



## **2014 FUTA Tax Increases and the Potential Relief of a SUB-Pay Plan**

With the prolonged effects of a troubled economy, a state's ability to keep its unemployment insurance ("UI") trust fund solvent is a challenge. When states exhaust their UI trust funds and borrow from the federal government to pay UI benefits, the results can extend to decreased UI benefits, a decreased amount of UI benefit weeks and an increase to the rate by which employers are taxed for federal and state unemployment taxes.

### **When States Are on Borrowed Time**

The federal unemployment ("FUTA") tax is imposed on employers covered by a state's UI program at a standard tax rate of 6.0% of an employee's first \$7,000 of wages. However, employers generally receive a credit of 5.4% when they file their Form 940, *Employer's Annual Federal Unemployment Tax Return*, resulting in a net FUTA tax rate of 0.6%.

When states lack the funds to pay UI benefits to former employees, they take Federal Unemployment Trust Fund loans from the federal government. If a state has an outstanding loan balance on January 1 for two consecutive years, and does not repay the full amount of its loans by November 10 of the second year, the FUTA credit rate for employers in that state will be reduced by 0.3% for the first year and an additional 0.3% for each year thereafter until the state has repaid its loan. States are also potentially subject to additional credit reductions if their loans go unpaid for five consecutive years.

### **Employer FUTA Tax May Increase in 2014**

FUTA tax is automatically increasing by approximately \$21 per year in states that fail to repay federal loans, and it's projected to jump even higher for 2014. FUTA tax is normally only \$42 per employee in states with outstanding loans; however this amount may dramatically increase in 2014 to \$84 to \$196 per employee in those states that paid out more in state UI benefits in comparison to their UI tax rates.

States at serious risk if their Federal Unemployment Trust Fund loans are not paid by November 10, 2014 include: AR, CA, CT, DE, GA, KY, MO, NJ, NY, OH, RI, SC, WI and VI.

### **How a SUB-Pay Plan Can Help Employers**

While both active payroll wages and severance are subject to FUTA tax, a Supplemental Unemployment Benefits ("SUB-Pay") Plan is exempt from FUTA tax. During a layoff, an employer can use a SUB-Pay Plan to offset the rising FUTA costs caused by a reduced credit rate.

Introduced by the IRS in 1956, a SUB-Pay Plan is a unique type of severance plan designed to assist employees engaging in an involuntary termination due to a reduction in force, job elimination, reorganization, or similar circumstance. With a SUB-Pay Plan, employers save FICA, FUTA and SUTA tax dollars. In addition, the company payments may be supplemented with state UI benefits that when combined equal up to 100% of a former employee's active weekly wage. This effective use of state UI benefits can add as much as an additional 45% in savings for the company. In light of the overall savings potential, a SUB-Pay Plan is a formidable, cost-effective strategy over traditional severance programs.

### **About Total Management Solutions**

Total Management Solutions (TMS) is a trusted advisor to Fortune 1000 and mid-sized US companies, helping them change, manage and administrate their corporate severance plans. Through our Supplemental Unemployment Benefit ("SUB-Pay") Plans, we help companies reduce the high cost, stress and burden associated with implementing employee severance plans resulting from a merger, acquisition, business



realignment or economic downturn. With a SUB-Pay Plan, our clients typically save 45% or more of traditional severance costs, while providing more separation benefits to laid-off employees.

With over 25 years of experience, TMS is the pioneer and only company solely dedicated to the design, implementation and administration of SUB-Pay Plans. Each SUB-Pay Plan is customized to meet your company's financial and cultural requirements and is supported by a management team of experts in SUB-Pay Plans, sophisticated technology and unparalleled customer service. Once the SUB-Pay Plan is designed and implemented, TMS manages the day-to-day aspects of the plan administration for you, while our personal service provides displaced employees with full support services from our in-house Client Service Support Center.

To learn how a SUB-Pay Plan can help your company save money, please visit our web site at [www.subpay.com](http://www.subpay.com) or contact us at (800) 464-7755.