

SERVICE BULLETIN



No FUTA Tax Increase Anticipated for 2008 Potential FUTA Tax Increase for 2009 for Michigan Employers

TO: UI Clients
FROM: Kris Thorngren
RE: No FUTA Tax Increase Anticipated for 2008
DATE: October 1, 2008

Under certain circumstances the net federal unemployment tax ("FUTA") payable by employers must be increased when a state unemployment agency has borrowed federal funds to pay unemployment benefits.

If a state has an outstanding loan balance on January 1st of two consecutive years and has not repaid the balance by November 10th of the second year, employers in that state are at risk of a FUTA tax increase for that year. In the first year of a FUTA tax increase, the net FUTA tax rate changes from 0.80% to 1.10%. The FUTA tax rate can increase further if the loan remains outstanding on November 10th of subsequent years.

The FUTA tax increase can be avoided if the state has repaid a sufficient portion of the outstanding loans and/or improved the solvency of the state unemployment trust fund by legislative changes. States can also avoid the FUTA increase by finding alternative sources of funds, as Texas did in 2003, by issuing bonds. Nevertheless, many state loans have resulted in FUTA increases historically. The most recent FUTA increases were for New York employers in 2004 and 2005.

Michigan is the only state with an outstanding federal loan as of today, which is currently over \$283 million. However, the timing of the loan was such that there can be no FUTA tax increase on Michigan wages until 2009 at the earliest.

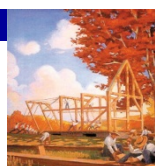
Unfortunately, a FUTA tax increase has a retroactive impact to the beginning of a calendar year. For example, the FUTA tax rate for Michigan employers will start out at 0.80% for 2009, but unless the requirements to avoid an increase are met by November 10, 2009, the FUTA tax rate will apply to all Michigan taxable wages paid in 2009. Given the fact that the economy and the Michigan-centric auto industry show no signs of improvement for the near term, we think a FUTA increase on Michigan wages is a distinct possibility for 2009. If this occurs, the additional FUTA tax must be computed on the Form 940 due at the end of January, 2010. When additional FUTA tax is payable because of a "credit reduction," as it is euphemistically called, it is computed in Schedule A of Form 940 and entered in Item 11 of Form 940.

Calendar year 2010 is already looking problematic. Several states, including California, Indiana, Kentucky, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, and South Dakota may need to borrow federal funds in 2008, which would start the clock running on possible FUTA tax increases in 2010. We will keep you posted.


Thomas & Thorngren, Inc.

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<http://www.thomasandthorngren.com>



Thomas & Thorngren, Inc.
One Vantage Way, Ste A-105
Nashville, Tennessee 37228
(615) 242-8246