



## LEGISLATIVE BRIEF

### Federal Unemployment Surtax Expiration

The Federal Unemployment Tax Act (FUTA) tax, along with state unemployment tax programs, funds unemployment compensation for workers that have lost their jobs. The FUTA tax includes a temporary surtax of 0.2 percent that was added to the tax code in 1976 and was extended through June 30, 2011. President Obama proposed to make the surtax permanent in his 2012 budget proposal. Unless Congress acts on the President's proposal, the following changes will take place **effective July 1, 2011**:

- The FUTA tax rate will decrease from 6.2 percent to 6.0 percent; and
- The FUTA tax rate after the maximum credit will decrease from 0.8 percent to 0.6 percent.

This Legislative brief describes these changes.

#### FUTA TAX RATE

The FUTA tax rate is currently 6.2 percent and is made up of two components: a permanent tax of 6.0 percent and a temporary surtax of 0.2 percent. The FUTA taxable wage base is the first \$7,000 paid in wages to each employee during a calendar year. Without the 0.2 percent surtax, the FUTA tax rate will be reduced to 6.0 percent.

#### FUTA TAX RATE AFTER THE MAXIMUM CREDIT

In general, employers receive credit for amounts timely paid to state unemployment insurance programs. The maximum credit for state unemployment tax payments is 5.4 percent. For employers entitled to the maximum credit, the FUTA tax rate will be reduced from 0.8 percent to 0.6 percent.

#### COMPLIANCE

If the surtax is not extended, employers will need to separately track FUTA taxable wages paid before July 1, 2011 and those paid after June 30, 2011. In addition, Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return will need to be revised by the Internal Revenue Service (IRS). If the surtax is retroactively reinstated, it is speculated that the IRS will provide transition relief for deposits made in 2011 under the lower FUTA tax rate.

#### ADDITIONAL RESOURCES

For the Form 940 and related instructions, please see: [www.irs.gov](http://www.irs.gov)

For the IRS Publication 15 (Circular E – Employer's Tax Guide), please see: [www.irs.gov/pub/irs-pdf/p15.pdf](http://www.irs.gov/pub/irs-pdf/p15.pdf)

