buckconsultants

xerox

FYI®
For Your Information®

Volume 37 | Issue 177 | December 5, 2014

DOL Announces FUTA Tax Credits for 2014

While the standard FUTA rate is 6% on the first $7,000 of covered wages, employers generally receive a credit of 5.4% for state unemployment insurance taxes they pay, reducing the FUTA rate for most employers to 0.6%. However, states that have outstanding federal unemployment insurance loan balances are subject to reduced tax credits, resulting in higher FUTA taxes for employers in those states. The DOL recently released its list of credit reduction states for 2014. Employers in those states should plan for the lower tax credit.

Background

The Federal Unemployment Tax Act (FUTA) imposes a federal tax on employers that are covered by a state's unemployment insurance (UI) program. Generally, the full FUTA tax rate is 6.0% on the first $7,000 of covered wages paid to each employee. Because employers subject to that rate receive a 5.4% credit when they file their Form 940 (Employer's Annual Federal Unemployment (FUTA) Tax Return), the net FUTA tax rate is 0.6%.

Some states with financial difficulties take advances from the federal government to pay UI benefits. If a state has an outstanding loan balance on January 1 for two consecutive years, and does not repay the loans in full by November 10 of the second year, the FUTA credit rate for employers in the state is reduced pending repayment of the loan. As a result, employers paying wages subject to UI tax in those states will owe more tax.

After the November 10 deadline each year, the DOL announces states that have not repaid the loans within the allowable time frame — the credit reduction states. The DOL also posts information about the credit reduction states and loan balances on its UI Statistics webpage.

For credit reduction states, the FUTA tax credit is reduced by: 0.3% for the first year that it is a credit reduction state; another 0.3% for the second year in which there is a loan balance; and an additional 0.3% for each subsequent year that it has not repaid its loan. Additional credit reductions may apply beginning with the third and fifth taxable years under certain circumstances.

FUTA Credit Reductions

The effective FUTA tax is normally $42 per employee per year (0.6% on the first $7,000 of covered wages paid). The credit reduction typically increases the tax by 0.3%, or $21 per employee, annually until the federal loans are repaid.

Volume 37 | Issue 177 | December 5, 2014

Credit Reduction States for 2014

The DOL recently released its list of credit reduction states for 2014. Due to outstanding federal loan balances, seven states — California, Connecticut, Indiana, Kentucky, New York, North Carolina, and Ohio — along with the Virgin Islands are subject to a FUTA credit reduction.

Six states that were credit reduction states in 2013 — Arkansas, Delaware, Georgia, Missouri, Rhode Island, and Wisconsin — repaid outstanding federal UI loans. As a result, employers in those states will have a net 2014 FUTA tax rate of 0.6% (the standard FUTA tax rate of 6% reduced by a credit of 5.4% for state unemployment insurance paid). Employers in the seven states with a further credit reduction will be subject to higher 2014 FUTA tax rates (the net FUTA tax rate of 0.6% plus the FUTA credit reduction) shown below.

Credit Reduction State	Final 2014 FUTA Credit Reduction	Final 2014 FUTA Tax Rate
California	1.2%	1.8%
Connecticut	1.7%	2.3%
Indiana	1.5%	2.1%
Kentucky	1.2%	1.8%
New York	1.2%	1.8%
North Carolina	1.2%	1.8%
Ohio	1.2%	1.8%
Virgin Islands	1.2%	1.8%

Any increased FUTA tax liability due to a credit reduction is considered to be incurred in the fourth quarter, and is due by January 31 of the following year. Employers that pay wages subject to the unemployment tax laws of a credit reduction state must report any additional tax due when filing Form 940. The Instructions for Form 940 provide information about the credit reduction and deposit rules. Form 940 Schedule A (Multi-State Employer and Credit Reduction Information) includes the credit reduction states, applicable reduction rates, and examples of how to calculate the total credit reduction.

Volume 37 | Issue 177 | December 5, 2014

In Closing

Employers in a credit reduction state should plan for the lower FUTA credit and higher tax due. Employers that paid FUTA taxable wages and UI tax in a credit reduction state or in more than one state should follow the instructions on Schedule A (Form 940) to identify the amount of any increased FUTA tax liability.

Authors
Nancy Vary, JD
Abe Dubin, JD

Produced by the Knowledge Resource Center of Buck Consultants at Xerox
The Knowledge Resource Center is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your account executive or email fyi@xerox.com.

You are welcome to distribute *FYI*® publications in their entireties. To manage your subscriptions, or to sign up to receive our mailings, visit our Subscription Center.

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.