

## Final 2023 Federal Unemployment Tax Act (FUTA) Credit Reductions

Updated: November 13, 2023

Five states faced a potential FUTA credit reduction in 2023. However, two of these states repaid their outstanding advances before November 10, 2023, thereby avoiding a FUTA credit reduction. Two states had an outstanding advance on each January 1 from 2021 through 2023, and did not repay all their advances before November 10, 2023. Therefore employers in these states face a 0.6% credit reduction. The US Virgin Islands (USVI) had an outstanding advance on each January 1 from 2010 through 2023, and did not repay all outstanding advances before November 10, 2023. The US Virgin Islands applied for a waiver of the fifth year (BCR) add-on and was determined to be eligible for the waiver, therefore employers in the USVI will face a 3.9% credit reduction.

State <sup>(1)</sup>	2023 Credit Reduction Due to Outstanding Advance <sup>(2)</sup>	2023 "2.7 add-on" <sup>(3)</sup>	2023 "BCR add-on" <sup>(4)</sup>	Applied For FUTA Credit Reduction Relief <sup>(5)</sup>	Repaid Outstanding Title XII Advance before 11/10/2023	Final 2023 FUTA Credit Reduction <sup>(6)</sup>
California	0.6%	N/A	N/A	N/A	NO	0.6%
Connecticut	0.6%	N/A	N/A	N/A	YES	0.0%
Illinois	0.6%	N/A	N/A	N/A	YES	0.0%
New York	0.6%	N/A	N/A	N/A	NO	0.6%
Virgin Islands	3.9%	0.0%	1.0%	BCR Waiver/Approved	NO	3.9%

N/A indicates the 2.7 add-on and/or BCR add-on are not applicable to the state.

(1) FUTA sections 3302(c)(2) and 3302(d)(3) provide that employers in states that have an outstanding balance of advances under Title XII of the Social Security Act at the beginning of January 1 of two or more consecutive years are subject to a reduction in credits otherwise available against the FUTA tax, if all advances are not repaid before November 10 of the taxable year. These credit reductions are made from the regular credit of 5.4%. So, while employers in states without a credit reduction will have a FUTA tax rate of 0.6% (on the first \$7,000 of wages paid) for the year, employers in states with a credit reduction due to an outstanding balance of advances will incur a FUTA tax rate of 0.6% + the FUTA credit reduction.

(2) For each January 1 a state passes with an outstanding advance, following the second one, employers in the state are subject to an additional 0.3% reduction in their FUTA credit.

(3) Following their third consecutive January 1 with an outstanding advance, states are subject to an additional FUTA credit reduction called the 2.7 Add-on. A description of this add-on is in FUTA 3302(c)(2)(B). This value is based on wages and tax contributions for the calendar year of 2022.

(4) The US Virgin Islands was potentially subject to the Benefit Cost Rate (BCR) additional credit reduction formula for having passed five consecutive January 1's with an outstanding Federal advance as detailed in FUTA section 3302(c)(2). This value is based on wages and tax contributions for the calendar year of 2022.

(5) A state may apply for relief from a reduction in its FUTA credit under section FUTA 3302. The deadline for application of relief for all types was July 1, 2023. The US Virgin Islands applied for, and was determined eligible for a waiver of the "BCR add-on" credit reduction.

(6) The final FUTA credit reduction for 2023 is calculated by adding the credit reduction due to having an outstanding advance plus the reduction from the 2.7% add-on or the BCR add-on, which can be waived, as appropriate and applying this to the basic credit reduction for each state with outstanding Title XII advance on Nov. 10, 2023.

o Questions concerning payment of FUTA taxes should be directed to the Internal Revenue Service.

o Questions concerning credit reductions should be directed to Dyana Cornell at: [cornell.dyana@dol.gov](mailto:cornell.dyana@dol.gov)

DOL/ETA/OUI/ Division of Fiscal and Actuarial Services

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