NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Increase UI Max Benefit/2025 UI Tax Credit.
Bill Number: House Bill 48 (Second Edition)
Sponsor(s): Rep. Howard, Rep. Brody, Rep. Warren, and Rep. Setzer

SUMMARY TABLE

FISCAL IMPACT OF H.B. 48, V.2 ($ in millions)

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
State Impact					
Trust Fund Revenues	(100.0)	-	-	-	-
Less Expenditures	35.0	109.0	111.0	113.0	116.0
Special Fund Impact	**(135.0)**	**(109.0)**	**(111.0)**	**(113.0)**	**(116.0)**
NET STATE IMPACT	**($135.0)**	**($109.0)**	**($111.0)**	**($113.0)**	**($116.0)**

TECHNICAL CONSIDERATIONS: **See Technical Considerations Section**

FISCAL IMPACT SUMMARY

The second edition of H.B. 48, Increase UI Max Benefit/2025 UI Tax Credit (H.B. 48), raises the maximum Unemployment Insurance (UI) weekly benefit amount from $350 to $450 and provides an employer tax credit equal to the employer's UI tax payment made on or before January 31st, 2025. The increased benefits are estimated to increase Unemployment Insurance Trust Fund (UTF) expenditures by $35 million in FY 2024-25 and by $109 million beginning in FY 2025-26. The UI tax credit is estimated to reduce UTF revenues by $100 million in FY 2024-25.

H.B. 48 has no General Fund impact. The Fiscal Research Division (FRD) estimates H.B. 48 will reduce the UTF balance by $584 million over the next five fiscal years. Even with this forecasted reduction, FRD anticipates that the UTF balance will continue to increase, from $5.0 billion as of January 2025 to $6.7 billion as of June 2029. See Table 1 below for year-end estimates of the UTF balance.

Table 1: Year-End UTF Balance Projections, $B

Category	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Current Law	$5.2	$5.6	$6.1	$6.7	$7.3
HB 48	$5.1	$5.4	$5.8	$6.2	$6.7
Difference ($)	($0.1)	($0.2)	($0.4)	($0.5)	($0.6)
Difference (%)	(2.5%)	(4.4%)	(5.9%)	(7.2%)	(8.3%)

Fiscal Analysis

Background

The UI system is a jointly operated federal and state program. At the federal level, the US Department of Labor (DOL) sets policy and monitors state compliance, funds state administration of the UI program, and holds and invests UTF funds until drawn down by states to pay benefits. States determine their own benefit structure and tax structure and pay benefits to claimants. North Carolina's UI system is administered by the Division of Employment Security (DES) within the Department of Commerce.

Benefit payments are funded by a State unemployment tax. In North Carolina, employers make quarterly tax payments based on the wages earned by their employees in that quarter. These payments are due the final day of the month following the close of a calendar quarter: January 31st, April 30th, July 31st, and October 31st. Employers pay tax only on the portion of their employee's wage that is taxable. In the 2024 tax year, only the first $31,400 of an employee's wages were taxed. This means an employer paid no tax on the wages paid to their employee above the $31,400 limit.

Tax revenue generated by the unemployment tax is deposited at the US Treasury and held in the UTF. Federal law restricts the use of funds deposited in the UTF, and deposits made to the fund may not be used for purposes outside of the UI system. As of the end of January 2025, the UTF fund balance was over $5.0 billion.

Currently, under G.S. 96-14.2(a), the maximum UI weekly benefit amount may not exceed $350. The weekly benefit amount is determined based on the individual's wages in the last two calculated quarters and equals half of a claimant's average weekly earnings in that time. Under current law, this would mean a claimant who averages $700 or more a week in weekly earnings would receive the maximum UI benefit of $350.

Maximum Weekly Benefit Increase (Section 2)

Table 2: Summary Statistics, Changes with Fiscal Impact, Expenditures

Category	Maximum Weekly Benefit	Average Weekly Benefit	Change ($)	Change (%)
Current Law	$350	$302	-	-
H.B. 48	$450	$358	$56	16%

This section increases the maximum UI weekly benefit amount from $350 to $450. Under H.B. 48, this would mean a claimant who averages $900 or more a week in weekly earnings would receive the maximum UI benefit of $450. Under H.B. 48, the $450 maximum weekly benefit amount becomes effective for all claims filed on or after March 2nd, 2025.

The US Department of Labor (DOL) reports State tax and benefit statistics on a quarterly basis. This data includes figures on the average weekly benefit amount, the average unemployment duration, and the average employer tax rate. Additionally, Moody's Analytics provides proprietary forecasts on the estimated initial unemployment claims to be filed in each week. Combining these data sources, FRD projected the expected number of claims filed each week and the cost of fulfilling those claims for the average reported duration.

As of quarter three of 2024, DOL reports the average weekly benefit amount in North Carolina was $302, and the average weekly benefit duration was 9.4 weeks. While the UI benefit amount and duration varies across individual UI recipients, FRD assumes these averages continue throughout the projection period. Broader economic impacts may cause these averages to fluctuate in the future, impacting the actual fiscal impact to the UTF.

FRD estimated the number of individuals who will receive UI benefits using initial claims data. Initial claims include any unemployment claim filed, whether it is deemed valid or benefits are eventually paid. FRD used projections of initial claims from Moody's Analytics and adjusted these projections based on trends from DOL reported initial claims.

To determine the cost of UI benefits each week under H.B. 48, FRD estimated the average weekly benefit, given a maximum weekly benefit of $450. Using annual wage statistics from the Occupational Employment and Wages program from the US Bureau of Labor Statistics, FRD simulated a distribution of the annual wages paid across the State. The simulation was shifted to match the composition of UI claimants, as this group tends to have lower-than-average wages. Then, FRD calculated individual benefit amounts for the simulated claimants with a maximum benefit of $450. This simulation indicates the average weekly benefit amount for unemployment claimants would be roughly $358, a 16% increase from benefits paid in quarter three of 2024. FRD assumes this simulated data is representative of the annual wages earned by North Carolina UI claimants.

For this analysis, FRD assumed each initial claim was valid, all claimants receive the average weekly benefit amount of roughly $302 under current law or roughly $358 under H.B. 48, and each claim lasts for the average duration of 9.4 weeks. Because initial claims include all claims regardless of whether they are later deemed valid or any benefits are paid, this estimate is likely to be an overestimate of actual claims paid. The difference between the benefit cost under H.B. 48 and current law represents the estimated additional cost of an increase in the maximum weekly benefit. In the 2024-25 Fiscal Year, the additional benefits cost of H.B. 48 would be roughly $35 million. For the following four fiscal years, FRD adjusted UI benefit costs for inflation using the standard inflation rates from Moody's as of January 2025.

Employer UI Tax Credit (Section 3)

Table 3: Summary Statistics, Changes with Fiscal Impact, Revenues

Category	FY 2024-25 Unemployment Tax Revenue Estimate ($M)	Change ($M)	Change (%)
Current Law	$753	-	-
H.B. 48	$653	($100)	-13%

This section allows employers a tax credit equal to the employer's tax payment due on or before January 31st, 2025. Employers with taxable wages paid in quarter four of 2024 would be eligible to receive this credit. The UI employer tax credit would be applied to employer payments due in late April of 2025, and excess or unused credits will be refunded pursuant to G.S. 96-9.15(b).

To estimate the impact of the H.B. 48 employer tax credit, FRD multiplied the average employer tax rate with the expected taxable wage base in quarter four of 2024 to determine the tax credit's expected impact. In quarter one of 2024, over $53 billion in taxable employee wages were reported by DOL However, employers may pay less tax in later quarters of a calendar year. Taxable wages include only the first $31,400 of an employee's wages in 2024. If an employee earns these wages in earlier quarters, employers will pay no tax in later quarters on the employee's wages exceeding $31,400. FRD analyzed the variation in quarterly taxable wages since 2014 to determine the average decline in the State's taxable wage base in each quarter.

FRD assumes a decline in taxable wages in the 2024 calendar year will occur and match the average decline over the proceeding ten years. In quarters two and three, employers typically pay tax on roughly 38% less wages when compared with the prior quarter's taxable wage base. Employers in quarter four typically pay tax on roughly 27% less wages when compared with the previous quarter. Given these averages, estimates for the taxable wages in quarters two, three, and four were projected. In quarter four of 2024, FRD estimates employers paid taxes on roughly $16 billion in wages. Employers paid the unemployment tax on the estimated $16 billion in taxable quarter four wages on or before January 31st, 2025.

Lastly, FRD applied the tax rate to the estimated taxable wage base to calculate forgone revenue attributable to the tax credit. DOL reports the average employer tax rate was 0.68% in quarter one of 2024. While individual employer tax rates range between 0.06% and 5.76%, FRD assumes this average tax rate remains representative of the average North Carolina employer tax rate in quarter four of 2024. FRD applied this average tax rate directly to the estimated taxable wage base in quarter four to estimate anticipated forgone revenue. A tax credit for the unemployment taxes paid on quarter four wages in 2024 is roughly $100 million.

Since employers have likely already made January 31st, 2025 payments, H.B. 48 states that this credit would be applied to the employer tax payments due April 30th, 2025. Therefore, FRD expects employer payments would be reduced by roughly $100 million in FY 2024-25 due to credits reducing employer tax liabilities in late April.

Unemployment Insurance Trust Fund Impact

FRD projects the UTF, under present economic conditions, is on a growth trajectory. Under H.B. 48, revenue collections will be reduced in FY 2024-25, and benefit expenditures will increase through the projection period. However, FRD estimates the UTF would remain on a growth trajectory (see Table 1, Pg. 1).

TECHNICAL CONSIDERATIONS

Broader economic impacts that cause UI benefit average duration and cost to fluctuate could affect the actual fiscal impact to the UTF.

Due to lack of data on the rate of approved initial claims and potential fluctuates in approval rates, this analysis assumes all projected initial claims are valid and receive UI benefits. This assumption may result in an overestimation of the total fiscal impact.

In accordance with S.L. 2024-51, FRD estimates of the UTF fund balance incorporate the extension of Executive Order 322 through March 1, 2025. FRD assumes, that following the expiration of the Statewide State of Emergency, temporarily increased UI benefits under Executive Order 322 will expire, and the maximum weekly UI benefit will return to $350, as mandated in G.S. 96-14.2(a).

DATA SOURCES

U.S. Department of Labor Employment & Training Administration, Moody's Analytics, U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics 2023

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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