

Labor and Employment Alert: Employers: Prepare to Track Post-June 30th Wages

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Effective June 30, 2011, the federal unemployment tax ("FUTA") surtax will expire unless Congress takes action to extend the surtax.

What Is FUTA?

FUTA funds the federal unemployment benefit program and is paid by employers (not withheld from employee pay). Currently, the FUTA rate equals 6.2%, including a 0.2% surtax that will expire on June 30, 2011. If the surtax is not extended by Congress, FUTA will equal 6.0% effective July 1, 2011. FUTA is imposed on the first \$7,000 of wages paid each year and is reduced by payment of certain state unemployment insurance premiums.

What Should Employers Do?

Employers will need to track wages earned on and after July 1, 2011 separately. The Internal Revenue Service ("IRS") indicated that Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, will be amended to add an additional line for wages earned from July 1st to December 31st. Therefore, employers should confirm that their payroll administrators are prepared to track wages earned on and after July 1, 2011 separately.

Congress is not currently discussing extending the surtax. However, the President's 2012 budget would extend the surtax and the IRS indicated that the surtax may be extended, possibly even retroactively after July 1, 2011.

For more information regarding this or any other employment-related issue, please contact your Vorys attorney or a member of the Vorys Labor and Employment Group by calling 614.464.6400.

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