

November 28, 2011

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2011 CHANGES TO FORM 940

As of November 14, 2011 the IRS has announced changes to Form 940 and added an additional 18 states (Illinois being one) plus the Virgin Islands to those subject to a reduction in the credit for unemployment taxes that can be applied to the overall federal unemployment taxes credit on the 2011 Form 940, Employer's Annual Federal Unemployment (FUTA) Tax return.

FUTA tax rate. The Futa tax rate was 6.2% from January 1, 2011 through June 30, 2011 (quarters 1 and 2), and decreased to 6.0% July 1, 2011, through December 31, 2011 (quarters 3 and 4).

Credit reduction state. A state that has not repaid money it borrowed from the federal government to pay unemployment benefits is a "credit reduction state." If an employer pays wages that are subject to the unemployment tax laws of a credit reduction state, that employer must pay additional federal unemployment tax when filing its Form 940. In other words, those employers are not allowed the credit reduction rate (i.e., 0.3%, 0.6% or 0.9%) of the regular 5.4% credit for the credit reduction state and must use Schedule A (Form 940) to figure the tax.

The increased FUTA taxes will be due along with fourth quarter 2011 federal unemployment tax deposits.

FUTA rates for the following states increased by 0.3%:

| | | |
|-------------|----------------|-----------|
| Arkansas | North Carolina | Wisconsin |
| California | New Jersey | |
| Connecticut | Nevada | |
| Florida | New York | |
| Georgia | Ohio | |
| Illinois | Pennsylvania | |
| Kentucky | Rhode Island | |
| Minnesota | Virginia | |
| Missouri | Virgin Islands | |

FUTA rates for the following states increased by 0.6%:

Indiana
 South Carolina

FUTA rates for the following states increased by 0.9%:

Michigan

For Example: An Employee, working in IL, is hired on June 1, 2011 earning \$60,000/yr. Their FUTA calculation for 2011 would be as follows:

| | |
|---------------------------------|---|
| Total payments to employee | \$ 35,000 (\$60,000/12 months x 7 months) |
| Payments exempt from FUTA Tax | <u>(28,000)</u> |
| FUTA Wage Base | <u>\$ 7,000</u> |
| | |
| FUTA wages paid prior to 7/1/11 | \$ 5,000 x .008 = \$ 40.00 |
| FUTA wages paid after 6/30/11 | 2,000 x .006 = 12.00 |
| Credit Reduction for IL | 7,000 x .003 = <u>21.00</u> |
| | |
| Total FUTA tax | <u>\$ 73.00</u> |