



Tax Alert

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Take Advantage of EDD Program to Avoid Employment Layoffs

When cash flow is tight and credit unavailable during an economic downturn, employers often feel compelled to lay off workers as a means of reducing payroll costs. While doing so may be unavoidable at times, every California employer should be aware of an alternative to lay-offs in the form of “Work-Sharing Unemployment Insurance” (“Work-Sharing Program”). Established by the California legislature in 1978 and administered by the Employment Development Department (“EDD”), only a surprisingly small number of California businesses that used unemployment insurance benefits during the current recession have taken advantage of the program.

How it works:

Rather than laying-off employees, a qualified employer reduces the number of hours that certain employees work each week, and the weekly wage loss suffered by the affected employees is partially made-up through payments from the EDD. The Work-Sharing Program allows an employer to reduce payroll costs while maintaining its investment in its workforce. It also protects the affected employees from the hardship of total unemployment. While the employer is charged for the payments to affected employees in the same manner as for regular unemployment insurance benefits, such charges are arguably offset by the monies saved through the absence of laid-off workers who would otherwise be entitled to full unemployment insurance benefits.

How to qualify:

To qualify for the Work-Sharing Program, an employer must reduce the wages and hours worked of at least two employees. In addition, at least ten percent (10%) of the employer’s workforce (or a designated work unit) must be affected. The employer also must reduce the wages and hours worked of the affected employees by at least ten percent (10%). In addition, an EDD application must be submitted.

What happens after your application is approved?:

The Special Claims Office in Sacramento sends the employer a letter of approval, one mail claim packet for each participating employee, and a ten week supply of weekly certification forms for each employee. During the weeks of reduced hours and wages, the employer issues the certification forms to the participating employees.

How is the employer charged?:

Work Sharing benefits are charged to the employer's reserve account in the same manner as any other unemployment insurance benefit. Charges to a reserve account tend to adversely affect the employer's reserve account balance, thereby increasing the potential for a higher unemployment insurance tax rate in future years.

What are the advantages of Work Sharing?:

The Work Sharing program can meet employers' needs due to its built-in flexibility and possible variations:

- Minimizes or eliminates the need for layoffs and the accompanying hardships for employees.
- Enables a business to retain trained employees and avoid the expense of recruiting, hiring, and training new employees.
- If employees are retained during a temporary slowdown, employers can quickly gear-up when business conditions improve.
- For employers who need to reduce their work force permanently, Work Sharing can be used as a phased transition to layoff.
- Affected employees can continue to work at reduced levels with an opportunity to find other employment before an expected layoff.
- More equitable than layoffs, which place the burden of economic adjustments for an entire business on relatively few employees.
- Can be used in almost all types of business or industry.

If you would like to learn more about the EDD's Work Sharing Unemployment Insurance Program, please call or e-mail your Stonefield Josephson Principal.



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