

# 2011 Tax Year FUTA Credit Reduction

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## 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% through 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 0.6%.

## Minnesota is a Credit Reduction State

Federal law provides for a reduction in the FUTA tax credit that begins 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 second year that Minnesota has had an outstanding federal loan. Therefore, the credit reduction for **2011** FUTA tax which is **due January 31, 2012**, is **0.3%**, resulting in a net FUTA tax of 1.1% for wages paid prior to July 1, 2011 and 0.9% for wages paid on or after July 1, 2011. The maximum FUTA tax paid for any one employee for 2011 will be \$77 (\$7,000 paid prior to July 1 X 1.1%). Therefore, the net effect of the tax rate reduction and credit reduction is an increase in FUTA for 2011.

## From January 1, 2011 to June 30, 2011

FUTA tax rate.....	6.2%
Minus Credit allowed .....	5.4% ( <i>if state unemployment tax paid timely</i> )
Equals Net FUTA tax.....	0.8%
Plus FUTA Credit Reduction .....	0.3%
Total FUTA tax .....	1.1%

## From July 1, 2011 to December 31, 2011

FUTA tax rate.....	6.0%
Minus Credit allowed .....	5.4% ( <i>if state unemployment tax paid timely</i> )
Equals Net FUTA tax.....	0.6%
Plus FUTA Credit Reduction .....	0.3%
Total FUTA tax .....	0.9%

All calculations are based on information available from the Internal Revenue Service as of November, 2011. For more information about the FUTA credit reduction, employers may call the UI Customer Service Center at 651-296-6141, press '4' when you hear the automated attendant, or email [ui.mn@state.mn.us](mailto:ui.mn@state.mn.us)