Advance Communication Relating to FUTA Credit Reductions/Interest Payments

The Unemployment Insurance (UI) Trust Fund (Fund) had a balance of approximately $700 million prior to the COVID-19 pandemic. According to Connecticut General Statutes, the Fund needed $1.4 billion to be considered solvent. Due to the impact of the COVID-19 pandemic and the depth of the economic recession, the Fund was depleted in August 2020. As a result, the Connecticut Department of Labor (CTDOL) began borrowing funds from the United States Department of Labor (USDOL) to continue paying mandated state UI benefits. As of September 1, 2021, CTDOL has borrowed approximately $725 million. Had the Fund been solvent at the onset of the pandemic, CTDOL would have borrowed $700 million less. Connecticut is one of fourteen states with outstanding federal loans.

Generally, federal loans carry interest that is payable by states to USDOL on September 30 of each year that loans are outstanding. As the United States Congress passed legislation that waived interest on UI trust fund loans through September 6, 2021, interest of approximately $1 million (calculated from September 7, 2021, through September 30, 2021) is due September 30, 2021. In Connecticut, the statutory mechanism to collect interest costs is through an annual Special Assessment. The Special Assessment is a supplemental bill that is levied against active Connecticut contributory employers in August of any year that the state accrues interest on the outstanding loan balance. However, recognizing the financial burden foisted upon businesses by the pandemic, Governor Lamont has authorized the state to pay the interest due on September 30, 2021, thereby eliminating the need for Connecticut employers to pay the Special Assessment this year.

One of the statutory mechanisms of repaying outstanding federal loans is through increased Federal Unemployment Tax Act (FUTA) taxes. Each state that has federal loans outstanding for at least two consecutive years subjects their employers to increased FUTA taxes each year until all loans are paid in full. The FUTA tax increases are applied directly to that state's outstanding federal loan balance. As such, Connecticut employers will see a FUTA tax increase of 0.3%, applied to payroll paid from January 1, 2022, through December 31, 2022. This amounts to approximately an additional $21 per full-time employee per year. The calendar year 2022 FUTA tax return, together with the additional tax payments, will be due and payable in January 2023. Please note that while the IRS will publish a list of FUTA credit reduction states in November 2022, CTDOL is providing employers and their payroll agents this information in advance of the IRS notice to allow employers to budget for the federal tax increases and avoid retroactive adjustments.