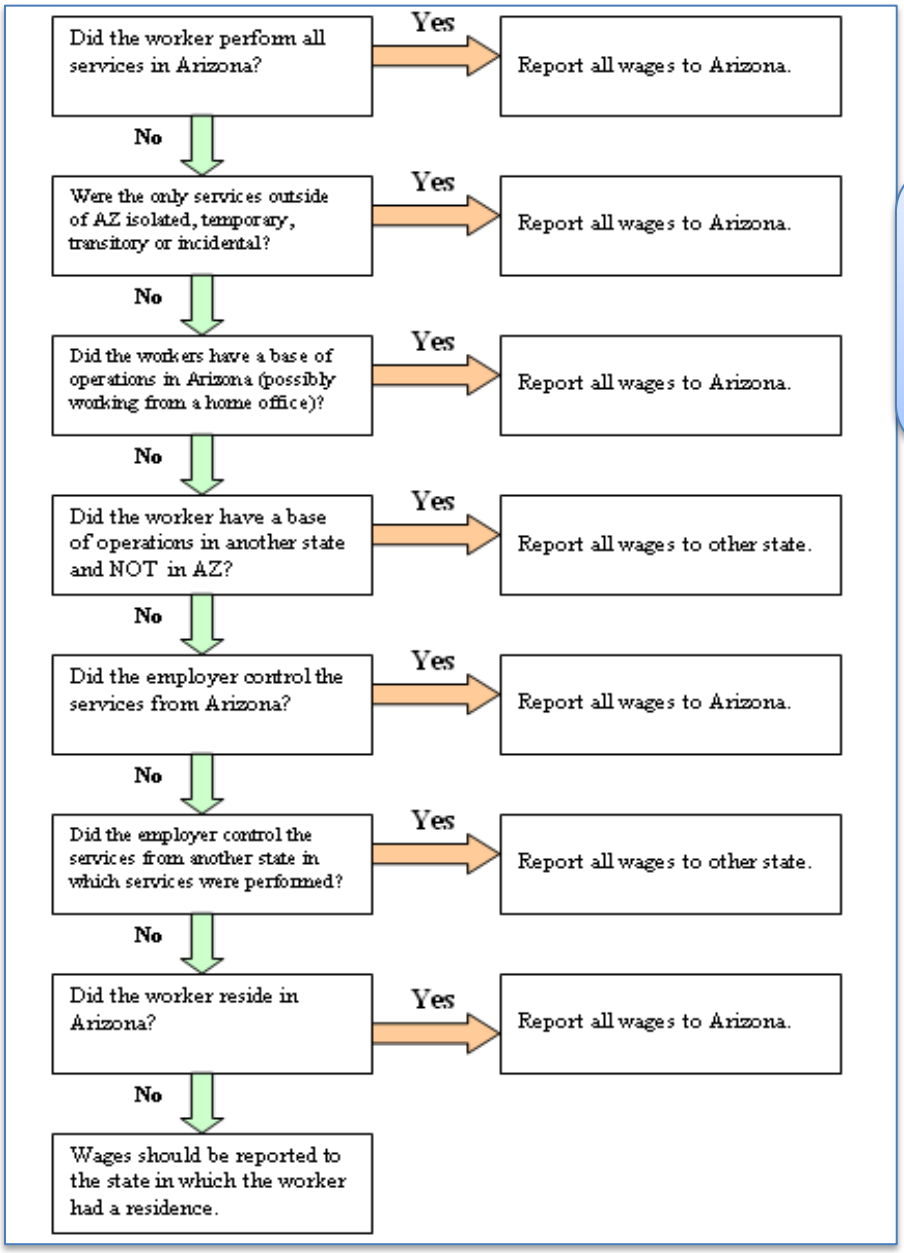
If you have employees working in Arizona and one or more other states, the following guidelines will help you correctly report their wages and pay unemployment taxes.

1. If an employee works only in Arizona, report the wages and pay taxes to Arizona, whether or not you are located in Arizona.
2. If an employee works only in another state, report the wages and pay taxes to that other state, even if you are located in Arizona.
3. If an employee works primarily in Arizona and only occasionally in another state, report the wages and pay taxes to Arizona whether or not you are located in Arizona.
4. If an employee works equally in two or more states, report the wages and pay taxes to the state that contains the employee's base of operations, or the state from which the services are directed and controlled (usually the state in which you are located).

ARS §23-615.1 contains the provisions agreed by the states in determining the state to which the services of multi-state workers shall be reported.

The following chart will assist in the decision-making process as to where the work is localized.

Multi-State Employee Localization Flow Chart



If you have questions about properly reporting wages and paying unemployment taxes, please contact the Employer Registration Unit or any of the Tax Audit Offices listed in our Field Office Directory.

3.5. Exempt Employment ARS §23-617

What Is Exempt Employment?

Employees are included under the unemployment insurance law unless their services are specifically excluded. If a service is excluded, it is not counted in determining your liability for taxes, and payments for those services should not be included on your quarterly wage reports.

Some examples of payments that should not be reported include payments to the following:

1. The following workers, if paid solely by commission:
   a. Licensed real estate salespersons or brokers and cemetery salespersons or brokers
   b. Insurance and securities salespersons
   c. Income tax preparers
   d. Direct sellers of consumer goods, who solicit orders or make sales in person in customers' homes
2. Individuals employed by their son, daughter or spouse, and individuals under the age of 21 years employed by their father or mother.
   a. Under the following circumstances the family exemption does not apply and wages must be reported:
      i. The employer is a corporation (this includes Subchapter S corporations), or a partnership or limited liability company (LLC) treated as a corporation for federal tax purposes; or
      ii. The employer is a partnership or a multi-member LLC treated for federal tax purposes as a partnership, unless an exempt family relationship exists between the employee and all of the partners or members; or
      iii. The employer is an estate, even if it is the estate of a deceased parent.
3. Casual labor: Individuals hired for a one-time, short-term job, for less than 13 days in a calendar quarter, when there was never intent for a continuing employment relationship.

For other services that are classified as Exempt employment, see A.R.S. 23-613.01 and 23-617.

3.6. Wages to Report ARS §23-622

What wages must be reported?

All payments to your employees for services are wages and must be reported (before deductions) on your quarterly Unemployment Tax and Wage Report, unless specifically excluded by law.

This includes: salaries, commissions, bonuses, fees, fringe benefits, sick pay, deferred compensation, tips reported to you by your employees, and the cash value of payments in any medium other than cash (such as gifts). Employer contributions (to the extent elected by the employee) to 401(k) plans are also wages.

The following payments, excluded by law, should not be reported:

1. Insurance / Disability / Retirement:
   a. Payments you make to a plan for insurance (or payments from a plan to employees or dependents) for workers compensation, medical or hospitalization expenses, or death.

   b. Payments made to a retired employee under certain retirement plans, or payments made for an employee to a retirement plan.
   c. Long term disability (after six months).
   d. Survivor benefits.
2. A domestic employee's share of FICA which you pay.
3. Moving expenses reimbursed to employees where there is an allowable corresponding deduction under the Internal Revenue Code.
4. Meals and lodging provided for the convenience of the employer.
5. Scholarships and fellowship grants provided by nonprofit or governmental employers to the extent allowed under the Internal Revenue Code.
6. Tuition reduction to employees of educational institutions.
7. Employee discounts up to 20%.
8. Working condition fringe benefits which, if provided by the worker, would be deductible business expenses (e.g., the value of a company car used for business purposes).
9. Fringe benefits of minimal or insignificant value, such as complimentary coffee and tea you provide for your employees.
10. Payments for agricultural labor in any medium other than cash.
11. Payments for services not in the course of your trade or business in any medium other than cash.
12. Amounts excluded from the definition of wages for Federal Unemployment Tax Act purposes.

3.7. Corporate Officers ARS §23-615(A)(4)

My business is a corporation, and I am a corporate officer. Why do I have to report the wages that I earn from my corporation?

As a corporate officer, you are an employee of the corporation for Arizona and Federal UI tax purposes. Wages that you earn from the corporation are usable as wage credits if you ever need to file a claim for unemployment benefits.

If a corporate officer files a claim for unemployment benefits the amount and duration of unemployment benefits available will depend on your earnings and the conditions of your separation from employment.

3.8. Member/Manager of LLC ARS §23-613.01(A)

I am a Member/Member-Manager of my LLC. Do I have to report my wages and pay taxes?

Whether or not your wages are reportable for Arizona UI Tax purposes depends on how you report for the Limited Liability Company (LLC) federally.

- LLCs that have elected federal tax treatment as partnerships or sole proprietorships are also treated as partnerships or sole proprietorships for Arizona UI tax purposes.
  - Wages for members and member-managers of such LLCs ***are not*** reportable.
  - Additional information can be found in section 3.5 Exempt Employment, under item number 3.

- LLCs that have elected federal tax treatment as a corporation are also treated as corporations for Arizona UI tax purposes.
    - Wages for all members and member-managers of such LLCs ***are*** reportable.

Wages paid to all other employees of any LLC must be reported and are subject to Arizona UI taxes.

3.9. Voluntary Coverage ARS §23-725(D), (E)

Can I get unemployment insurance coverage for my workers even if I'm not required to provide coverage?

If you have not met any of the statutorily defined conditions (also refer to Arizona Revised Statutes, Section 23-613) that require you to provide unemployment insurance (UI) coverage, but you want to get UI coverage for your workers, you may apply for voluntary coverage. To apply:

- Respond to a letter issued by the Department that includes a section regarding "Voluntary Election of Unemployment Insurance Coverage" where you are given the option of applying for voluntary coverage, or
- Send a letter requesting to apply for voluntary coverage.

If you have not yet received your Department of Economic Security unemployment insurance tax number, and it has been more than one month since you submitted the Joint Tax Application, please contact the Employer Registration Unit.

Exception to voluntary coverage:

- You cannot elect to cover a classification of employee already exempt from UI coverage

NOTE: If voluntary coverage is approved, you must continue to cover your employees for at least two full calendar years.

4. Unemployment Insurance Taxes (and other Employment Taxes)

4.1. Calculating Unemployment Tax Rates ARS §23-728, §23-729, §23-730

How much are unemployment taxes?
(The following does not apply to certain nonprofit and governmental employers, Indian tribes and churches/religious organizations that have chosen the reimbursement payment option.)

The nation's unemployment insurance (UI) program is a federal-state system based largely on the principles of private insurance. It provides for the accumulation of funds from employers to be set aside for the benefit of persons unemployed through no fault of their own.

The Federal Unemployment Tax Act (FUTA) requires all state systems to contain "experience rating" features, in order to ensure higher tax burdens on firms "causing" the benefit payments and lower tax rates for firms enjoying stable employment.

When an employer has accumulated sufficient "experience" with respect to unemployment, he is assigned a tax rate which, for the most part, reflects his experience.

- Thus, if his work force has had little in the way of unemployment, this favorable experience will be reflected in a low tax rate.
- Conversely, an employer's rate will become progressively higher the more unfavorable his experience with unemployment becomes.

There is, however, another important factor which affects an employer's rate--the economic conditions which prevail in the state. The state's unemployment trust fund reflects the prevailing economic conditions in the state and its experience with unemployment over the past several years.

Schedules in all states are designed to be counter cyclical...i.e. employers make payments into the fund at low rates during recessionary periods. After periods of high unemployment, the rates increase to replenish the fund.

Arizona's fund control schedule, found at A.R.S. § 23-370, was developed many years ago using nationally recognized assumptions on how to define trust fund adequacy. It is designed to be self-adjusting and to keep the fund balance between 5% and 5.5% of total state-wide taxable payrolls. This is considered adequate for the payment of benefits for 18 months in a recession. A.A.C. R-6-3-1715 provides for the adjustment annually of the unadjusted rates found in rates ARS §23-730(1) & (2).

For 2017, Arizona's unadjusted unemployment tax rates range from a minimum of 0.04 percent to a maximum of 10.59 percent on the first $7,000 in wages paid to each employee in a calendar year. (Prior to 2017 an additional 1.0 percent or 2.0 percent surtax was added as a result of participation in the Shared Work program). The range of unadjusted tax rates are adjusted annually and may be increased or decreased depending on the solvency of the unemployment trust fund. The actual taxes you pay are calculated by multiplying your quarterly taxable wages by your tax rate.

If you are a new employer (other than a successor to a liable employer), you are assigned a tax rate of 2.0 percent for a minimum of two calendar years. After that, your rate will be based on the following factors:

1. The amount of taxes you have paid;
2. The amount of unemployment benefits paid to your former employees and charged to you;
3. The average size of your annual taxable payroll;
4. The overall solvency of the unemployment trust fund is also a factor because it is used in the computation of the adjusted rate schedule

These three factors are used to compute your tax rate using a "reserve ratio" system. The taxes you paid minus the amount of benefits attributable to your business are divided by your average annual taxable payroll to produce your reserve ratio. The higher reserve ratio you have, the lower your tax rate. This system ensures an equitable distribution of the cost of the system based on employers' actual experience with the Unemployment Insurance program. It also encourages employers to stabilize their workforces and monitor their ex-employees' unemployment claims, thereby helping to prevent abuse and minimize charges to their accounts.

$$\textbf{Reserve Ratio} = \frac{\textbf{Reserve Balance}\ \text{(taxes paid - benefits charged)}}{\textbf{Average Annual Taxable Payroll}}$$

Your reserve ratio is compared to a table in the law that prescribes the rates assigned to each ratio.

Your reserve ratio is compared to a table in the law that prescribes the rates assigned to each ratio. The law provides that these rates may be increased or decreased depending on the solvency of the unemployment benefit trust fund. High rates of unemployment in the state can produce higher tax rates in subsequent years; conversely, low unemployment can produce lower tax rates.

At the end of December you will receive a Determination of Unemployment Tax Rate (UC-603) (View sample UC-603) advising you of your tax rate for the upcoming calendar year. This notice contains your tax rate and all the factors used in calculating your reserve ratio. If you disagree with the rate assigned or any of the calculations, you may appeal by following the instructions on the notice. Make sure you provide a copy of your rate notice to your tax return preparer so that your taxes are calculated at the correct rate.

4.2. Voluntary Payments to Lower Tax Rate

Included with your annual unemployment tax rate notice is information about voluntary payments. It explains how to calculate the amount you can pay to improve your reserve ratio and lower your tax rate. By comparing the voluntary payment amount with your potential reduction in taxes, you can determine if you will save money by making a voluntary payment.

Each year consider a voluntary payment as a way to reduce your taxes.

Voluntary payments must be made by February 28 in order to lower your rate for that calendar year. It is advisable to pay by check rather than electronically. This enables you to specify the purpose of the payment on the check and mail it directly to the UI Tax Experience Rating Unit for correct processing. See the reverse side of your annual tax rate notice for complete instructions.

Arizona adjusted Unemployment Tax rates for the current year

4.3. Reimbursement Payment Option ARS §23-750

What is the reimbursement payment option?

Some entities are offered an alternative method of paying unemployment insurance, called the reimbursement payment option, a form of "self- insurance." In lieu of paying taxes on a quarterly basis, you reimburse the Department of Economic Security for your proportionate share of the amount of unemployment benefits it pays to your former workers. These entities are:

- Nonprofit organizations that are exempt from federal unemployment taxes under Section 501(c)(3) of the Internal Revenue Code

- Governmental entities
- Indian tribes, and
- Churches/religious organizations that voluntarily elect to participate in the Unemployment Insurance Program

You may choose the reimbursement payment option within 30 days of the date you are notified of your liability for unemployment insurance coverage as an employer by completing and returning the form enclosed with the notification. If you do not return the form, your account will be established on a tax-rated basis. Your choice remains in effect for at least three calendar years and may be changed by filing a written application at least 30 days prior to the beginning of the fourth or any subsequent year.

What factors should be considered before choosing the reimbursement payment option?

1. This option is generally more advantageous for small employers with stable employment; the tax-rated basis is usually more advantageous for large employers, who tend to have a higher rate of employee turnover, or employers of any size that have unstable employment.
2. Reimbursement payments will vary depending on the number of former employees who are receiving unemployment benefits. With this method, it is difficult to estimate costs. In contrast, tax-rated employers can more accurately estimate unemployment costs because their tax rates remain constant for a complete calendar year.
3. Employers who have elected the reimbursement payment option may not be relieved of charges for benefit payments for any reason. This includes cases when former employees are paid benefits after a disqualification for quitting or discharge, in cases where they are paid benefits after subsequent employment, and certain other circumstances. Although tax-rated employers may be relieved of charges for specific individuals, the actual cost of the benefits paid to those individuals is shared by all tax-rated employers.

4.4. Federal Unemployment Tax (FUTA)

Most employers who pay Arizona state unemployment tax are also required to pay the Federal Unemployment Tax (FUTA). The annual FUTA tax you pay is used to fund the administrative costs of the Unemployment Insurance program while your Arizona state unemployment tax is used **solely** for the payment of benefits to unemployed workers.

Effective since July 1, 2011 the FUTA tax rate is 6.0%. This tax is required on the first $7,000 in wages paid to each worker in a calendar year.

When you pay your state unemployment taxes on time, you receive a tax credit of 5.4% to reduce your FUTA tax regardless of your Arizona unemployment tax rate. The credit is equal to your actual tax rate, plus the difference between that percent and 5.4%. This means that Arizona employers who pay their state taxes timely pay a net federal tax of 0.6%. For example:

If your Arizona tax rate is 2.0%, you will receive a tax credit of 5.4% to reduce the federal tax even though your tax rate is less than 5.4%

Federal Tax Rate	**6.0%**	
Credit	**5.4%**	**2.7% state tax credit plus an additional 2.7% credit**
Net Federal Tax	**0.6%**	

In order to receive the full federal tax credit, you must pay state unemployment taxes on time. If you pay your state taxes late, you will receive only 90% of the allowable credit. Visit the Internal Revenue

Service Web site for more information on FUTA and other federal taxes.

4.5. Arizona Job Training Tax

Arizona Job Training Tax - collected on behalf of Arizona Commerce Authority

From January 1, 2001 through December 31, 2015, Arizona law imposed a 0.10% Job Training Tax (JTT) on taxable wages (the first $7,000 in gross wages paid to each employee in a calendar year). The JTT is not part of an employer's Federal Unemployment Tax (FUTA) certification or Arizona Unemployment Insurance (UI) experience rating or included in the UI tax rate. Reporting and paying JTT mirrors the Arizona UI tax process. The JTT is entered on Line 7, Part C of the quarterly Unemployment Tax and Wage Report (UC-018). (Employers who qualify for and have elected the Reimbursement payment option in lieu of paying UI Tax are exempt from the JTT.)

The following UI taxpayer groups are exempt from JTT on taxable wages paid:

- Employers with a positive reserve ratio of at least 13 percent
- Employers with a positive reserve ratio of at least 12 percent
- Employers assigned the new employer tax rate
- Employers with a negative reserve ratio

The JTT funds the Arizona Job Training Program administered by the Arizona Commerce Authority. It is a job-specific reimbursable grant program that supports the design and delivery of customized training plans for employers creating new jobs or increasing the skill and wage levels of current employees.

Questions about the **Job Training Program** can be directed to the Arizona Commerce Authority

Questions about the **Job Training Tax** can be directed to:
Experience Rating Unit
Arizona Department of Economic Security
(602) 771-6603
Email: Experience Rating Unit

4.6. Arizona Withholding Tax

Arizona Department of Revenue Income ("Withholding") Tax

All wages, salaries, bonuses or other compensation paid for services performed in Arizona are subject to state income tax withholding, with exceptions. Visit the Arizona Department of Revenue Web site for detailed information.

5. Reporting Wages and Paying Unemployment Insurance Taxes

5.1. Reporting Wages

Learn about electronic filing of your quarterly Unemployment Tax and Wage Report (UC-018). Businesses determined liable to provide unemployment insurance coverage for their workers are required to:

1. Submit Unemployment Tax and Wage Reports (UC-018) for each quarter they are covered, even for quarters during which no wages were paid, and
2. Pay taxes each quarter taxable wages were paid.

Once you have been issued an Arizona unemployment tax account number, the Department of Economic Security (DES) will automatically mail UC-018 forms to you during the last month of each quarter. Failure to receive a report does not relieve you of the responsibility of filing a report or waive penalty assessments.

If you have an Arizona unemployment tax account number and need a paper copy of the UC-018, you can find one on our website www.azuitax.gov under Forms.

5.1.1. Reporting Wages under the Reimbursement Payment Method for Nonprofits

This section applies ***only*** to nonprofit and governmental employers, Indian tribes and churches/religious organizations who have chosen and been approved to reimburse the Department of Economic Security for benefit payments charged to their accounts in lieu of paying quarterly taxes.

Each quarter, the employer must complete and submit an Unemployment Tax and Wage Report (UC-018) listing all employees' names, social security numbers, and total gross wages. No “excess” wages or taxes are computed, and no payment is included with the report.

5.2. Paying Taxes ARS §23-726, §23-723

This section does not apply to nonprofit and governmental employers, Indian tribes and churches/religious organizations which have chosen and been approved to reimburse the Department of Economic Security for benefit payments charged to their accounts in lieu of paying quarterly taxes.

Your tax payment is due on the same date your report is due. If quarterly reports and payments are filed late, penalties and interest are assessed.

State unemployment taxes are used solely for the payment of unemployment benefits, for periods up to 2015, the Arizona Job Training Tax collected on behalf of the Arizona Commerce Authority to fund its Job Training Program (some employers are exempt from this tax—see section on the Job Training Program). **Neither tax can be withheld from employees' wages**. Be sure to compute the amount of taxable wages accurately following the instructions provided on the form. Taxable wages are the first $7,000 in gross wages paid to each employee in a calendar year. Check your calculations carefully and watch the decimal point in the tax rate when figuring the amount of taxes to pay.

You must report total gross wages paid to all employees in the quarter, but pay taxes on only the first $7,000 paid to each employee in the calendar year. Subtract "excess wages" (amounts over $7,000 paid to each employee in a calendar year) from total wages to determine taxable wages. Remember, if

you are a successor employer, you may take into account wages paid by the former owner in the same calendar year you acquired the business to compute your taxable portion of wages paid to any of the former owner's employees you continued to employ.

Once you have an Arizona unemployment tax account number, you are encouraged to submit quarterly wage reports and pay taxes electronically by using our online Tax and Wage System (TWS). Your password to access TWS is issued on the preprinted UC-018 DES mails you each quarter. If you do not have the most recent UC-018 form, contact the UI Tax Accounting Unit (602-771-6601) for password assistance. If you file online, DO NOT file using the paper UC-018. Online payments may be made either along with or separately from online report filing, or you may select the paper check payment option, which generates a payment voucher for you to print and submit along with your payment by check.

Instead of filing either online or entirely by paper form (UC-018), you may submit the tax and wage summary portion of your reports by paper form and the employee and wage detail portion by "magnetic media." New magnetic media filers may only use compact discs for this purpose--see Magnetic Media Reporting and Electronic Filing (MMREF-1) (439 KB PDF) for detailed instructions and specifications.

For additional information about electronic filing or Magnetic Media Reporting, please contact the Employer Accounting Unit.

5.2.1. Reimbursement in Lieu of Paying Quarterly Taxes ARS §23-750

This section applies ***only*** to nonprofit and governmental employers, Indian tribes and churches/religious organizations who have chosen and been approved to reimburse the Department of Economic Security for benefit payments charged to their accounts in lieu of paying quarterly taxes.

1. Each quarter you must complete and submit an Unemployment Tax and Wage Report (UC-018) listing all employees' names, social security numbers, and total gross wages. No "excess" wages or taxes are computed, and no payment is included with the report.
2. You will be notified when former employees file for benefits and will be provided the opportunity to protest the employee's receipt of benefits, based on the reason for separation, if you were the claimant's last employer.
3. Whenever benefits are paid to former employees in a calendar quarter, you will receive a Benefit Charge Notice (UC-602) during the first month of the following quarter. A statement will accompany the notice specifying the amount due. That amount will be your proportionate share of benefit payments made that quarter, plus half of your share of extended benefits if you are a nonprofit employer, and the full amount of your share of extended benefits if you are a governmental employer or Indian tribe. Your payment is due on or before the last day of the second month following the end of the quarter in which the benefit claims were paid.

Additional provisions affecting Indian tribes

Arizona Revised Statutes, Section 23-751.01 provides that Indian tribes which fail to make payments, including assessments of interest and penalties, within 90 days of notice of the amounts due lose the option to make payments in lieu of taxes for the following tax year, unless full payment is made before the taxes for the next tax year are computed. This can also result in the tribe losing its Federal Unemployment Tax (FUTA) exemption and becoming liable to pay FUTA Tax at the full 6.0% rate (6.2% for periods prior to July 1, 2011).

5.3. Wage Reporting Schedule ARS §23-610, §23-723

Reports are due as follows, unless the due date falls on a weekend or in which case the due date is extended to the next business day:

UI Tax Wage Report Schedule			
Quarter #	**Wages Paid During**	**Calendar Quarter Ends**	**Report Due By**
1	January, February, March	March 31	April 30
2	April, May, June	June 30	July 31
3	July, August, September	September 30	October 31
4	October, November, December	December 31	January 31

If quarterly reports and payments are filed late, penalties and interest are assessed.

- The penalty for a late report is 0.1% of total wages paid in the quarter; the minimum penalty is $35 and the maximum is $200.
- Interest on unpaid taxes accrues at 1% of the taxes due per each month, or portion of a month, that the payment is late.

You can avoid the late report penalty charge by filing your reports on time, even if you are unable to pay the tax at the time of filing. If you cannot pay the tax due, contact the Collections Unit to make payment arrangements. The department may file liens, levy on property, and otherwise enforce collection of overdue amounts.

Can a single report be filed for the entire year?

No. You must file a quarterly Unemployment Tax and Wage Report for each quarter whether or not wages were paid. The primary reason for this is that monetary eligibility for unemployment benefits is based on the wages the claimant received in the first four of the last five completed calendar quarters prior to the quarter in which the claimant initially filed for benefits. Since benefit claims potentially may be filed at any time of the year, claimants' monetary eligibility for benefits can be determined accurately and timely only if wages are reported quarterly.

5.4. Gross, Total and Taxable Wages

Both total and taxable wages are reportable on the quarterly Unemployment Tax and Wage Report (UC-018) (212 KB DOC). All wages must be reported for the quarter in which they were paid to the worker.

Gross wages are the total amount of wages paid to an employee before deductions. This includes, but is not limited to, salaries, wages, commissions, bonuses, overtime pay, incentive awards and tips. All of the types of remuneration that are considered wages for unemployment insurance (UI) reporting purposes are defined in Arizona Revised Statutes, Section 23-622.

Total wages for UI reporting purposes are the total of the gross wages paid for that quarter.

Taxable wages for UI reporting purposes are the first $7,000 in total gross wages paid to each employee in a calendar year.

Excess wages for UI reporting purposes are all wages paid to each employee for that quarter, in excess of the first $7,000 paid to that employee in the same calendar year. Such "excess wages"

must be reported in the quarter earned, but are not taxable. This is because wages reported quarterly are used to establish eligibility for unemployment insurance benefits regardless of whether taxes were due on those wages.

5.5. Filing Wage Reports without a Tax Account Number

You may file a wage report without an Arizona unemployment tax account number **only** if you have not been issued a number. When filing without a number, you must use a paper Unemployment Tax and Wage Report (UC-018) (212 KB DOC). To the right of the ARIZONA ACCOUNT NUMBER called for in the upper right area of the form, type or print "Applied for." Also, be sure to record your 9-digit Federal Employer Identification Number (EIN) to the right of the words FEDERAL ID NO. The mailing address to which you return your completed UC-018 form is printed in the top left area of the form. Additionally, if you have a copy of your filed Arizona Joint Tax Application (form JT-1), please include it with your completed UC-018 form.

If you have not filed a JT-1 form, you must do so without delay. For more information about how to apply, see Section 1. Applying for an Arizona Unemployment Insurance Account.

5.6. Completing the Wage Report

Instructions for completing the quarterly Unemployment Tax and Wage Report (UC-018) can be found on the reverse side of the paper form that DES custom-generates and mails to each employer with an active UI tax account every quarter. Blank UC-018 and UC-020 (UI Tax Wage Listing Continuation) forms are also available online, with completion instructions on the UC-018 Instructions page and on the UC-018 itself.

In preparing your reports, list employees' names in alphabetical order or numerically by social security number and provide the total amount paid to each employee in the quarter. Wages must be reported in the quarter in which they are paid. For example, if a pay period ends September 30 but wages are not paid until October 1, report the wages on your fourth quarter wage report, covering the months October through December.

Complete the monthly employment data reported on the UC-018 in Section A. Enter the count of all your full-time and part-time employees who performed services during the payroll period that includes the twelfth of the month. If you do not have any employees in the payroll period, enter zero.

If more than one page is required to report all of your employees, wage listings that are computer generated or printed on plain white paper are acceptable provided the employee wage information and format are the same as the Wage Listing, Part B of form UC-018. You may use additional copies of the Wage Listing Continuation (UC-020), which is designed to be completed in the required format, to list additional employees.

Penalties are assessed for incomplete reports, so be sure that each page contains the following information:

1. Employer name.
    a. Employer account number.
    b. Calendar quarter and year for which report is being filed.
    c. Employees' Social Security numbers and names (last name first).
    d. Total amount of wages paid to each employee during the quarter.

e. Page total amount of wages paid to all employees (listed on the page) during the quarter.

You may also file your Quarterly Tax and Wage Report online.

5.7. Report Corrections

5.7.1. Correcting Taxes and Wages on a Previously Submitted Report

If you find you reported taxes or wages incorrectly on a previously submitted report, you may submit a copy of that report with the corrections clearly indicated on it along with an explanation of the reason for the adjustment. Alternatively, you may download and complete an Adjustment Form (UC-522) (91 KB DOC), or contact the Employer Accounting Unit.

Adjustments must be made to the quarterly report in which the error occurred; do not make an adjustment for a prior quarter on a current quarter's report. Do not attempt to correct a worker's over- reported wages by including a negative amount on a subsequent wage report; these amounts are read by the system as additional wages and could result in an overpayment of unemployment benefits or additional taxes due.

5.7.2. Correcting Names or Social Security Numbers on a Previously Submitted Report

You can make changes to a name or social security number by writing a letter, including the name reported/social security number reported previously, and the corrected name/social security number. Also provide the quarter(s) in which it was reported and be sure to include your Arizona unemployment tax account number.

Mail the letter to:
DES UI Tax
C/O Accounting Unit
P.O. Box 6028
Phoenix, Arizona 85005-6028

Or email to: Employer Accounting Unit

5.8. No Employees to Report / Account Suspension

What if I no longer have any employees but expect to in the future?

When employment has discontinued, but is expected in the future, you must choose one of the following two actions to avoid numerous problems:

1. You may continue to file the quarterly Unemployment Tax and Wage Reports, indicating on them that no wages are being paid. This will enable your unemployment tax account to remain active for as many as 7 consecutive calendar quarters with no wages being paid, and you will continue to receive all mailings. When employment resumes, simply file the report showing the wages you paid for the quarter.
2. If you submit Unemployment Tax and Wage Reports indicating that no wages are being paid for 8 consecutive calendar quarters, your unemployment tax account will be suspended automatically. However, you may request that your account be suspended instead of submitting quarterly reports indicating no wages are being paid. Complete a Report of Change f your account is suspended automatically or by your request, some mailings will cease during the suspension period, including quarterly Unemployment Tax and Wage Report forms and annual tax rate notices, but your

experience rating account will remain intact. When you resume paying wages, immediately notify the Employer Registration Unit to reopen your account. In a few days, you will be notified by mail of your tax rate, which may have changed if your account is reopened in a subsequent calendar year.

Warning: If you stop submitting reports without your account being suspended, this will create delinquent reports and could result in higher future tax rates being computed for your account based on estimated wages.

5.9. Penalties for Late Wage Reports and/or Tax Payments ARS §23-723.A

Even if you did not receive the preprinted quarterly report forms in the mail, quarterly reports are due by the last day of the month following the end of the previous quarter. If you are late filing, you will still be charged a penalty and interest. Arizona Administrative Code Section R6-3-1703(B)(2) states: "Failure to receive a quarterly Contribution [Tax] and Wage Report form shall not relieve the employer of the responsibility for filing the report."

The penalty for a late report is 0.1% of total wages paid in the quarter; the minimum penalty is $35 and the maximum is $200. Interest on unpaid taxes accrues at 1% of the taxes due per each month, or portion of a month, that the payment is late. You can avoid the late report penalty charge by filing your reports on time, even if you are unable to pay the tax at the time of filing. However, if you cannot pay the tax due, contact the Collections Unit to make payment arrangements. The department may file liens, levy on property, and otherwise enforce collection of overdue amounts.

5.10. Additional Questions about Wage Reports and/or Tax Payments

I was unable to print out a copy of my quarterly Unemployment Tax and Wage Report when I filed it online. How do I get a copy?

To obtain a copy of the quarterly report you submitted online, please contact the Employer Accounting Unit.

The IRS has recently advised me to contact the state because of a discrepancy between the federal and state wages reported. What form do I need?

Discuss the issue with a Department of Economic Security accounting technician by contacting the Employer Accounting Unit. When the cause of the discrepancy is determined, the steps necessary to resolve it can be taken. If the resolution changes the amount of wages you have reported to Arizona, the department will issue a written recertification reflecting this amount, which you can then provide to the IRS.
For information on how to file reports or pay taxes electronically, please refer to our Technical Handbook.

6. Additional Employer Requirements

6.1. Record Keeping

Arizona law requires all employers, whether or not they have been determined liable to pay unemployment taxes, to keep the following records for the most recent four calendar years.

1. Check stubs and canceled checks for all payments.
2. Cash receipts and disbursement records.
3. Payroll journal.
4. General journal and general ledger.
5. Copies of tax reports filed with all federal and state agencies.
6. Copies of W-2(s) and W-3(s).
7. Other accounting records as may be required.
8. For each payroll period, the:
    a. Beginning and ending dates of each pay period,
    b. Total amount of remuneration paid for all services, whether paid in cash, by check, or in any other manner, and the date of each such payment, and
    c. Date in each week on which the largest number of individuals worked and the number of individuals who worked on that day.
9. For each worker, the:
    a. First and last name,
    b. Social Security number,
    c. Date hired, rehired, or returned to work,
    d. Date employment ended and the reason(s) for separation from work,
    e. Amount of remuneration paid in each calendar quarter,
    f. Amount of remuneration paid each pay period, including the value of any remuneration in a form other than cash,
    g. Amount and date of any special payment, such as a bonus, gift, or prize, and
    h. Place in which services were performed.

6.2. Reporting Business Changes

When any change in your business occurs, it is your responsibility to notify the department promptly. A delay could result in additional costs to you later. Be sure to report changes such as:

1. Selling your business,
2. Discontinuing your business,
3. Acquiring another business,
4. Changing ownership of your business,
5. Changing legal form of your business (incorporating, etc.),

6. Changing your business name, and
7. Changing your address.

A Report of Changes form (UC-514) is mailed with your quarterly Unemployment Tax and Wage Report (UC-018) for your convenience in reporting changes. You may also report a change by contacting the Employer Registration Unit or by completing and submitting the Report of Changes Form (UC-514) (164 KB DOC), or filing notice of the change through the Tax and Wage System (TWS). Telephone contact should be followed up with a written confirmation to the Employer Registration Unit.

6.3. Providing Information to Your Employees

Arizona law requires that you post in your place of business a Notice to Employees (POU-003) that provides information about the Unemployment Insurance program to your employees.

» English (72 KB PDF) » Spanish (72 KB PDF)

You are also required to provide a printed statement containing information about filing for unemployment benefits when one of your employees becomes unemployed. A pamphlet entitled "Take Care of Unemployment Business by the Internet or Telephone" (UIB-1015A) fulfills this requirement when printed out and provided to the employee. **Please note** that the AZ Unemployment Insurance Call Center (ARRA) hours have changed to 7:00 a.m. until 5:00 p.m. (applications for Unemployment Insurance benefits are taken during these hours on Monday through Thursday; on Friday, applications are accepted until 4:30 p.m.).

» English (83 KB PDF) » Spanish (86 KB PDF)

A more detailed booklet entitled "A Guide to Arizona Unemployment Insurance Benefits" (PAU-007) is also available online.

» English (274 KB PDF) » Spanish (295 KB PDF)

Additional information about workplace posters may be found at:

- Workplace Posters Required by Arizona
- Workplace Posters Required by the U.S. Department of Labor

6.4. Reporting New Hires

6.4.1. Reporting New Hires to the Arizona New Hire Reporting Center

Federal and state law require all employers to report newly hired and re-hired employees in Arizona to the Arizona New Hire Reporting Center within 20 days of their hire date.

New hire reporting accelerates the child support income withholding order process, expedites collection of child support from parents who frequently change jobs, and promptly locates alleged non-custodial parents to help establish paternity and child support orders. It also helps to detect and prevent improper payments of unemployment insurance, workers compensation, and welfare benefits to undeserving recipients.

The use of this information provides financial support for Arizona's deserving families and helps to reduce the costs of unemployment insurance, workers compensation, and welfare.

For detailed information regarding requirements and guidelines for the Arizona New Hire Reporting Program, visit the Arizona New Hire Reporting Center.

6.4.2. Employers Can Make a Big Difference for Employees Who Pay Child Support

Three simple steps are all it takes for employers to make sure that the support payments they withhold from a check help their employees. Your employees depend on you to deduct the court-ordered amount and send that payment so that they get credit for it. Here are three easy steps to help you make a big difference in their lives:

- Include your employee's name and ATLAS case number on your remittance. Without this information, your employees may not get credit for payments you made on their behalf.
- Include the pay period from which you deducted the payment. We don't need to know when the check was issued or when the payment to the Support Payment Clearinghouse was issued. We need to know what pay period this payment came from. The employees receive credit for the pay period, not the date of the check.
- Pay the court-ordered monthly amount. If you pay your employees on a weekly or every-other- week basis, this does not satisfy the monthly court-ordered amount. Just like the insurance premiums that you deduct, support is based on a monthly amount. If you divide the annual support by 52 weeks or 26 weeks, your payments may put your employees in an "arrears" status. This could cause interest to accrue on their record; make their pay record appear to be delinquent; and adversely affect their credit rating.

Support Payment Clearinghouse - Effective October 1, 1998, each state was required by the federal Personal Responsibility and work Opportunity Reconciliation Act of 1996 to establish a centralized State Collections and Disbursement Unit for the collection and disbursement of all child-support payments. In Arizona, payment for all income withholding orders must be remitted to:

Support Payment Clearinghouse
P.O. Box 52107
Phoenix, Arizona 85072-2107

The above address is to be used only for cases where employers receive an income withholding order or court order with this address. Visit the Payment Gateway for other options. This centralized, privatized approach provides enhanced customer service to parents and especially to employers by mandating one point of receipt for all support payments.

Your employees work hard for you. Help us help your employees. If you have any questions, please do not hesitate to contact the Division of Child Support Enforcement, Customer Service.

7. Audits

The Department of Economic Security conducts routine audits of Arizona employers on a random basis and investigates issues regarding the status of individuals as employees and the designation of payments as wages to ensure proper payment of taxes. You may be contacted by a DES unemployment insurance tax auditor to schedule an appointment to examine your financial records. All DES tax auditors carry state-issued, picture ID cards for official identification.

Audits are usually conducted at the employer's business; however, at your request, the audit may be conducted at an accountant's office, provided that all necessary records are available there. Out-of-state records must be made available to the tax auditor at the Arizona business headquarters.

Before examining the records, the auditor will interview the owner or representative of the business. The purpose of the interview is to determine the nature of the business, the type of services being performed and to verify the ownership of the business. This pre-audit interview also helps the tax auditor to better understand the financial records which he or she will be examining.

Financial records are generally examined for the most recently completed calendar year. For instance, if the current date is June 15, 2011, the audit will cover calendar year 2010. Records beyond the audit year may be required if discrepancies in reporting are found. Records for the previous three calendar years as well as the current year may be needed and should be available. For more information see the Employer Bill of Rights. The following is a brief outline of the procedures applicable to most audit situations:

Scheduling:	Initial audit notification is usually by letter. A pre-audit discussion is held with the employer or designated representative at the audit site or by telephone prior to the appointment date to address questions or concerns about the audit and enable the auditor to become familiar with the type of business under audit.
Audit Time:	Employers should plan for approximately three to four hours for an audit. The audit may be completed in less time for a small business with minimal employment but could take longer for a larger business or if reporting discrepancies are found.
Audit Scope:	Routine audits require initial examination of records for a one-year period, usually the most recently completed calendar year. Discrepancies within this one-year period may require further review up to an additional two years. Records for the audit may be provided in whatever accounting format is normally used by the business, either manual or automated. Such records, however, must reflect clearly the transaction dates, amounts, payees and purpose of the disbursements.
Records Required:	At minimum, employers must provide the following: • Cash Disbursements: records of all amounts paid out by the business. • Forms 1099, Non-employee Compensation, and Transmittal Form 1096. • Payroll Data: Records of wages paid to each employee. • W-2 Forms and W-3 Transmittal. • Copies of payroll tax reports filed with state and federal agencies. • Income tax returns. The unemployment tax section does not audit business income tax returns. It uses income tax returns to verify the business entity and ownership, and to clarify compensation or loans to business principals.
Source Documents:	Employers may also need to provide at least one calendar quarter of original source documents such as check stubs with cancelled checks, cash vouchers, or receipts of cash payments, as necessary to verify the accuracy of amounts posted to automated payroll summaries.
Audit Closeout:	After the audit work is completed, the auditor will provide close-out discussion of the findings with the employer or representative, by telephone or, if necessary, in person. An Audit Transmittal Report detailing the audit results is mailed to the employer after the review is concluded.

Questions:	Any questions about audit practices should be directed to the appropriate Unemployment Tax Field Office

8. Employer Appeals

Whenever a determination is made that affects your tax liability, a written notice is sent to you or personally delivered. Each determination provides separate appeal rights; in all cases, an appeal must be made in writing and within the time period specified in the notice.

It is extremely important to submit any appeal within the time frame indicated. After an original determination, the levels of appeal usually are:

- Level 1. Reconsidered Determination (tax cases) / Appeals Tribunal Hearing (benefit cases)
- Level 2. Appeals Board Hearing
- Level 3. Appeals Board Review
- Level 4. Arizona Tax Court
- Level 5. Arizona Court of Appeals

Read each determination carefully. It will provide you with information on how to appeal and your deadline for appealing. The following sections contain brief synopses of the types of notices you may receive and what to expect after you appeal.

8.1. Information about the Employer Appeal Process

8.1.1. Liability for Unemployment Insurance / Determination of Unemployment Insurance Liability (UC-016 or UC-015A) Or Liability for Specific Services or Remuneration / Determination of Liability for Employment or Wages (UC-016A)

8.1.1.1. First Contact – Receipt of Determination

A "Determination of Unemployment Insurance Liability" (UC-016 or UC-015A) or "Determination of Liability for Employment or Wages" (UC-016A) will be sent to you or personally delivered when the department determines that you are an employer liable for unemployment taxes or individuals performing services on your behalf are employees/remuneration you pay them is subject to Arizona unemployment taxes. The determination contains:

1. The determination date (date of the letter),
2. Your employer account number,
3. The date your liability begins,
4. Your tax rate (in the case of the UC-016 or UC-015A),
5. The legal basis for your liability,
6. A description of the services or remuneration (in the case of the UC-016A); and
7. Your appeal rights.

View Determination of Unemployment Insurance Liability UC-016 and UC-015A Samples (117 KB PDF) Sample Determination of Liability for Employment or Wages (UC-016A) (118 KB PDF)
Often an assessment of taxes due on the remuneration determined to be wages is issued in conjunction with the UC-016A. If you appeal the UC-016A your appeal will be considered an appeal of the assessment as well.

8.1.1.2. Appealing the Determination

The determination becomes FINAL unless a written request for reconsideration is **filed within 30 days** after the date on the UC-016, UC-015A, or UC-016A form as provided by Arizona Revised Statutes §23-724. If the 30th day falls on a Saturday, Sunday, or legal holiday the filing period will be extended to the next business day. Your written request for reconsideration should contain:

1. A statement of the reasons you consider this decision incorrect, and
2. Your Arizona UI employer account number.

If an appeal is filed by mail, the postmark date is considered the date of the appeal. To avoid additional charges, reports and payments required under this determination should be filed when due. If this determination is reversed, payment will be refunded.

Contact Information

Arizona Department of Economic Security
Unemployment Insurance Tax
4000 N. Central Ave., Suite 500
P.O. Box 6028
Phoenix AZ 85005

Telephone: (602) 771-3711
FAX: (602) 532-5538

8.1.2. Liability for Specific Services or Remuneration / Determination of Liability for Employment or Wages (UC-016A)

8.1.2.1. First Contact – Receipt of Determination

A "Determination of Liability for Employment or Wages" (UC-016A) will be sent to you or personally delivered if the department determines that individuals performing services on your behalf are employees or that remuneration you pay them is wages subject to Arizona unemployment taxes. The determination contains:

1. The determination date (date of the letter);
2. Your employer account number;
3. The legal basis for your liability;
4. A description of the services or remuneration; and
5. Your appeal rights.

Sample Determination of Liability for Employment or Wages (UC-016A) (118 KB PDF) Often an assessment of taxes due on the remuneration determined to be wages is issued in conjunction with the UC-016A. If you appeal the UC-016A your appeal will be considered an appeal of the assessment as well.

8.1.2.2. Appealing the Determination

The determination becomes FINAL unless a written request for reconsideration is filed within 30 days after the date on the UC-016A as provided by Arizona Revised Statutes § 23-724. If the 30th day falls on a Saturday, Sunday, or legal holiday, the filing period will be extended to the next business day. Your written request for reconsideration should contain:

1. A statement of the reasons you consider this decision incorrect, and
2. Your Arizona UI employer account number.

If an appeal is filed by mail, the postmark date is considered the date of the appeal. To avoid additional charges, reports and payments required under this determination should be filed when due. If this determination is reversed, payment will be refunded.

Contact Information

Arizona Department of Economic Security
Unemployment Insurance Tax
4000 N. Central Ave., Suite 500
P.O. Box 6028
Phoenix AZ 85005

Telephone: (602) 771-3711
FAX: (602) 532-5538

8.1.3. Assessment of Unemployment Taxes Due / Notice of Assessment (UC-018A)

A "Notice of Assessment" (UC-018A) (view sample UC-018A (241 KB PDF)) will be sent or personally delivered to you when the department determines the amount of taxes due for a particular calendar quarter or quarters. The department will issue a notice of assessment when it is determined that reports are delinquent (due, but have not been received) or are deficient (incomplete) in some way. You may file a written request for reassessment within 30 days of the date of the assessment if you disagree with the amount assessed.

8.1.4. Charges if Benefits are paid to Former Employee(s) / Notice to Employer (UB-110) or Determination of Deputy (UB-100)

8.1.4.1. First Contact – Receipt of the Notice to Employer (UB-110)

If a former employee files a claim for Unemployment Insurance benefits and you are determined a base period employer or the claimant's last employer, the Unemployment Benefit Claims Office will send you a "Notice to Employer" (UB-110) (view sample UB110 (105 KB PDF)). You may receive this notice by USPS mail, or you may choose to receive and respond to this notice electronically using the UI State Information Data Exchange System (SIDES) or SIDES E-Response option. You have 10 working days to respond to the notice, identifying/explaining the reasons for the claimant's separation from your

employ. A telephone call to the Benefit Claims Office is not a substitute for completing and returning the UB-110.

Your response to the Notice to Employer is handled by the Unemployment Insurance Benefit Claims Office that sent you the notice, not the Unemployment Insurance Tax Office.

8.1.4.2. Second Contact – Receipt of Determination of Deputy (UB-100)

If you respond within the allotted timeframe and your response indicates that you protest payment of benefits, the Unemployment Benefit Claims Office will send you a "Determination of Deputy" (UB-100) (view sample UB-100 (243 KB PDF)). The determination states whether your former employee is eligible for unemployment benefits, the applicable section of law under which the determination is made and whether your experience rating account will be charged.

If you disagree with the determination you may file a written appeal within 15 days of the date of the determination. If the appeal is filed timely, you will have the opportunity for a hearing before an appeals tribunal. This hearing may be conducted either in person or by telephone. You will receive a written decision after the hearing. If you still disagree with the decision you may appeal it to the Appeals Board, which has two levels of appeals. If you still disagree after the Appeals Board, you may appeal to the Arizona Court of Appeals.

The appeals process for the Determination of Deputy is handled by the Unemployment Insurance Benefits appeals, not the Unemployment Insurance Tax Appeals.

8.1.5. Account Has Been Charged for Benefits Paid to Former Employee(s) / Benefit Charge Notice (UC-602)

The "Benefit Charge Notice" (UC-602) is mailed to you quarterly if unemployment benefits have been paid to former employees in the previous quarter and charged to your employer account, or if prior charges have been reversed and credited back to your account. Tax-rated employers will receive a UC-602-A (view sample UC-602-A 298 KB PDF) and reimbursement employers will receive a UC-602-B (view sample UC-602-B 297 KB PDF). A detailed explanation of the information that appears on the notice is printed on its reverse side.

You may appeal any mathematical or clerical errors you discover by filing a written request for redetermination **within 15 days** of the date of the notice. You may not appeal any issues which have previously become final, such as a claimant's eligibility for benefits, since separate appeal processes were provided for these issues. You will usually receive a letter of explanation about the issues you are appealing. If you disagree with the information in the letter, appeal rights are provided. A written Reconsidered Determination will be sent to you if you appeal the letter of explanation. This in turn may be appealed within 15 days to the Appeals Board for two levels of appeal. Thereafter, you may appeal to the Arizona Tax Court, which is a division of the Maricopa County Superior Court system.

8.1.6. Determination of Unemployment Tax Rate (UC-603)

The "Determination of Unemployment Tax Rate" (UC-603) (view sample UC-603 (360 KB PDF) may be appealed **within 15 days** of the date of the notice with a written request for review.

You will receive a letter of explanation about the issues you are appealing. If you disagree with the information in the letter, appeal rights are provided. A Reconsidered Determination will be

written if you appeal the letter of explanation. This in turn may be appealed within 15 days to the Appeals Board for two levels of appeal. Thereafter, you may appeal to the Arizona Tax Court, which is a division of the Maricopa County Superior Court system.

9. Tax Evasion

9.1. State Unemployment Tax Act (SUTA) Dumping

State Unemployment Tax Act (SUTA) dumping, one of the biggest issues facing the Unemployment Insurance (UI) program, is a tax evasion scheme where shell or new companies are formed to obtain low UI tax rates. When a low rate is obtained, payroll from another entity with a high UI tax rate is shifted to the account with the lower rate. The entity with the higher rate is then "dumped." Such abusive schemes leave other employers making up for the unpaid tax.

9.2. What Harm Does SUTA Dumping Cause?

Under the experience rating system, employers pay unemployment taxes at rates commensurate with claims activities by their employees. Employers with high unemployment activity pay higher unemployment tax rates, and employers with lower activity pay less. Employers who engage in SUTA dumping (or other tax manipulation schemes) to avoid paying their fair share unfairly shift their costs to other employers. According to the U.S. Department of Labor, SUTA dumping is harmful because it:

- Compromises the integrity of the UI system;
- Results in an uneven playing field;
- Eliminates the incentive for employers to avoid layoffs;
- Adversely affects tax rates for all employers; and
- Costs the UI trust fund millions of dollars each year.

SUTA dumping hurts everyone – employers, employees, and taxpayers make up the difference in higher taxes, lost jobs, lost profits, lower wages, and higher costs for goods and services.

9.3. SUTA Dumping Schemes

There are several variations on the schemes some businesses use to inappropriately lower their UI tax rate. Employers should become aware of these schemes and their potential legal ramifications. Examples of SUTA dumping schemes:

1. **Purchased Shell Transaction** - A business with a large payroll and a high UI rate purchases a corporate shell with a low UI rate and transfers its payroll to the purchased entity.
2. **Affiliated Shell Transaction** - A new corporation is registered, and a small payroll is reported each year until a low or minimum UI rate is achieved. Once the low rate is achieved, large payroll amounts from another related corporation are transferred into this account.
3. **New Employer Rate** - An employer with a high UI rate files a registration form requesting a new employer account number, which has a lower rate (new employers pay 2.0% in Arizona), then the payroll is transferred to the new account.
4. **Reporting under a client's Employer Account Number** - An employee leasing company or professional employer organization (PEO) with a high UI rate shifts its payroll to the account number of one of its clients with a lower UI rate.
5. **High Plus High Equals Low** - A high UI rate account with a large payroll is transferred into another high UI rate account with a small payroll at the beginning of the year. Since the calculation of the average base payroll is on a calendar year basis, only the small payroll is considered.

However, the taxes from the large payroll are added to the reserve account balance as of June 30, resulting in a very low UI rate being established for the next year.

6. **Partial Reserve Account Acquisition** - A newly registered business applies for a partial reserve account balance of another company. When the small reserve balance is acquired, a correspondingly small average base payroll is also acquired. A related entity then shifts hundreds of millions of payroll into the small account. Because the average base payroll is tallied on a calendar-year basis and reserve accounts accumulate quarterly, the result is to flood the reserve balance in relation to the small average base payroll. A minimum rate is attained in the succeeding year.
7. **Buffering Potential Negative Reserve Account Charges** - A company that hires temporary workers forms a new entity and obtains a separate account number. The temporary workers are paid through this account. When they are laid off and file UI claims, the newly formed company goes out of business and the negative reserve account charges get distributed to other businesses in the state. This typically occurs when a labor action is contemplated and temporary workers are hired knowing they will be laid off after the labor action. Another variation on this scheme is when a company is planning to downsize. Employees to be laid off are transferred to a subsidiary account. This buffers the reserve account of the initial company from UI charges.

9.4. Illegality and Penalties

Is It Illegal?

Employers who engage in SUTA dumping or other rate manipulation schemes knowingly misrepresent facts about their business. It is ***illegal*** under Arizona statutes to knowingly make false statements and omit material facts on UI tax documents in order to reduce UI taxes. The federal SUTA Dumping Prevention Act of 2004 required each state to enact laws to prevent employers from inappropriately lowering their UI contribution (tax) rates. The law not only bans SUTA dumping but also levies heavy penalties on those who engage in or promote such abusive practices.

Arizona enacted legislation that requires the following penalties:

- Employers who are caught illegally lowering their UI rates to pay at the highest rate provided by law or at their current rate plus an additional two percent, whichever is greater.
- Provides for a $5,000 penalty for anyone who is not an employer who knowingly advises another person or business to violate Arizona's UI rate and reporting laws.

The law also requires that specifies whenever an employer transfers its business to another employer, the reserve account will be transferred if they are under common ownership, management, or control. The law also provides that if the acquisition was for the purpose of getting a lower UI rate, the transfer will be denied.

What is DES doing to fight SUTA dumping?

The Department of Economic Security actively pursues and prosecutes employers who participate in SUTA dumping and other tax manipulation schemes and has the authority to subpoena records and individuals in its investigations. In addition, DES regularly conducts outreach with employers and tax advisors to ensure they are aware of these schemes and to help them avoid future legal trouble.

9.5. How Do I Report It?

If you think someone is committing fraud or engaging in SUTA dumping, please report it to us immediately. All allegations of fraud are taken seriously. Please provide as much of the following information as you can:

- Employer name, address, and telephone number
- Employer account number
- What they are doing
- When they started doing it
- Your name, address, and telephone number (optional)

REMEMBER: You are a very important source of information and a critical component in the Department's efforts to combat SUTA dumping fraud!

TO REPORT UI TAX FRAUD

Call: (602) 771-3713 or Email: SUTA Dumping Reporting

10. Introduction to Arizona Unemployment Insurance Benefits

Unemployment benefit payments are made to workers (*claimants*) who are temporarily unemployed through no fault of their own and attempting to re-enter the labor force. As an employer, your Arizona unemployment taxes pay the entire cost of unemployment benefits paid. By law, unemployment taxes cannot be withheld from the wages you pay workers.

Since it is your taxes that are used to pay benefits to your former workers, it is to your advantage to become familiar with the benefit provisions of the Unemployment Insurance program.

Before an individual can receive unemployment benefit payments, several basic requirements must be met:

1. The worker must show a prior attachment to the labor force. (i.e. Individuals who have recently entered the labor force will not qualify.)
2. The worker must not have caused his/her unemployment. (i.e. Benefits are paid only to workers who are unemployed through no fault of their own.)
3. The worker must maintain an attachment to the labor force while he/she is collecting benefits.
4. Benefits are payable only to individuals who are actively seeking work.

10.1. Determining Eligibility for Benefits

10.1.1. Monetary Eligibility Factors §23-771

The benefit claims office determines the claimant's "monetarily eligibility" for benefits, as follows:

- The worker's base period is determined - Only wages paid for services in employment covered by UI during a 12-month period, called the base period, are used in establishing unemployment benefit amounts. The base period is the first four of the last five completed calendar quarters prior to the date the claimant files for benefits. All wages reported by employers in the base period under the claimant's Social Security Number are included in determining the amount of benefits potentially payable.
- A weekly benefit amount is determined - The highest amount of wages paid in a quarter of the worker's base period determines the weekly benefit amount. The minimum weekly amount is $126, the maximum is $240. To be monetarily eligible for benefits, the claimant must have been paid covered wages in the base period of:
    - For new UI claims that were made effective August 5. 2012 or later
        - At least 390 times the Arizona minimum wage in the highest-paid quarter of the base period and a combined total in the other three quarters equal to at least one half the amount of wages in the highest-paid quarter, or
        - A combined total of at least $7,000 in wages in at least two quarters of the base period, with wages in one quarter equal to $5987.50 or more.

If the claimant is determined to be monetarily **ineligible**, benefits will be denied on that basis.

If the claimant is determined to be monetarily **eligible**, a benefit year, weekly benefit amount and a total award of benefits are determined. The claimant may collect up to 26 weeks of benefits, or 1/3 of his/her total base period wages, whichever is less, during a benefit year (a

52-week period). If a claimant qualifies for the maximum weekly benefit amount of $240, the maximum total amount that may be collected on a given claim is $6240. (During a period of high unemployment when extended benefits are paid, the maximum amount may increase. See Extended Unemployment Benefits.)

10.1.2. Non-Monetary Eligibility Factors

After the claimant is determined monetarily eligible, several other major factors determine whether benefit payments will be made:

1. The reason for the claimant's separation from his/her last employment;
2. Whether all other eligibility requirements have been met and continue to be met during the time in which benefits are claimed.

Let's look at each of those factors individually:

10.1.2.1. The Reason for Separation from Last Employment ARS §23-772, §23-773, §23-774, §23-775

Each application for benefits requires the claimant to explain the reason for being out of work from his most recent employer. A "Notice to Employer" (UB-110) (view sample UB-110 105 KB PDF) is mailed to the claimant's most recent employer to request verification of the reason for unemployment. This notice indicates the reason the claimant has given for the unemployment and the last day of work. It provides the employer an opportunity to respond to that information and give any additional relevant information and documentation.

If you receive a "Notice to Employer" (UB-110) indicating you are the Last Employer, you should complete and return the notice within 10 working days if any of the following apply:

3. The claimant was not your employee;
4. The claimant worked somewhere else after working for you;
5. The claimant resigned, retired, or abandoned the employment;
6. You dismissed the claimant for a reason other than lack of work or reduction in force;
7. The claimant is one of the workers involved in a strike, lockout, or labor dispute at your business location;
8. You paid the claimant severance; or monies for unused leave, such as vacation pay, sick pay, or holiday pay when the employment terminated;
9. You are making retirement or pension payments to the claimant;
10. You have information that the claimant is not willing or able to seek and accept suitable work;
11. You have work available and want to offer the claimant employment.

An investigation is initiated based on the information you and the claimant provide. You may be contacted for additional information or clarification during the investigation. If the claims office determines that the last employer justifiably discharged the claimant for misconduct, or that the claimant quit the last employer without good cause in connection with the work, benefits will be denied for as long as he/she is currently unemployed. If such

determinations are made regarding employment with a base period employer (i.e., other than the last employer), this will not affect the claimant's eligibility for benefits, but the employer's account will be relieved of charges for any benefits paid on the claim.

The Employment Security Law of Arizona defines misconduct as "any act or omission by an employee which constitutes a material or substantial breach of the employee's duties or obligations pursuant to the employment or contract of employment or which adversely affects a material or substantial interest of the employer." (Arizona Revised Statutes § 23-619.01(A)).

If you discharge a worker for what you consider "misconduct" and believe the worker should not be eligible for benefits, you must establish that there was misconduct. Merely alleging misconduct is insufficient. If the claimant denies misconduct, you must present evidence to refute the denial. Accurate records of dates and descriptions of incidents or infractions leading to the dismissal, warnings, and disciplinary actions can be used as evidence of misconduct. A history of employer tolerance of misconduct prior to discharging a worker substantially decreases the likelihood that the claims office will determine that the discharge was justifiable. Generally, a worker who is discharged solely due to inability to meet job requirements is not considered to have been discharged for misconduct.

On the other hand, when a worker quits a job and believes he/she should be eligible for benefits, the worker must present evidence to establish that he/she had no other alternative but to end the employment relationship.

Keep accurate records of employment agreements and employee performance. Record dates of warnings and descriptions of incidents leading to the dismissal of an employee.

After the investigation is completed, the claimant receives a written determination of eligibility. You will receive a copy of the determination if you protested the claim and returned the "Notice to Employer" (UB-110) within the 10-day time limit. If you do not reply to the "Notice to Employer" timely, you are not entitled to receive a copy of the determination of the claimant's eligibility, and you lose your right to further protest the payment of benefits if the claimant is determined eligible.

The table below shows examples of many common types of situations which may affect a worker's eligibility and an employer's chargeability.

The "Effect on Worker" column relates specific to the separation from the last employer only. The "Effect on Employer" column relates to either base period or last employers chargeability when the Department makes the determination listed in the left hand column.

Common Types of Unemployment Benefit Determinations		
A Determination that the Worker:	**Effect on Worker**	**Effect on Employer***
Voluntarily quit without good cause in connection with the work -or- Was discharged for misconduct	Disqualified from receiving benefits until the worker has had subsequent employment and is again Unemployed, through no fault of his/her own.	No charges to the employer's account
The employer was called to active duty in the military - or- A former employee of the employer returned to work for the employer after being called into active military duty, thus displacing the claimant	Eligible for benefits if other eligibility conditions are also met.	No charges to the employer's account
Was laid off due to a lack of work -or- Was discharged for reasons other than misconduct -or- Voluntarily quit with good cause in connection with the work	Eligible for benefits if other eligibility conditions are also met.	Charges to the employer's account
Left work for a compelling personal reason not attributable to the employer -or- Was separated due to mandatory retirement under a nongovernmental retirement plan	Eligible for benefits if other eligibility conditions are also met.	No charges to the employer's account
While filing claims for benefits, is provided part-time employment by the employer to the same extent as provided by that employer during the worker's base period	Eligible for partial benefits if other eligibility conditions are also met.	No charges to the employer's account

* By law, relief of charges does not apply to reimbursement employers, i.e., those employers that have elected the Reimbursement Payment Option. (Arizona Revised Statutes Section 23-750(B)(4) and Arizona Administrative Code Section R6-3-1717(A)).

10.1.2.2. Other Eligibility Requirements ARS §23-776

In addition to being involuntarily unemployed, the claimant must also meet several other conditions before receiving a payment of unemployment benefits. The claimant:

1. The worker must show sufficient wages in covered employment during the past 18 month.
2. The worker must not have caused his/her unemployment. Benefits are paid only to workers who are unemployed through no fault of their own.
3. The worker must be physically able and available to accept full time work. The worker must actively seek work during each week claimed.
4. Actively seeking Work definition: Individual must engage in a systematic and sustain effort to obtain work during at least four different days of the week.
5. The worker must not refuse a bona fide offer of work.
6. The worker will have any amount of severance, vacation, holiday or sick pay deducted from their weekly benefit amount until that pay is exhausted.

Any time you provide us with information or evidence that a former worker does not meet one or more of these continuing eligibility requirements, we will investigate the claimant's eligibility.

10.2. Notice to Employer of Benefit Claim Filing / Protesting s Benefit Claim ARS §23-772(B), §23-773(C)

The notice to employer is an extremely important notice and must be completed and returned within 10 working days of the notice if you wish to protest a claim.

When a claim for benefits is filed, each of the worker's employers (the most recent and any employer who paid wages to the claimant during the base period of the claim) are sent a "Notice to Employer" (UB-110) (view sample UB-110 (105 KB PDF). These notices may be mailed through the US Postal Service to your address of record (see below if you wish to receive the notices at a different address), or may be sent electronically if you elected to utilize the online reporting function UI SIDES or SIDES E-Response. (Click here for more information on electronic reporting). A telephone call to the benefit claims office does not constitute a valid protest; it does not exempt you from the necessity of completing and returning the "Notice to Employer."

You may receive notices of claims filed at an address other than your official business submitting a written request to the Employer Registration Unit. The Report of Change (UC-514) form is convenient for this purpose. You may also report this change online by utilizing our online Tax and Wage System (TWS).

The reason for separation determines whether your account will be charged for its proportionate share of any benefits paid to the claimant for both Last Employers and Base Period Employers. The separation from the Last Employer affects the worker's eligibility to receive benefits as well, whereas the separation from base period employers only affects the employer's chargeability. Claimed amounts charged to your Tax Account may affect your future tax rate. You may review information about how your tax rate is determined by clicking here.

Employers may provide information that may affect a worker's eligibility in addition to the separation details (regarding their ability or availability to work, should barriers exist), however this information does not relieve an employer of charges if the worker is later determined to be eligible for benefits.

10.3. How Your UI Taxes Fund Benefit Payments

The cost of any benefits paid to a claimant is met by that claimant's former employers. Employers who paid wages to a claimant in the base period of the claim share the cost of the benefits paid to the claimant through "charges" made to their experience rating accounts. Charging your account for the payment of benefits to a former worker means that the total amount of taxes you have paid on your account is reduced by the total amount of benefits charged to your account when your tax rate for the next calendar year is calculated.

Benefits are charged in proportion to the percentage of wages you paid to the claimant in the base period compared to those paid to the claimant by other employers in the base period. For example, if you paid 100% of the wages during the worker's base period, your share of the charges is 100% of the benefits paid. If you paid 25% of the wages, your share of the charges is 25%. The maximum amount charged for regular benefits cannot be more than one-third of the amount of the wages you paid in the claimant's base period.

10.3.1. Quarterly Notice of Benefit Charges

A "Benefit Charge Notice" (UC-602-A for tax-rated employers; UC-602-B for reimbursement employers is mailed to you quarterly if unemployment benefits have been paid to former employees in the previous quarter and charged to your unemployment tax account. The notice lists the names and Social

Security Numbers of your former employees who were paid benefits during the quarter. It also lists the amount of wages you paid the claimant in the base period of the claim, and your share of the cost of those benefits (the amount you are charged). If a previous charge was reversed during the quarter, the notice also lists a corresponding credit to your account.

The quarterly charge notice is not a bill, but simply an accounting of charges made during the quarter. (Benefit charges are one of several factors that can cause your tax rate to increase in subsequent years.) Before your account is charged for these benefits you will have been sent a "Notice to Employer" (UB-110) (view sample UB-110 105 KB PDF), which gave you the opportunity to protest payment of the benefits. You are also provided the opportunity to appeal any determination you received as a result of a timely protest.

You should carefully review each Benefit Charge Notice for any clerical or mathematical errors, and submit information in writing within 15 days of the date of the notice if:

1. An individual on the list was not your employee;
2. You have not received a response to your reply to a "Notice to Employer" (UB-110);
3. Your account is being charged for payment of benefits although you received a non-charge determination;
4. Work is available and you wish to offer employment to a former worker;
5. An individual listed has refused an offer of work from you;
6. You believe an individual is currently working or otherwise not entitled to benefits.

Information you provide will result in a review of our records. You will receive a reply advising you of any corrections made or explaining the reason for the charge.

10.3.2. Reimbursement Employer Billings

If you qualified for and elected the Reimbursement Payment Option, you will be mailed a "Statement of Account" (UC-145) in addition to the "Benefit Charge Notice" (UC-602-B) (view sample UC-602-B 297 KB PDF). This statement shows the amount owed for your proportionate share of benefits paid. Your payment is due on or before the last day of the second month following the end of the quarter in which the claims were paid.

You are responsible to pay the actual dollar amount of your share of benefits paid. Unlike tax-rated employers, you do not pay quarterly taxes on the wages you pay your workers. The process of charging or non-charging benefits paid does not apply to a reimbursement employer.

11. Detection and Prevention of Improper Benefit Payments

To ensure proper payment of unemployment benefits, the department utilizes three types of audit programs:

11.1. Quality Control

Each week unemployment claims are randomly selected for a thorough investigation to determine whether the claim was properly established and whether benefits were properly paid. This investigation requires department representatives to personally contact the claimant's previous employers to review pertinent wage and separation information.

If you were not a previous employer of the claimant, but the claimant listed your firm as a contact in an effort to secure employment, department representatives may also verify such contact with you.

11.2. Post Audit

This program is used to detect individuals who may be working and receiving wages while collecting unemployment benefits. A "Wage/Earnings" audit form may be mailed to you when you have reported wages in the same calendar quarter in which benefits have been paid. By completing and returning this report, you provide information which can assist the department in detecting unemployment overpayments. Detection and recovery of overpaid benefits can result in credits to your experience rating account.

11.3. "New Hire" Directory Audit

The "New Hire" directory is a database of information on all newly hired and rehired employees. A "New Hire" audit form may be mailed to you when you have reported the claimant as a new hire or rehire. This audit is similar to the Post Audit, but is conducted weekly as opposed to quarterly.

12. Interstate Unemployment Benefits

A former worker who no longer resides in Arizona may file a claim for unemployment benefits based on wages earned from your firm. This is referred to as an "interstate" claim. The worker's eligibility for benefits and charges to your unemployment account are determined in the same manner as if the worker had filed the claim in Arizona.

In other instances, a worker may have last worked in Arizona but the claim is based on wages earned in another state. You may receive a notice that the claim was filed, along with a request for information concerning the worker's reason for separation from your employment. When you return the form within the specified time period (the time varies among states), you are assisting in determining the claimant's eligibility to receive unemployment benefits. In most cases, however, payment of benefits will not affect your unemployment account.

13. Extended Unemployment Benefits ARS §23-627, §23-628

During periods of high unemployment in Arizona, state law provides for the payment of up to 13 weeks of additional benefits. To qualify for this extension of benefits, a worker must have exhausted the total amount payable in his/her regular award and must meet special work search and other eligibility requirements. Experience-rated and nonprofit reimbursement employers will be charged for 50% of any extended benefits paid. Governmental employers are required to reimburse the department for the total amount of extended benefits paid.

14. Labor Disputes ARS §23-777

When a strike, lockout, or other labor dispute occurs at your business, you must notify the nearest department office within three days of the start of the labor dispute and furnish a list showing the name and Social Security Number of and type of work performed by each person who is unemployed due to the labor dispute. The Department of Economic Security is a neutral party in such disputes. Unemployment insurance benefits will not be paid to those employees or class of employees financing, participating, or directly involved in the action. Due to federal regulations, the department's Employment Service will not refer workers to the business while there is an ongoing dispute.

15. How to Keep Your UI Cost Down

15.1. Stabilize Employment

The following are a few tips on stabilizing employment within your business:

1. Screen prospective employees carefully before hiring, to select the “right” employee for the job.
2. Hire versatile employees who can be shifted to another job if necessary.
3. Transfer employees to other job sites when feasible.
4. Use regular employees for repairs and maintenance during slack periods.
5. Instead of layoffs, consider reducing the work week under the Shared Work Program.

15.2. Minimize Charges to Your Account

You can help minimize charged to your Arizona Unemployment Insurance Tax Account by doing the following:

1. Keep accurate records of employment agreements, employee performance, dates and details of warnings, and other disciplinary measures.
2. Return the "Notice to Employer" within ten working days of the date of the notice with specific information about the reason for separation from your employment if it was for a reason other than lack of work.
3. Take the time to appeal if you believe a determination is incorrect.
4. Notify the department promptly if you have information that a claimant is not available for work, not able to work, has refused work, or is employed.
5. Complete wage audit forms when they are sent to you, and respond in a timely manner.
6. Report newly hired and rehired employees to the Arizona New Hire Reporting Center within 20 days of the hire date, as required by federal and state law.

15.3. Maintain a Good Tax Rate

By following a few steps, you can do your part in maintaining a favorable tax rate:

1. Submit quarterly wage reports timely to avoid penalties.
2. Pay taxes promptly to obtain maximum Federal Unemployment Tax (FUTA) credit.

3. Report all changes to your business promptly.
4. Do not report non-taxable payments or employees in exempt employment.
5. Compute all tax payments carefully—if you file your reports via Arizona's online Tax and Wage System (TWS), it accurately and automatically computes this for you.
6. Consider making a voluntary payment to lower your tax rate.