PAYCHEX
HR | Payroll | Benefits | Insurance

Federal Unemployment Tax Act (FUTA) Credit Reductions

The standard FUTA rate is 6.0% on the first $7,000.00 of wages. Employers in most states will receive a credit of 5.4% against the rate, resulting in a net tax rate of 0.6%.

Some states/territories had loans with the Federal Unemployment Trust Fund that were still outstanding. Employers in these states/territories will have their FUTA credit amounts reduced for 2026 to recover these funds.

Important
The FUTA credit reduction is retroactive to first quarter 2026. Employers in states/territories with loans still outstanding may have much larger fourth quarter FUTA payments than expected.

Paychex will include the credit reductions when calculating fourth quarter FUTA liability and will report it correctly on Form 940.

The following chart lists the impacted jurisdictions, their FUTA information, and net FUTA rate:

Jurisdiction	Credit Reduction Percentage	Maximum Tax Increase Per Employee	2026 Net FUTA Rate
California	1.5%	$105.00	2.1%

Example:
A California employer has 15 employees who all reached their FUTA wage base of $7,000.00 in the first, second, or third quarter 2026. The employer has paid a total of $630.00 in FUTA liability and doesn't expect to have a FUTA payment in fourth quarter.

The FUTA credit reduction is retroactive and requires the employer to pay an additional 1.5% on FUTA taxable wages for 2026. As a result, the employer needs to pay an additional $105.00 per employee; FUTA liability in the fourth quarter is $2,205.00.

For more information, go to the U.S. Department of Labor website: FUTA Credit Reductions.