



# News Release

dew.sc.gov

For Immediate Release

November 4, 2010

## Notice to All South Carolina Employers Regarding FUTA Increase in 2010

### Employers pay two unemployment taxes

State unemployment taxes are paid by employers to the South Carolina Department of Employment and Workforce (SCDEW) on a quarterly basis. These payments are used to pay the cost of unemployment benefits to laid-off workers in South Carolina. (Please visit [www.scbos.sc.gov](http://www.scbos.sc.gov) for a quick and secure way to file contribution and wage reports and also pay state unemployment taxes.)

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 (FUTA) 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 Trust Funds.

### Normal FUTA Tax

Employers pay FUTA on the first \$7,000 of each employee's annual wages. The FUTA tax is a flat rate of 6.2%, but employers who pay their state unemployment tax timely and in full receive a 5.4% credit. The net FUTA for these employers is 0.8%.

### FUTA Credit to be Reduced

Employers are required to pay both the FUTA tax and the state unemployment tax, and they may obtain a credit on their Federal 940 FUTA form for taxes paid to the state. However, the Social Security Act requires a reduction in the FUTA tax credit when a state has outstanding federal loans for two consecutive Januarys, as South Carolina has had. 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. Obviously a FUTA credit reduction means an overall increase in the FUTA taxes. That increase applies to all of the state's contributing employers.



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## **FUTA Tax**

### **Page 2**

For South Carolina employers this FUTA credit reduction results in an additional \$21 per employee ( $\$7,000 \times 0.3\% = \$21$ ) this first year and potentially an additional \$21 in each succeeding year that South Carolina federal loans are un-repaid.

### **When will the FUTA Credit Reduction take Effect?**

Since South Carolina will be unable to repay all outstanding loans by this year, the FUTA credit reduction will become effective retroactive to January 1, 2010 and will be due on federal IRS Form 940 by January 31, 2011.

### **For More Information**

Additional information on reporting can be found at [www.irs.gov](http://www.irs.gov). Employers may also call 803-737-3080 or email [rateinfo@dew.sc.gov](mailto:rateinfo@dew.sc.gov).