

Ohio's New Unemployment Rule Offers Greater Reporting Flexibility

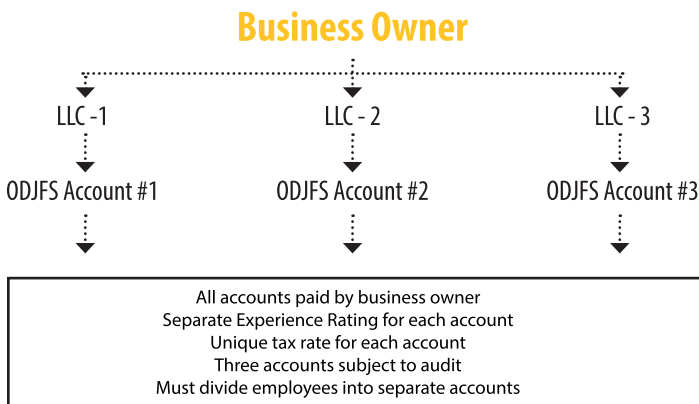
Rule Takes Effect on December 19, 2024

By Terrence O'Donnell and Kevin Shimp

Ohio employers with common management or control of multiple LLCs, C-corporations, partnerships, or other legal entities will soon be able to report all unemployment taxes and wages under a single primary account thanks to a new rule from the Ohio Department of Job and Family Services ("ODJFS"). This method of reporting is known as a "common paymaster arrangement," and its use can save employers money on unemployment taxes and streamline quarterly reporting. The rule is set to take effect on December 19, 2024, in time for the 2025 tax year. HR services company Minute Men, based in Cleveland, advocated for this flexibility in response to feedback from some of its customers.

The Old Rule

Under the prior rules, Ohio Administrative Code Section 4141-11-13 prohibits one legal entity from paying unemployment tax on behalf of another entity. This broad prohibition applied even if the legal entities have identical owners, engage in the same line of business, or have the same parent company.

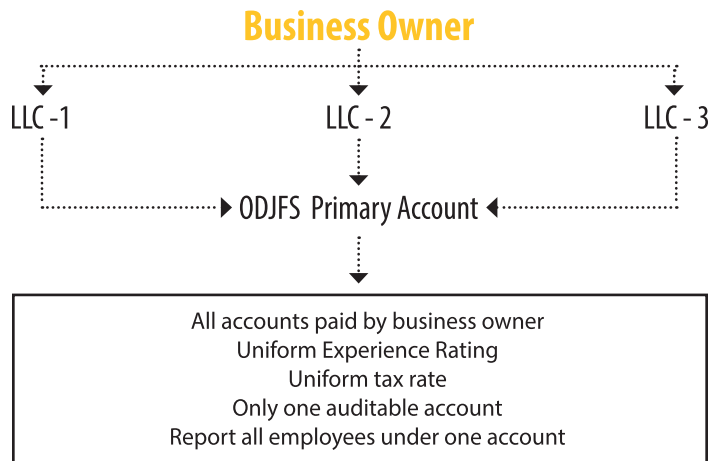


As a result, business owners – like restaurant franchisees, construction companies, and property managers – who organize their operations among multiple legal entities for legitimate business purposes, including reducing legal liability, still must separately report the taxes and wages for the employees of each legal entity. That separate reporting requirement can be administratively burdensome and create additional audit risk since employers must report the precise wages an employee earns from performing work at each entity rather than the employee's total wages for the quarter. It can also create confusion for employees who work for multiple entities.

The old rule could also increase an employer's unemployment tax liability. The mandatory reporting of unemployment records for each individual legal entity prevents a strong experience rating of one entity from offsetting a weaker experience rating at another. Similarly, employers with excellent experience ratings who seek to expand their operations (but under a new LLC, for example) would receive no credit for the positive experience rating they have earned. Instead, the old rules provide that all "new" accounts start at the same 2.7% initial contribution rate.

The New Rule

The new common paymaster rule from ODJFS addresses these issues by eliminating the prohibition on legal entities making unemployment payments on behalf of others. Instead, the new rule authorizes standard paymaster arrangements, so an employer can report all employee wages and unemployment taxes under one primary account as long as all legal entities are commonly owned, managed, or controlled.



Business owners with employees working at multiple legal entities they own or control may wish to consider common paymaster arrangements to eliminate the need to maintain multiple unemployment accounts with ODJFS, streamline reporting, and potentially lower the cost of their unemployment taxes—especially if they are expanding and wish to use a lower earned unemployment tax rate.

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