Subject: FUTA Tax – Here We Go Again!

The existing Federal unemployment (Form 940) tax paid by employers is at a "gross" rate of 6.2%, before a "typical" credit of 5.4% for paying timely state unemployment tax - which results in a "net" 8/10 of 1% Federal tax paid by employers on the first $7,000 of each year's wages paid to each employee. This 6.2% FUTA rate includes a 2/10 of 1% "surtax", first levied in the 1970's as a "temporary" tax rate increase, and this "surtax" has been extended by Congress for the past 35 years.

Congress now has 10 days left to extend the FUTA "surtax", or the FUTA "net" tax rate will decrease to 6/10 of 1% effective for wages paid after June 30, 2011. The IRS is already working on procedures and forms in anticipation of Congress not taking time to extend the FUTA surtax during the next 10 days.

Don't Spend the Tax Savings

Employers in "credit reduction states", which currently includes Indiana, Michigan and South Carolina, and may include 20 or more additional states by the end of 2011, do not qualify for the lower FUTA tax rate. Any additional tax owed by Indiana and other "credit reduction states" (a "credit reduction state" is a state which has not repaid their Federal unemployment benefit loans by November of each year) must be paid by the due date of Form 940 for 2011, which is January 31, 2012.

Indiana FUTA Tax Accruals

Indiana is anticipated to again be a "credit reduction state" for the 2nd consecutive year in 2011 (it is not official until Indiana does not repay the Federal loan in November, 2011). As such, Indiana employers who have been paying FUTA tax at an 8/10 of 1% rate, per law, can expect to pay an additional 6/10 of 1% in FUTA tax for 2011, due by January 31, 2012. If you utilize AccuPay's "taxpay service", we will impound/collect the additional FUTA tax late this year for payment in January of 2012.

Storm Clouds On The Horizon

President Obama's administration supports a permanent extension of the FUTA "surtax" rate, AND supports an increase in the per-employee taxable wage base from $7,000 per year to $15,000 - more than doubling every employer's Federal unemployment tax. This administration also supports requiring every state's taxable wage base to be at least the proposed Federal wage base of $15,000 - which would result in a nearly 60% increase in Indiana unemployment tax obligations for every Indiana employer.

<u>So What Can You Do?</u>

Link here to our July 15, 2009 PayDay titled "How To Save Unemployment Tax". More than ever it is vitally important that you actively manage your state unemployment benefit claims. You should consider reviewing your written policies for employee performance and discipline, and require that every employee read and "sign off" on your written policies. If an employee is terminated "for cause", you can then document an appeal to an unemployment claim for benefits.

AccuPay is affiliated with HR experts who can help you develop a program to actively manage your unemployment taxes. Call us at 885-7600 if you have any questions about FUTA or SUTA taxes or benefits.