GUIDE

Form 940 and federal unemployment tax

Form 940 reports federal unemployment tax (FUTA), which employers pay on the first $7,000 of each employee's wages. The rate is 6.0%, but paying state unemployment tax on time earns a credit of up to 5.4%, so most employers pay 0.6%, or $42 per employee. File it once a year, by January 31.

QUICK FACTS

- **Rate.** 6.0% less up to 5.4% state credit
- **Wage base.** First $7,000 of wages per employee
- **Due.** Yearly return, February 10 if deposits were on time

Who has to file Form 940?

Most employers that paid $1,500 or more in wages in any calendar quarter, or had at least one employee working some part of a day in 20 or more different weeks, this year or last. Different tests apply to household and farm employers. FUTA is paid only by the employer and never withheld from pay.

How is FUTA calculated?

STEP	AMOUNT
Wages per employee counted	First $7,000 each year
Gross FUTA rate	6.0%
Credit for state unemployment tax paid on time	Up to 5.4%
Net rate for most employers	0.6%, about $42 per employee

In a credit reduction state, one that borrowed from the federal government to pay benefits and hasn't repaid, the credit is smaller and employers there owe more on Schedule A. The IRS publishes the list each November.

General information, not tax advice for your situation.

When do I deposit FUTA?

Each quarter, figure the FUTA you owe. Once it's more than $500, deposit it by the last day of the month after the quarter. If it's $500 or less, carry it into the next quarter. Whatever is left at year end is paid with Form 940 or deposited by January 31.

Which wages count for FUTA?

Most cash wages, bonuses, commissions and the value of some fringe benefits count. Pay to a sole proprietor's child under 21, to a spouse, or to a parent working for their child is exempt. Payments to genuine 1099 contractors don't count at all, and neither does an S-Corp shareholder's distribution. S-Corp owners on payroll do count, so their salary is subject to FUTA like any employee's. Wages paid in more than one state still count once toward the $7,000.

When is Form 940 due?

January 31 for the year before, or February 10 if you deposited all FUTA on time. Our payroll cost calculator includes FUTA in what each hire costs, and our payroll service files Form 940 with your state unemployment returns.

Common questions

What is the FUTA rate for 2026?
6.0% on the first $7,000 of each employee's wages, reduced to 0.6% for most employers by the credit for state unemployment tax.

Do I withhold FUTA from employees?
No. FUTA is an employer-only tax.

When is Form 940 due?
January 31, or February 10 if every FUTA deposit was made on time.

What is a credit reduction state?
A state that owes the federal unemployment fund. Employers there get a smaller credit and pay more FUTA.

Want payroll handled?

We set it up, run it and file the returns. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

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