

**UNEMPLOYMENT  
INSURANCE  
AGENCY**

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## Federal Unemployment Tax Act (FUTA) Updates

### Federal Unemployment Tax Rate

The first update is that effective July 1, 2011, the 0.2% surcharge to the FUTA tax rate which has been in effect since the early 1980s has been removed. This reduces the maximum FUTA tax rate from 6.2% to 6.0%. This results in a \$14 tax savings per employee.

### Loss of FUTA Tax Credit Due to Loan Balances – Credit Reduction

The next update is about Michigan's status as a credit reduction state. What makes Michigan a credit reduction state? Michigan has met the criteria of having outstanding federal unemployment loans for two consecutive years since 2009.

The first year, 2009, the 90% credit on the 6.2% FUTA tax rate (5.4%) was reduced by 0.3%. This resulted in a net FUTA tax of 1.1%. This 0.3% credit reduction cost Michigan employers an additional \$21 per employee on their federal unemployment taxes. In 2010, Michigan again met the two consecutive year criteria and since this was the 2<sup>nd</sup> time it happened, the 5.4% credit was reduced by 0.6%, making the credit 4.8%. This 2010 reduction cost Michigan employers \$42 per employee.

Michigan still has had outstanding loans with the federal government in 2011 so we again meet the criteria for reducing the 5.4% FUTA credit. Since this is the 3<sup>rd</sup> year, the 2011 reduction is 0.9%, making the credit for Michigan employers 4.5%. This adds up to \$63 per employee. With the lowered FUTA tax rate, the net cost to employers for 2011 is \$49 per employee.

### Michigan Unemployment Tax Credit

To offset this cost, Michigan offers a state unemployment tax credit to fully experienced employers (unemployment experience of 5 years or more) who have a positive reserve balance (check your annual tax rate determination, Form UIA 1771) of either 50% of the additional tax paid or the taxable wages for the year of the credit reduction multiplied by the employer's Non-chargeable Benefits Component (NBC) which ever results in the lower credit. This credit can be obtained by completing Form UIA 1110 located on the agency website, [www.michigan.gov/uia](http://www.michigan.gov/uia).

For more information about the FUTA reduction, employers may call the UIA Employer Customer Relations hotline at 1-800-638-3994 or email [EmployerLiaison@michigan.gov](mailto:EmployerLiaison@michigan.gov).

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