

Changes to Federal Unemployment Taxes

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Employers pay two unemployment taxes

State unemployment taxes are paid by employers to the Unemployment Insurance Agency (UIA) on a quarterly basis. These payments are used only to pay the cost of unemployment benefits to laid-off workers in Michigan.

Employers also pay a federal unemployment tax to the Internal Revenue Service, authorized under the Federal Unemployment Tax Act. The tax is paid annually on IRS Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. The revenue from this tax is used to: (1) pay administrative costs of federal and state workforce agencies, (2) pay the federal share of Extended Benefits (under the Federal-State Extended Unemployment Compensation Act of 1970) during periods of high unemployment, and (3) provide loans to states with insolvent unemployment Trust Funds.

Normal FUTA Tax

Employers pay FUTA on the first \$7,000 of each employee's annual wages. The FUTA tax is a flat rate of 6.2%, but employers who pay their state unemployment tax timely and in full receive a 5.4% credit. Therefore, the net FUTA rate is normally 0.8%.

Why is the FUTA Tax Credit Reduced?

Employers are required to pay both the FUTA tax and the state unemployment tax. They may obtain a credit on their Federal 940 FUTA form for taxes paid to the state. However, federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year, and an additional 0.3% for each succeeding year until the loan is repaid. The FUTA credit reduction results in a net increase in FUTA taxes and applies to all Michigan contributing employers (except to Indian Tribes, nonprofit organizations, and governmental entities).

FUTA tax rate.....	6.2%
Credit allowed.....	5.4% (if state unemployment tax paid timely)
Net FUTA tax.....	0.8%
FUTA Credit Reduction in first year..	0.3%
Total FUTA tax.....	1.1%

This FUTA credit reduction results in an additional \$21 per employee (\$7,000 X 0.3% = \$21) in the first year that loans are un-repaid, and an additional \$21 in each succeeding year that loans are un-repaid.

When will the FUTA Credit Reduction take effect?

The FUTA credit reduction became effective January 01, 2009 and is due on federal IRS Form 940 by January 31, 2010.

**An additional 0.3% for each succeeding year that outstanding federal loans remain un-repaid.*

For more information about the FUTA credit reduction, employers may call the UIA Employer Customer Relations hotline at 1-800-638-3994 or email TaxSupport@michigan.gov.

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