

Potential 2025 Federal Unemployment Tax Act (FUTA) Credit Reductions(6)

The following four states had a Title XII advance balance on January 1, 2025, and employers in these states are potentially subject to a reduction in FUTA credit on their IRS Form 940 for 2025, if the outstanding advance is not repaid by November 10, 2025:

State(1)	2025 Potential Credit Reduction Due to Outstanding Advance(2)	Preliminary Estimate 2025 Potential "2.7 add-on" (3)	Preliminary Estimate 2025 Estimated "BCR add-on"(4)	Preliminary Estimate 2025 Potential Total Credit Reduction(5)
California	1.2%	0.0%	3.7%	4.9%
Connecticut	1.2%	0.0%	0.8%	2.0%
New York	1.2%	0.0%	1.1%	2.3%
Virgin Islands	4.5%	0.0%	0.0%	4.5%

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

- (1) Each of these states and territories have passed at least two consecutive January 1's with an outstanding Federal advance and employers in these States are therefore subject to a potential FUTA credit reduction.
- (2) For each consecutive January 1 a state or territory 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 a preliminary estimate based on estimated wages and tax contributions for the third and fourth quarter of 2024.
- (4) These states are also potentially subject to the Benefit Cost Rate (BCR) additional credit reduction formula for having passed at least five consecutive January 1's with an outstanding Federal advance as outlined under FUTA section 3302(c)(2). This value was preliminarily estimated based on estimated wages and tax contributions for the third and fourth quarters of 2024.
- (5) The potential FUTA credit reduction for 2025 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 if applicable, which can be waived and replaced by the 2.7 add-on per FUTA section 3302(c)(2)(C).
- (6) Provisions in regulations describe circumstances under which states may qualify for relief from FUTA credit reductions through avoidance, caps on reductions and fifth year waivers.