



IN THE BUSINESS OF YOUR SUCCESS®



LEGISLATIVE UPDATE

Eye on Washington

FINAL 2014 FUTA “CREDIT REDUCTIONS” RELEASED

The Federal Unemployment Tax Act (FUTA) tax rate is normally 0.6% of wages paid up to a limit of \$7,000 per worker, or \$42 per employee per year. However, employers in seven states and the U.S. Virgin Islands will pay an increased FUTA tax rate in January 2015, due to unpaid federal loans. This increase will be based on FUTA taxable wages paid in the affected jurisdictions during 2014.

Background

As background, for-profit employers pay federal and state unemployment insurance (SUI) taxes on wages paid. The FUTA tax rate is 6.0%, but employers receive an offsetting credit of 5.4% for payment of state UI taxes. This makes the effective FUTA tax rate 0.6%. However, when state UI funds are depleted, states draw from a designated federal loan account, and 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 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. Many states with outstanding loans in 2014 either repaid the loans during the year, or applied for a waiver of credit reduction status.

In addition, because many of the jurisdictions affected have had outstanding FUTA debt for five years, they are potentially subject to a special “Benefit Cost Ratio” (BCR) Add-on tax. This could increase the FUTA tax by more than the typical 0.3% per year. Many states that could have been subject to this additional BCR tax were granted a waiver for 2014. Connecticut is the only state that is subject to BCR (0.50%) for 2014.

The U.S. Department of Labor (DOL) has identified the states that will be subject to the FUTA BCR Add-on and/or credit reduction for 2014. These include:

STATE	NORMAL FUTA RATE	2014 FUTA CREDIT REDUCTION	2014 BCR ADD-ON	TOTAL 2014 FUTA RATE	FUTA TAX PER EMPLOYEE	INCREASE OVER NORMAL	2013 FUTA RATE	2014 INCREASE OVER 2013
CALIFORNIA	0.6%	1.2%		1.8%	\$126	200%	1.5%	20%
CONNECTICUT	0.6%	1.2%	0.5%	2.3%	\$161	283%	1.5%	53%
INDIANA	0.6%	1.5%		2.1%	\$147	250%	1.8%	17%
KENTUCKY	0.6%	1.2%		1.8%	\$126	200%	1.5%	20%
NEW YORK	0.6%	1.2%		1.8%	\$126	200%	1.5%	20%
NORTH CAROLINA	0.6%	1.2%		1.8%	\$126	200%	1.5%	20%
OHIO	0.6%	1.2%		1.8%	\$126	200%	1.5%	20%
VIRGIN ISLANDS	0.6%	1.2%		1.8%	\$126	200%	1.8%	0%

Source: U.S. Department of Labor Release, November 10, 2014

Example:

ABC Corporation has ten Connecticut employees in 2014. ABC Corporation’s FUTA tax due on each employee’s wages paid in 2014 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 2014, the total FUTA tax owed per worker is \$161; a 53% increase over the FUTA tax paid per worker for 2013. 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 2015

In the affected states, the credit reduction and BCR Add-on tax amounts represent the vast majority of taxes due for 2014. Normally, employers accrue and pay at the normal 0.6% rate during the year, with the additional amounts (in Connecticut's case an additional 1.7%) calculated and paid in January 2015 for 2014.

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. You will receive an invoice in mid-January 2015, that will provide you with the additional liability for the BCR and/or credit reduction amounts due with your 2014 IRS Form 940.

Planning for 2015 (FUTA Amounts Due in January 2016)

Arizona and South Carolina continue to have outstanding loan balances. These states were granted a waiver of credit reduction status for 2014, but may be a BCR Add-on tax state and/or credit reduction state for 2015. If the states in the chart above continue to have outstanding loans through November 10, 2015, an additional 0.3% credit reduction may apply, along with additional BCR Add-on tax.

ADP Compliance Resources

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