Lesson 10 – Form 940, Federal Unemployment Tax

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Welcome to this presentation.

I've a few announcements before we get started.

The information contained in this presentation's current as of the day it was presented, and should not be considered official guidance.

Any stories, names, characters, and incidents portrayed in this production are fictitious. No identification with actual persons (living or deceased), places, buildings, and products is intended or should be inferred.

This program will be maintained in accordance with federal recordkeeping laws.

Now let's get started.

This is the tenth of 12 lessons we've created to teach you about payroll taxes.

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In this lesson, you'll learn about Form 940, Employer's Annual Federal Unemployment Tax Return.

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Publication 15, the Employer's Tax Guide, explains your responsibilities as an employer. A new pub is released yearly. You should download a current version at the beginning of each year and review "What's New" for any changes.

Publication 15's your main resource on employer/employee related issues. There's a chart on page 5 that provides a summary of your basic responsibilities.

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Federal unemployment tax, commonly called FUTA, is an employer paid tax. The tax isn't withheld from an employee. FUTA's reported annually on the federal Form 940.

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Before you file a Form 940, there are many things you should consider. First, you may not be required to file this form. Tribes and wholly owned tribal entities that both file and pay state unemployment tax (SUTA) aren't required to file or pay FUTA taxes.

SUTA must be current (filed and paid) for a Form 940 not to be required. If you're not a tribe or wholly owned tribal entity – or current with SUTA – then you're required to pay FUTA.

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Indian tribes, including their tribal subdivisions and wholly owned tribal businesses, may obtain SUTA coverage under one of two methods.

You can file the returns and pay the necessary SUTA tax based on the state's normal SUTA requirements. This is commonly known as the tax contribution method.

You may also elect coverage under the so-called reimbursement method. Under the reimbursement method, you're required to reimburse the state unemployment fund on a dollar-for-dollar basis for benefits paid to your former employees and charged to your account.

A tribe and each of its entities may separately choose whichever option's best for them.

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If you're not current with SUTA, you're required to file a Form 940 and pay the tax.

Here is Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return.

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Form 940 is due on Jan. 31.

FUTA tax is computed on the first \$7,000 paid to each employee during the calendar year, after subtracting any payments exempt from FUTA tax. Every quarter, employers must figure how much of the first \$7,000 of each employee's annual wages was paid during that quarter.

Currently, the FUTA tax is 6.0%. If wages were paid subject to state unemployment tax, employers may receive a credit up to 5.4% when Form 940's filed.

An employer who paid state unemployment taxes in full and on time is entitled to a credit of up to 5.4% against the 6% FUTA rate. This creates a net FUTA tax of 0.6%. However, tribal entities and wholly owned tribal businesses who are SUTA compliant aren't liable for FUTA, so the credit isn't applicable.

Make sure to look at the current Publication 15 Circular E or <u>https://www.irs.gov</u> for the current FUTA wage base and tax rate. Be aware that the state tax rate and wage base may not be the same as the federal tax rate and wage base.

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For deposit purposes, FUTA tax is figured quarterly. If FUTA tax is \$500 or less in a quarter, carry it over to the next quarter. Continue carrying the tax liability over until the cumulative tax is more than \$500.

At that point, FUTA tax must be deposited for the quarter by the last day of the month after the end of the quarter. If FUTA tax for the next quarter is \$500 or less, you're not required to deposit again until the cumulative amount's more than \$500.

If the annual liability's \$500 or less, deposit the tax by Jan. 31 or pay with a timely filed return.

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This concludes Lesson 10. In this lesson, you've learned about the filing requirements for Form 940, Employer's Annual Federal Unemployment Tax Return.

Thank you.