

JAS Financial Services, LLC
3451 Harrison Street
Evanston, IL 60201
www.jasfinancialllc.com
847-328-8011

FUTA Surtax Expires

Federal Unemployment Tax Act (FUTA) surtax expired June 30, 2011



Business owners received a gift from the federal government recently: the temporary 0.2% Federal Unemployment Tax Act (FUTA) surtax expired June 30, 2011.

The surtax was part of the 6.2% unemployment tax rate that employers pay to the IRS on the first \$7,000 of wages paid annually to each employee. The 6.2% gross rate represented a permanent tax rate of 6% and a temporary surtax of 0.2%.

Note: There is a 5.4% credit available for employers who pay their state unemployment taxes in a timely manner. This change yielded a net tax rate of 0.8% before the expiration of the 0.2% surtax, and now yields a net rate of 0.6%.

The 0.2% surtax was passed in 1976, and has been extended eight times. The surtax was most recently extended through 2010 and the first six months of 2011 by the Worker, Homeownership, and Business Assistance Act of 2009. In his budget, President Obama proposed making the surtax permanent. Congress, however, has allowed the provision to lapse, and it is not clear whether the surtax will be reinstated, retroactively or otherwise. Retroactive action could place employers in a difficult situation when calculating future required unemployment tax deposits (employers with an annual unemployment tax obligation exceeding \$500 must deposit their taxes quarterly). The IRS has informally indicated that it will waive penalties on employers that calculate the tax at a 6% rate if Congress does retroactively reinstate the surtax.

The expiration of the surtax is expected to reduce federal unemployment taxes by \$1.4 billion per year, or about \$14 per employee per year.

The foregoing is provided for information purposes only. It is not intended or designed to provide legal, accounting, tax, investment or other professional advice. Such advice requires consideration of individual circumstances. Before any action is taken based upon this information, it is essential that competent, individual, professional advice be obtained. JAS Financial Services, LLC is not responsible for any modifications made to this material, or for the accuracy of information provided by other sources.