

Federal Unemployment Tax (FUTA) Tax Increase for 2011 and 2012

Employers in the following states will be subject to a reduction in FUTA credit on their IRS Form 940 for 2011 (Due January 31, 2012), in order to repay state unemployment insurance loans.

State	Reduction
Arkansas	0.3%
California	0.3%
Connecticut	0.3%
Florida	0.3%
Georgia	0.3%
Illinois	0.3%
Indiana	0.6%
Kentucky	0.3%
Michigan	0.9%
Minnesota	0.3%
Missouri	0.3%
North Carolina	0.3%
New Jersey	0.3%
Nevada	0.3%
New York	0.3%
Ohio	0.3%
Pennsylvania	0.3%
Rhode Island	0.3%
Virginia	0.3%
Virgin Islands	0.3%
Wisconsin	0.3%

Most employers pay both Federal and State Unemployment insurance taxes on wages paid. The Federal FUTA tax rate of 6% is reduced by a Credit of 5.4% for payment of State Unemployment Insurance taxes. The effective FUTA rate after the credit becomes .6%, however when state unemployment insurance funds are depleted the states borrow from a federal loan account. If these loans are not repaid by the state within two years, the credit is reduced effectively increasing the FUTA tax rate for employers in those states. Due to economic conditions in recent years, many more states have been taking and are delayed in repayment of these loans resulting in a high number of states affected by FUTA credit reductions.

Note: States had until November 10th 2011 to repay their loans to avoid the FUTA credit reduction.

FUTA taxes are calculated up to the \$7,000 taxable wage limit per person each year. Employers in States receiving the full FUTA credit will pay .6% times the FUTA Taxable wage up to the \$7,000 (per employee) FUTA taxable wage limit. For example the calculation for an employee earning \$45,000 in wages for the year would be $(\$7,000 * .006) = \42

Employers in states with a Credit Reduction will be required to pay .6%, plus the credit reduction for the state, times the FUTA Taxable Wage Up to \$7,000. For example the calculation for an employee in Ohio earning \$45,000 in wages for the year would be $(7000 * (.006 + .003) = \63 .

Employers in states affected by a FUTA Credit Reduction should be prepared to pay the extra Tax Liability in January 2012 upon completion and filing of IRS Form 940. Because the states had until November 10th to repay the loans, the effective tax rate (after the credit reduction) was retroactively applied to the beginning of 2011 and the extra FUTA tax is due as part of the annual reconciliation process.

HR Butler will be calculating the extra FUTA tax due in January as part of year end processing along with generation of the IRS Form 940. For our clients that take advantage of our tax services we will also be impounding and paying the extra tax on your behalf. You can generally expect the extra tax to run \$21 per person per .3% reduced (unless the employee earned less than 7,000 in which case it would be less). Employees in Indiana (.6%) would be an extra \$42 while employees in Michigan (.9%) would be an extra \$63.

We are expecting to see this trend continue into 2012 and beyond as it is unlikely that many states will be able to meet their loan obligations in 2012. Additional states including CO, DE, KS, and VT are expected to become Credit Reduction States in 2012. We encourage employers to anticipate these credit reductions in future years and plan accordingly. Again, these credit reductions are calculated as part of the annual reconciliation process and are not withheld, impounded, or paid during the year, but are figured with the processing of the 940 and are due 01/31.

If you have any questions, please contact your payroll representative at 614-923-2900.