

# FLASH ALERT

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## Are Public Housing Authorities Exempt from Federal Unemployment Taxes?

During several of our financial assessments at various Public Housing Authorities (PHAs), we have seen PHAs paying into Federal Unemployment (FUTA) taxes when it is not required for them to do so. The FUTA, with state unemployment systems, provides payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax.

For a list of state unemployment agencies, visit the U.S. Department of Labor's website at <http://www.oui.doleta.gov/unemploy/agencies.asp>

Only the employer pays FUTA tax; it isn't withheld from the employee's wages.

### Should you pay FUTA tax?

Use the following two scenarios to determine whether you must pay FUTA tax. Each scenario applies to a different category of employee, and each is independent of the others. If one of the below scenarios describes your situation, you're subject to FUTA tax on the wages you pay to employees in that category during the current calendar year.

You're subject to FUTA tax in 2019 on the wages you pay employees *who aren't farmworkers or household workers* if:

- ▶ Scenario 1: You paid wages of \$1,500 or more in any calendar quarter in 2018 or 2019
- ▶ Scenario 2: You had one or more employees for at least some part of a day in any 20 or more different weeks in 2018 or 20 or more different weeks in 2019

For 2019, the FUTA tax rate is 6.0%. The tax applies to the first \$7,000 you pay to each employee as wages during the year. The \$7,000 is the federal wage base. Your state wage base may be different. Generally, you can take a credit against your FUTA tax for amounts you paid into state unemployment funds. The credit may be as much as 5.4% of FUTA taxable wages. If you're entitled to the maximum 5.4% credit, the FUTA tax rate after credit is 0.6%. You're entitled to the maximum credit if you paid your state unemployment taxes in full, on time, and on all the same wages as are subject to FUTA tax, and as long as the state isn't determined to be a credit reduction state. See the [Instructions for Form 940](#) to determine the credit. In some states, the wages subject to state unemployment tax are the same as the wages subject to FUTA tax. However, certain states exclude some types of wages from state unemployment tax, even though they're subject to FUTA tax (for example, wages paid to corporate officers, certain payments of sick pay by unions, and certain fringe benefits). In such a case, you may be required to deposit more than 0.6% FUTA tax on those wages.

### So, what are the requirements for PHAs to pay FUTA?

Per [IRS Circular E, Section 15](#), all state and local governments and political subdivisions are exempt from paying FUTA. Since PHAs are state and local organizations, PHAs are exempt from paying the FUTA tax. For example, if the PHA had 10 employees, the calculation would be as follows to determine the savings:

10 employees x \$7,000 x 6% = \$4,200 in tax savings

If your PHA has been paying this, please contact the IRS and obtain a refund.

## CONTACT

**BRIAN ALTEN**, Partner, BSO  
215-940-7812 / [balten@bdo.com](mailto:balten@bdo.com)

1801 Market Street / Suite 1700  
Philadelphia, PA 19103

## ABOUT BDO PHA FINANCE

BDO PHA Finance, a division of BDO USA, LLP, provides accounting and management consulting services to Public Housing Authorities (PHAs) nationwide. We are proud to be making a difference for the housing authorities that serve communities throughout the United States.

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