

# 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.....                    | <b>6.2%</b>   |
| Credit allowed.....                   | <b>5.4%</b> (if state unemployment tax paid timely) |
| Net FUTA tax.....                     | <b>0.8%</b>   |
| FUTA Credit Reduction in first year.. | <b>0.3%</b>   |
| Total FUTA tax.....                   | <b>1.1%</b>   |

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](mailto:TaxSupport@michigan.gov).

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