



2012 Payroll Fact Sheet

2012 FUTA Credit Reduction

Normal FUTA Tax

Employers pay FUTA on the first \$7,000 of each employee's annual wages. The FUTA tax was a flat rate of 6.2% up to June 30, 2011. As of July 1, 2011, the FUTA tax rate is 6.0%, but employers who pay their state unemployment tax timely and in full will still receive a 5.4% credit if their state is not a credit reduction state. Therefore, the net FUTA tax rate is currently is 0.6%.

Michigan is a Credit Reduction State

Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year, and an additional 0.3% for each succeeding year until the loan is repaid. 2011 is the third year that Michigan has had an outstanding federal loan. The credit reduction for **2011**, which is **due January 31, 2012**, is **0.9%**. Therefore, the net FUTA tax is 1.7%, prior to July 1st, (a maximum of \$119 per employee) and 1.5% on or after July 1st, (a maximum of \$105 per employee). The FUTA credit reduction results in a net increase in FUTA taxes and applies to all Michigan contributing employers (except Indian Tribes, nonprofit organizations, & governmental entities).

The FUTA credit reduction resulted in an additional \$21 per employee ($\$7,000 \times 0.3\% = \21) in 2009 (first year loans were un-repaid), which reduced the FUTA credit to 5.1%. In 2010 (second year loans remained un-repaid), it cost Michigan employers an additional \$42 per employee ($\$7,000 \times 0.6\% = \42), which reduced the FUTA credit to 4.8%. In 2012 (third year loans will remain un-repaid), it will cost Michigan employers an additional \$63 per employee ($\$7000 \times 0.9\% = \63), which will reduce the FUTA credit to 4.5%.

From January 1, 2011 to June 30, 2011

FUTA tax rate.....	6.2%
Minus Credit allowed.....	5.4% (if state unemployment tax paid timely)
Equals Net FUTA tax.....	0.8%
FUTA Credit Reduction in 3rd year...	0.9%
Total FUTA tax.....	1.7%

From July1, 2011 to December 31, 2011

FUTA tax rate.....	6.0%
Minus Credit allowed.....	5.4% (if state unemployment tax paid timely)
Equals Net FUTA tax.....	0.6%
FUTA Credit Reduction in 3rd year...	0.9%
Total FUTA tax.....	1.5%

To offset this cost, Michigan offers a **Michigan Unemployment Tax Credit** to fully experienced employers (unemployment experience of 5 years or more), who have a positive reserve balance, a credit of either 50% of the additional FUTA taxes paid or the taxable wages for the year of the credit multiplied by the employer's Nonchargeable Benefits Component (NBC), which ever results in the lesser amount.

If you have a negative balance and determine that submitting a voluntary payment will be advantageous for you, submit your payment to the address listed below, Suite 11-500. Be sure to print your UIA Employer Account Number and "Solvency Voluntary Payment" on your check.

For more information about the FUTA credit reduction or the Michigan Unemployment Tax Credit, employers may call the UIA Office of Employer Ombudsman (OEO) at either 1-855-484-2636 (4-UIAEO) or 1-313-456-2300, or email OEO@michigan.gov.

Source: State of Michigan Unemployment Insurance Agency, Fact Sheet #143, November 2011

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