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## **Federal Unemployment Tax (FUTA) Increased for CY 2013**

Delaware employers will pay the Internal Revenue Service an increased amount in federal unemployment taxes for calendar year 2013.

### **Employers Pay Two Unemployment Taxes**

State unemployment taxes are paid by employers to the Delaware Division of Unemployment Insurance on a quarterly basis. These payments are used to pay the cost of unemployment benefits to unemployed Delaware workers.

Employers also pay a federal unemployment tax to the Internal Revenue Service, authorized under the Federal Unemployment Tax Act (FUTA). The tax is paid annually on IRS Form 940, Employer's Annual Federal Unemployment Tax Return. The revenue from this tax is used to: 1) pay administrative costs of federal and state workforce agencies, 2) pay the federal share of Extended Benefits during periods of high unemployment, and 3) provide loans to states with insolvent Unemployment Insurance Trust Funds.

### **How the FUTA Tax Works**

Employers pay the federal unemployment tax on the first \$7,000 of each employee's annual wages. The FUTA tax is a flat rate of 6.0%, but employers who pay their state unemployment tax timely and in full receive a 5.4% credit. The net FUTA for these employers is 0.6%, or \$42 per employee ( $\$7,000 \times 0.6\% = \$42.00$ ).

### **FUTA Credit Reduction**

However, the Federal Unemployment Insurance Tax Act (FUTA) requires a reduction in the FUTA tax credit when a state's Unemployment Insurance Trust Fund has an outstanding federal loan for two consecutive Januarys, as Delaware did last year, and continues to have this year.

Like other tax credits, a reduction in the FUTA credit means an increase in FUTA taxes to be paid, and applies to all Delaware employers who are subject to the unemployment insurance tax. 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.

Therefore, the FUTA credit reduction of 0.6% for CY 2013 will result in an additional \$42.00 per employee for Delaware employers.

### **When will the FUTA Credit Reduction for CY 2013 take Effect?**

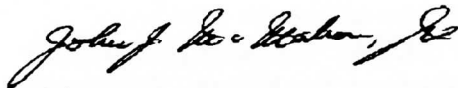
Since Delaware had an outstanding federal loan balance to our Unemployment Insurance Fund as of November 11 of this year, a FUTA credit reduction of 0.6% is effective retroactive to January 1, 2013 and employer payment is due to the IRS, along with the submittal of Form 940, by January 31, 2014.

### **House Bill 168**


Legislation (HB 168) reforming the current unemployment insurance system was passed by the Delaware General Assembly and signed into law by the Governor this year. This legislation puts the Unemployment Insurance Trust Fund on a path to be able to repay the outstanding federal loan, avoid further borrowing, and start rebuilding the fund to a position of solvency. Once the federal loan is paid in full, Delaware employers will again receive the full FUTA credit of 5.4 %.

### **For More Information**

Additional information about paying your FUTA tax can be found at [www.irs.gov](http://www.irs.gov).



John J. McMahon, Jr.  
Secretary of Labor



W. Thomas MacPherson, Director  
Division of Unemployment Insurance