

## EY Payroll NewsFlash Workforce Tax Services

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This alert has been corrected to reflect that the 2022 net FUTA rate for the U.S. Virgin Islands is 4.2%.

### 2022 FUTA credit reduction to apply in five jurisdictions

Employers will be subject to a federal unemployment insurance (FUTA) tax rate of 0.9% for tax year 2022 for the jurisdictions listed below because they had outstanding federal unemployment insurance (UI) loan balances on November 10, 2022. Note that the U.S. Virgin Islands has a higher net FUTA rate because it has had a federal loan balance since 2009. (U.S. Department of Labor [Final 2022 FUTA Credit Reductions](#).)

The additional FUTA tax owed is paid with the 2022 Form 940 due January 31, 2023.

Jurisdiction	First year of loan	Federal UI loan balance as of November 10, 2022 per <a href="#">Treasury Direct</a>	Net 2022 FUTA rate
California	2020	\$17,987,664,492.91	0.9%
Connecticut	2020	\$64,330,076.23	0.9%
Illinois	2020	\$1,362,645,002.82	0.9%
New York	2020	\$7,743,501,256.75	0.9%
Virgin Islands	2009	\$95,854,314.07	4.2% (relief was granted from the benefit-cost rate (BCR) add on for 2022)

As we previously reported (see [EY Tax Alert 222-1536](#)), under federal law, if all or part of a federal UI loan is still outstanding after two years, employers are required to make payments toward the outstanding federal UI loan balance in the form of a FUTA credit reduction that increases the FUTA taxes employers pay. These extra FUTA contributions are used to pay the principal balance of the federal unemployment

insurance (UI) loan. For the states that began borrowing in 2020, and still had an outstanding loan balance as of November 10, 2022, a FUTA credit reduction of 0.3% would go into effect for 2022, with the increased amount due January 31, 2023.

The U.S. Virgin Islands has had an outstanding federal UI loan balance since 2009, therefore, for 2022 the U.S. Virgin Islands will pay a net FUTA rate of 4.2%, composed of a FUTA credit reduction rate of 3.6% and the 0.6% minimum FUTA tax rate. U.S. Virgin Islands employers have been subject to a FUTA credit reduction since 2011. (*EY Tax Alert* [2021-2156](#), 11-30-2021.)

Many of the borrowing states used federal COVID-19 stimulus money and/or state general funds to pay off their federal UI loan balances. For example, Texas enacted legislation in late 2021 ([SB 8](#)) that authorized the appropriation of roughly \$7.2 billion for deposit to the state's UI trust fund to pay off the state's federal UI trust fund loan and return the UI trust fund to a level that would hold down UI tax rates in 2022.

### **Interest assessments**

Under the American Rescue Plan Act (ARPA) ([P.L. 117-2](#)), interest on federal UI loans starting in 2020 began to accrue as of September 7, 2021 (extended from January 1, 2020, by the Families First Coronavirus Response Act ([P.L. 116-127](#)) and from March 16, 2021, under the Appropriations Act ([P.L. 116-260](#)).

States that carry a loan balance as of October 1 are required to pay interest on September 30. States can impose additional state UI taxes on employers to recover the interest charged on their federal UI loan balances.

Although most states passed this interest cost on to employers in the form of additional UI interest surcharges, many of the states that incurred federal interest charges in 2021 and 2022 did not require employers to bear that cost. (See *U.S. Department of Labor Program Letter No. 14-21*.) See *EY Tax Alerts* [2021-1997](#), 11-2-2021 and [2022-0033](#), 1-7-2022 for more information.

Currently, Massachusetts, Minnesota, New York (effective in 2022), Texas, and the U.S. Virgin Islands impose interest surcharges on employers.

**Contact us for more information**

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