
SERVICE BULLETIN

Budgeting for FUTA (Federal Unemployment Tax) for 2012

February 1, 2012

The federal unemployment tax rate for employers has become a moving target, making budgeting for this expense more difficult. Your FUTA tax payments for 2011 are not a good predictor of your 2012 liability, which will be higher for most multi-state companies.

The problem is that federal loans to the state UI trust funds can cause the net FUTA tax rate to increase for employers in the borrowing states. The increases are in annual increments of 0.30% (on a \$7,000 taxable wage base). Such an increase is referred to as a “credit reduction” because the 5.40% credit for state UI taxes paid is reduced.

The “normal” net FUTA tax rate of 0.60% (0.80% prior to July 1, 2011) is arrived at by subtracting the 5.40% credit for state UI taxes paid from the gross FUTA tax rate of 6.00%. Given enough time, the credit reductions could theoretically cause an employer’s net FUTA tax rate to increase from 0.60% all the way to 6.00% as the credit is gradually reduced to zero. The tax revenue generated by the credit reductions is credited to the state’s UI trust fund and reduces the state’s loan balance.

A credit reduction can be removed for a given calendar year if a state repays its outstanding long-term loan by November 10 of that calendar year. A credit reduction can also be avoided for a calendar year (as in South Carolina for 2011) if a state takes certain actions to restore the solvency of its UI trust fund. Further, a credit reduction can be capped (at no less than 0.60%) if certain conditions are met.

For 2011, employers in twenty states (up from three states for 2010) and the Virgin Islands experienced FUTA credit reductions (i.e. tax increases). Most of these states will not repay their federal loans in time to avoid a credit reduction for 2012 which will be greater than the credit reduction for 2011. For example the net FUTA tax rate for California employers will most likely increase from 0.90% for 2011 to 1.20% for 2012, because the credit reduction will increase from 0.30% to 0.60%. Further, as many as seven new states (AL, AZ, CO, DE, KS, SC, and VT) may have credit reductions this year.

The budgeting problem is exacerbated by the fact that state UI agencies have until November 10 to repay their long-term loan and avoid a credit reduction for the calendar year in which the loan balance is repaid. No official notification of credit reductions is provided until after November 10. By that time employers have already submitted three quarterly FUTA deposits. Any shortfall must be paid with the final deposit for the calendar year (due January 31 of the succeeding year).

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The attached chart shows you the possible FUTA credit reductions for 2012. This is the best budgeting tool available, but you should bear in mind that one or more of the twenty-six at-risk states (plus the Virgin Islands) may repay their loan or qualify for a credit reduction avoidance.

Of particular note is Illinois, where legislation has been enacted to allow for a bond issuance that can be used to pay the outstanding loan and interest. If the bond issuance occurs and the loan is repaid by November 10, 2012, the FUTA tax rate for Illinois employers will be reduced from 1.20% to 0.60%.

Similarly, legislation has been enacted in Arkansas that would allow the state to issue bonds to repay the loan balance. However, this legislation requires that the bond issuance would have to be approved by a referendum, which adds some uncertainty to its prospects.

As always, if there are any questions please contact us.

Actual and Potential FUTA Credit Reductions

(Payable on a \$7,000 taxable wage base)

State	CY 2009	CY 2010	CY 2011	CY 2012*
Alabama			**	0.6%
Arizona				0.3%
Arkansas			0.3%	0.6%
California			0.3%	0.6%
Colorado				0.3%
Connecticut			0.3%	0.6%
Delaware				0.3%
Florida			0.3%	0.6%
Georgia			0.3%	0.6%
Illinois			0.3%	0.6%
Indiana		0.3%	0.6%	0.9%
Kansas				0.3%
Kentucky			0.3%	0.6%
Michigan	0.3%	0.6%	0.9%	***
Minnesota			0.3%	0.6%
Missouri			0.3%	0.6%
Nevada			0.3%	0.6%
New Jersey			0.3%	0.6%
New York			0.3%	0.6%
North Carolina			0.3%	0.6%
Ohio			0.3%	0.6%
Pennsylvania			0.3%	0.6%
Rhode Island			0.3%	0.6%
South Carolina		0.3%	****	0.9%
Vermont				0.3%
Virgin Islands			0.3%	0.6%
Virginia			0.3%	0.6%
Wisconsin			0.3%	0.6%

* These rates assume each state still has a loan balance on November 10, 2012, and no state qualifies for an additional reduction under FUTA, Section 3302(c), avoidance under Section 3302(g) or cap under Section 3302(f).

** AL did not have a loan balance on 11/10/11

*** MI did not have a loan balance on 1/1/12

**** SC qualified for avoidance for 2011.

Credit Reduction	Cost per \$7,000 Worker
0.3%	\$21
0.6%	\$42
0.9%	\$63

o If there are any questions, please contact Mike Miller at 202-693-2930 or miller.michael@dol.gov

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