



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

STATEMENT OF ESTIMATED FISCAL IMPACT

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Bill Number: S. 0688 Introduced on January 13, 2026
Subject: DEW UI Tax Code
Requestor: Senate Labor, Commerce, and Industry
RFA Analyst(s): Manic
Impact Date: February 25, 2026

Fiscal Impact Summary

The bill changes the calculation of the benefit ratio in Section 41-31-5 by the Department of Employment and Workforce (DEW) for tax years 2027, 2028, and beyond. Further, the bill changes the calculation of the income needed to pay unemployment insurance benefits and to achieve the solvency target for the State Unemployment Insurance Trust Fund (Trust Fund) in Section 41-31-45. The bill also makes changes related to the payment of unemployment compensation tax at reduced rates for delinquent employers in Section 41-31-60. Finally, the bill amends Sections 41-31-350 and 41-31-370 to remove the \$1,000 cap on the 10 percent penalty for failure to file a quarterly wage report and for failure to pay the unemployment insurance tax due.

DEW indicates the bill will have no expenditure impact on the agency, as the new requirements can be implemented with existing staff and resources.

DEW indicates that the overall revenue impact of the bill on the Other Funds of the agency is undetermined. While some of the bill's changes will likely increase revenue, other amendments will likely reduce the revenue in the Trust Fund or the agency's Special Administration Fund, and the net difference is unknown.

The agency notes that while data are unavailable to estimate the actual impact of the bill's changes to the calculation of the benefit ratio, it expects this change will likely increase the Trust Fund. These changes will reduce the number of employers in the lowest unemployment insurance tax rate class and move the remaining employers into higher tax classes, which increases taxable wages contributing at higher tax rates.

Conversely, DEW estimates that the bill's updated calculation of the Trust Fund's solvency target will likely result in a lower figure and a reduced tax on employers and lower revenue to the Trust Fund by approximately \$205,144,000 in tax year 2027, which will gradually reach \$414,851,000 by tax year 2030. However, DEW also notes that because the dynamics of the state's labor market related to actual benefit payments, actual wage growth, and the state's labor force growth may fluctuate considerably in the future, the bill's impact from the updated calculation of the Trust Fund's solvency target may also differ.

DEW also indicates that because the increased tax rate of delinquent employers in class one through nineteen will remain below the current tax class twenty rate of 5.46 percent, this will likely reduce collections for the Trust Fund.

Finally, DEW indicates that the removal of the \$1,000 cap for penalties related to failure to submit a wage report or failure to pay the payable unemployment insurance contributions will likely increase collections into DEW's Special Administration Fund.

Given the number of factors that influence the revenue to the Trust Fund and the Special Administration Fund and the limited data to project how these changes will influence these factors, the overall impact is undetermined.

Explanation of Fiscal Impact

Introduced on January 13, 2026

State Expenditure

The bill changes the calculation of the benefit ratio in Section 41-31-5 by DEW for tax years 2027, 2028, and beyond. Further, the bill changes the calculation of the income necessary to pay unemployment insurance benefits as well as to reach the solvency target for the Trust Fund in Section 41-31-45. The bill also makes changes related to the payment of unemployment compensation tax at reduced rates for delinquent employers in Section 41-31-60. Finally, the bill removes the \$1,000 cap on the 10 percent penalty for failure to file a report concerning wages or contributions in Section 41-31-350 and removes the \$1,000 cap on the 10 percent penalty for failure of an employer to pay their payable contributions within ten days of the date on which an assessment or debit memorandum was issued in Section 41-31-370.

DEW indicates the bill will have no expenditure impact on the agency, as the new requirements can be implemented with existing staff and resources.

State Revenue

The bill changes the calculation of the benefit ratio in Section 41-31-5 by DEW for tax years 2027, 2028, and beyond. Further, the bill changes the calculation of the income necessary to pay unemployment insurance benefits as well as to reach the solvency target for the Trust Fund in Section 41-31-45. The bill stipulates that a solvency surcharge shall be in effect during any tax year the Trust Fund reserve is less than the fund solvency target as of June 30th of the respective year. The bill further provides for considerations to return the Trust Fund to the solvency target within a five-year period. Additionally, the bill stipulates that during years when the Trust Fund balance is above the solvency target, as of the June 30th date, DEW may use the surplus amount to reduce taxes in the next tax year. The bill also makes changes related to the payment of unemployment compensation tax at reduced rates for delinquent employers in Section 41-31-60. Finally, the bill removes the \$1,000 cap on the 10 percent penalty for failure to file a report concerning wages or contributions in Section 41-31-350 and removes the \$1,000 cap on the 10 percent penalty for failure of an employer to pay their payable contributions within ten days of the date on which an assessment or debit memorandum was issued in Section 41-31-370.

Section 41-31-5 – Benefit Ratio

Currently, the benefit ratio is calculated by taking the sum of the previous 12 quarters of benefits charged to an employer and dividing by the sum of the employer’s total payroll during the same period. The bill increases the historical lookback period to 16 quarters for tax year 2027 and 20 quarters for tax year 2028 and beyond. DEW indicates that while data are unavailable to estimate the actual impact, it expects this change will likely increase the Trust Fund as it will reduce the number of employers in tax class one (the class with the lowest unemployment insurance tax rate of 0.06 percent) from 104,587 to approximately 66,217 and move the remaining 38,370 employers into higher tax classes. This change would reduce taxable wages in tax class one and increase taxable wages contributing to the Trust Fund at higher tax rates.

Section 41-31-45 – Solvency Standard

DEW indicates that the bill’s amendment to Section 41-31-45 sets a less restrictive solvency standard for the Trust Fund, as it replaces the Average High Cost Multiple (AHCM) method with the new formula. Under the current provisions of the law, SC uses the most widely accepted measure of Trust Fund solvency, known as the AHCM, with a solvency standard set at an AHCM of 1, which means that the state has enough funds to pay one year of benefits at the Average High Cost. DEW indicates that under the current method, the Trust Fund balance is expected to reach almost \$2 billion by 2030 based on the growth in total wages paid in the state. The agency notes, however, that South Carolina has never paid \$2 billion in benefits, even during the Great Recession in 2009 or the COVID-19 pandemic in 2020, and does not expect to pay this level of benefits in the future. DEW further explains that the new formula for determining the solvency target assumes that, in typical recessionary periods, only 8 percent of the state’s labor force on average claim and are paid unemployment insurance benefits. The solvency target under the new method would be equal to the total amount of benefits expected to be paid if all the paid claimants receive the full 20 weeks of available benefits at the maximum weekly benefit level. The table below provides projections by DEW for the Trust Fund solvency level under current law as well as under the provisions of the bill.

Projected Trust Fund Minimum Balance

Tax Year	Current Law (AHCM=1.0)	Bill Proposal	Difference
2026	\$1,550,632,371	–	–
2027	\$1,659,176,637	\$1,454,032,241	(\$205,144,396)
2028	\$1,758,727,235	\$1,488,929,014	(\$269,798,221)
2029	\$1,864,250,869	\$1,524,663,311	(\$339,587,558)
2030	\$1,976,105,921	\$1,561,255,230	(\$414,850,691)

Based on these projections, DEW estimates there will be a reduced tax burden on employers and lower collections into the Trust Fund of approximately \$205,144,000 in tax year 2027, which will gradually reach \$414,851,000 by tax year 2030. However, DEW notes that because the dynamics of the state’s labor market related to actual benefit payments, actual wage growth, and the state’s labor force growth may fluctuate considerably in the future, the bill’s actual impact on the Trust Fund minimum balance may differ.

Section 41-31-60 – Delinquent Employer Tax Rate

This section makes changes related to the payment of unemployment compensation tax for delinquent employers. The bill stipulates that employers with a tax execution related to delinquent unemployment compensation tax payment for a previous quarter issued on or after January 1, 2027, must pay the unemployment compensation tax at an increased rate equal to the sum of 2 percentage points and the employer's tax rate determined pursuant to Title 41, Chapter 31 of the S.C. Code of Laws. Also, the bill requires employers with a mix of outstanding tax execution liens issued on or after as well as prior to January 1, 2027, to fully pay the outstanding tax executions issued prior to January 1, 2027, at the tax class twenty rate (5.46 percent) and then pay the remaining tax executions issued on or after January 1, 2027, at the higher rate equal to the sum of 2 percentage points and the employer's normally determined tax rate.

Currently, delinquent employers pay at the highest tax rate of 5.46 percent in tax class twenty or enter into department-approved installment payment agreements that allow them to pay the outstanding debt at their regularly assigned rate. The bill requires delinquent employers who choose not to enter installment payment agreements with DEW to pay at the higher rate of 7.46 percent. DEW further explains that new employers that have been covered by the unemployment system for less than a year are not eligible for a calculated tax rate and are automatically assigned the tax class twelve rate, or 1.06 percent, whichever is higher. Also, DEW notes that a new employer who defaults on an installment payment would pay at the higher rate of 3.06 percent.

DEW indicates that the revenue impact of the bill's changes in Section 41-31-60 on the Trust Fund and the Special Administration Fund is undetermined. The agency notes that delinquent employers in class one through nineteen will see significant savings due to their new tax rates (ranging from 2.06 percent for class one to 3.045 percent for class nineteen) remaining below the current tax class twenty rate of 5.46 percent. This will likely reduce contributions into the Trust Fund. However, because employers are assigned different tax rates, have different employee counts, have different amounts of taxable wages, and other varying financial characteristics, the amount of the employer's cost per employee for the unemployment compensation tax is unknown. DEW also indicates that the impact will further depend on how many employers have tax executions filed against them, how long it takes them to pay down their debt, and how many choose to enter into an installment payment agreement.

Sections 41-31-350 and 41-31-370 - \$1,000 Cap on Penalties

These sections remove the \$1,000 cap on the 10 percent penalty for failure to file a quarterly wage report and for failure to pay the unemployment insurance tax due. DEW indicates that because wage growth and payrolls have increased substantially since the penalty was last updated in 1985, employers with large payrolls that fail to comply with the current law are penalized at a disproportionately lower amount compared with smaller businesses. As such, the bill will subject all noncompliant employers to pay the full 10 percent penalty of the taxes due and will increase collections into the Special Administration Fund. According to the agency, in 2025, there were fewer than 300 employers that would have been impacted if the cap were removed and the full 10 percent penalty applied. However, DEW indicates that because it cannot estimate the future number of employers that will be delinquent in filing or payment amount as

well as their payroll characteristics, the bill's revenue impact on the agency's Special Administration Fund is undetermined.

Local Expenditure

N/A

Local Revenue

N/A



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