

Eye On Washington

Legislative Update



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Final 2015 FUTA Credit Reductions Released

Federal Unemployment Taxes (FUTA) Are Markedly Higher in Three States and the U.S. Virgin Islands

Employers in three states (California, Connecticut, and Ohio) and the U.S. Virgin Islands will pay significantly higher Federal Unemployment Act (FUTA) taxes in January 2016, due to unpaid federal loans to those affected states. This increase will be based on FUTA taxable wages paid in the affected jurisdictions during 2015.

Background

Employers pay federal and state unemployment insurance (SUI) taxes on wages paid to their employees. The FUTA tax rate is normally 0.6% of wages paid up to a limit of \$7,000 per employee, or \$42 per employee per year. The full FUTA tax rate is 6.0%, but employers receive an offsetting credit of 5.4% for payment of SUI taxes. This makes the effective FUTA tax rate 0.6%. However, when SUI funds are depleted, states draw from a designated federal loan account. If such loans are not repaid within two years, part of the 5.4% FUTA tax credit is reduced. This increases the effective FUTA tax rate in the affected states.

When this credit reduction applies, the FUTA tax typically increases by 0.3%, or \$21 per employee. This increase is payable in January of the following calendar year with the Internal Revenue Service (IRS) FUTA tax return, Form 940. This credit is further reduced annually by 0.3% until loans are repaid. In addition, jurisdictions that have had outstanding FUTA debt for five years are potentially subject to a special Benefit Cost Rate (BCR) Add-on tax. This could increase the FUTA tax by more than the typical 0.3% per year.

The U.S. Department of Labor (DOL) has identified the states and U.S. jurisdiction that will be subject to the FUTA BCR Add-on and/or credit reduction for 2015. They are:

STATE	NORMAL FUTA RATE	2015 FUTA CREDIT REDUCTION	2015 BCR ADD-ON	TOTAL 2015 FUTA RATE	FUTA TAX PER EMPLOYEE	INCREASE OVER NORMAL	2014 FUTA RATE
CALIFORNIA	0.6%	1.5%	0.0%	2.1%	\$147	350%	1.8%
CONNECTICUT	0.6%	1.5%	0.6%	2.7%	\$189	450%	2.3%
OHIO	0.6%	1.5%	0.0%	2.1%	\$147	350%	1.8%
VIRGIN ISLANDS	0.6%	1.5%	0.0%	2.1%	\$147	350%	1.8%

Source: U.S. Department of Labor Release, November 10, 2015.

Example:

ABC Corporation has ten Connecticut employees in 2015. ABC Corporation's FUTA tax due on each employee's wages paid in 2015 would normally be \$42 (\$7,000 x 0.6%). But since Connecticut is a credit reduction state and subject to the BCR Add-on tax for 2015, the total FUTA tax owed per worker is \$189, 450% of the normal FUTA tax paid per worker. For additional information, view this [linked article](#) from the IRS.



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Affected Employers Should Plan for the Additional Tax Payment in January 2016

In the affected states, the credit reduction and BCR Add-on tax amounts represent the vast majority of taxes due for 2015. Normally, employers accrue and pay at the normal 0.6% rate during the year, with the additional amounts (in Connecticut's case an additional \$147 per worker) to be paid in January 2016 for 2015.

If ADP is responsible for filing Form 940 for your organization, ADP will automatically calculate and pay the additional FUTA tax due as a result of FUTA credit reductions and BCR, if applicable. You will receive an invoice in mid-January 2016 that will provide you with the additional liability for the BCR and/or credit reduction amounts due with your 2015 IRS Form 940.

Planning for 2016 (FUTA Amounts Due in January 2017)

If the states in the chart above continue to have outstanding loans through November 10, 2016, an additional 0.3% credit reduction may apply, along with an additional BCR Add-on tax.

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