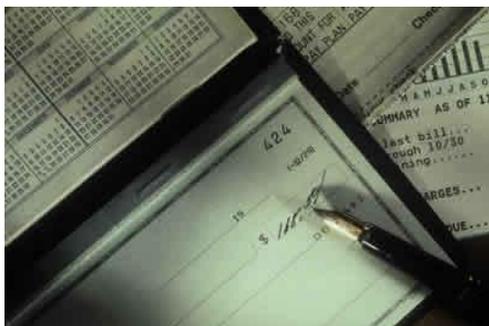


FUTA Surtax Removed and Credit Reduction Amounts Due



FUTA Surtax Removed

The 0.2% FUTA surtax has been removed for wages paid after June 30, 2011, making the net FUTA tax rate 0.6%.

Federal Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return has been modified to provide for separate reporting of wages paid in the first two quarters at a tax rate of 0.8% and wages paid in the second two quarters at a tax rate of 0.6%.

The FUTA surtax was widely expected to be extended again, as it has many times over the last thirty years. IBS continued to calculate FUTA tax at 0.8% in anticipation of this extension throughout 2011. IBS will begin using the 0.6% as of January 1, 2012. Congress has not officially decided whether the rate will remain at 0.6% for 2012.

Federal Unemployment Tax (FUTA) to Increase Retroactively for 2011

To further complicate matters, employers in twenty states will owe additional FUTA taxes in January 2012, for wages paid in 2011, in order to repay state unemployment insurance loans. When state unemployment insurance funds are depleted, states draw from a designated federal loan account. If those loans are not repaid within two years, employers lose part of their state FUTA tax credit, in effect increasing the FUTA tax rate for wages paid in the affected states.

When this "credit reduction" applies, the FUTA tax typically increases by 0.3%, or \$21 per worker, payable in January of the following calendar year with Federal Form 940. The FUTA Credit Reduction increases annually by 0.3% until loans are repaid.

The IRS has issued the 2011 Form 940, which identifies the states that are subject to FUTA Credit Reduction.

The states subject to additional FUTA taxes for 2011 include:

Arkansas * **CALIFORNIA** * Connecticut * Florida * Georgia * Illinois * Kentucky * Minnesota * Missouri * Nevada * New Jersey * New York * North Carolina * Ohio * Pennsylvania * Rhode Island * Virginia * Wisconsin

In these states, the net FUTA rate will be 1.10% for wages paid up to the \$7,000 FUTA taxable wage limit through June and 0.9% for FUTA taxable wages paid from July 1 through December 31, 2011.

The FUTA Credit Reduction will be even higher for Indiana (0.6%) and Michigan (0.9%) because these states depleted and failed to repay their unemployment insurance funds for consecutive years.

If IBS is responsible for depositing the taxes for your business, we will be collecting the additional Credit Reduction amounts as a tax adjustment when processing your payroll mid-January. If IBS has over collected your FUTA tax, due to the 0.2% surtax reduction, we will reduce your Credit Reduction tax adjustment by the over collected amount.

What to Expect for 2012: FUTA Taxes and Credit Reduction

The FUTA tax rate is *scheduled* to remain at 0.6% of wages paid up to the taxable wage limit of \$7,000, or \$42 per employee per year. Nevertheless, employers in Credit Reduction states should plan on increased FUTA taxes in 2012 (payable in January 2013). Again, unless a state pays off the loan, the FUTA Credit Reduction will increase annually by 0.3%.