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California, New York, and Virgin Islands Subject to Credit Reduction for 2024

According to the U.S. Department of Labor (DOL), *California*, *New York*, and the *U.S. Virgin Islands* did not pay back their federal loans by the November 10, 2024, deadline and will lose the full Federal Unemployment Tax Act (FUTA) credit for 2024 [DOL, Final 2024 Federal Unemployment Tax Act (FUTA) Credit Reductions, rev. 11-12-24].

For 2024, California and New York are subject to a FUTA credit reduction of 0.9%, and the Virgin Islands is subject to a FUTA credit reduction of 4.2%. The Virgin Islands had a credit reduction in each of the past 13 years (2011-2023; see PAYSTATE UPDATE, Issue 23, Vol. 25).

Connecticut paid off loans

In January, the DOL released its list of potential FUTA credit reduction states for 2024, including: California, *Connecticut*, New York, and the Virgin Islands (see PAYSTATE UPDATE, Issue 2, Vol. 26). Connecticut was not subject to a credit reduction in 2023. However, Connecticut had an outstanding loan balance on three consecutive January 1 (in 2022, 2023, and 2024). Therefore, it could have faced a credit reduction for 2024.

On November 12, Connecticut Gov. Ned Lamont and the Connecticut Labor Commissioner announced that the state officially repaid its remaining federal unemployment account (FUA) trust fund loan. According to the governor and labor commissioner, the state will likely borrow additional money in future years but will achieve trust fund solvency in the future [Office of Gov. Ned Lamont, Press Release, 11-12-24]. Since Connecticut paid off its outstanding loans by the November 10 deadline, it is not subject to a credit reduction for 2024.

Credit reductions because of state loans

Under the joint federal/state unemployment insurance (UI) system, states with a high rate of unemployment and difficulty meeting their benefit obligations can borrow money from the FUA to pay benefits. If states have loan balances on January 1 of at least 2 consecutive years *and* on November 10 of the second year, the FUTA credits for employers in those states are reduced, with the extra FUTA tax paid being applied against each state's loan balance (see *The Payroll Source®*, §7.1-6).

A state with an outstanding loan can avoid a credit reduction for its employers by repaying all outstanding loans by November 10 of the year the reduction is scheduled to take effect. If the loan is not repaid by that date, a credit reduction of 0.3% goes into effect, with employers in that state having their maximum credit reduced to 5.1% (5.4%–0.3%). The extra 0.3% in FUTA tax means that employers will have to pay an extra $21 per employee (0.3% of the federal wage base of $7,000). An additional credit reduction of 0.3% is taken for each additional year the loan remains unpaid.

Once a state/territory has had outstanding FUA loan balances for several years, additional types of credit reduction also might be added, including a 2.7% add-on and/or a Benefit Cost Rate (BCR) add-on. States/territories may apply to the DOL for a waiver of the BCR by July 1 of a tax year. The Virgin Islands was facing a BCR add-on of 0.9% for 2024. However, the Virgin Islands' waiver request for 2024 was granted and it is not subject to add-on for 2024.

Form 940, Schedule A will reflect reduction

The additional FUTA tax must be deposited by the due date of the 2024 federal Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, which is January 31, 2025. The 2024 Schedule A (Form 940), *Multi-State Employer and Credit Reduction Information*, will contain the official list of credit reduction states, and the credit reduction total from Schedule A is reported on Form 940. The IRS has not released the 2024 Form 940 yet. When they are finalized, both forms will be available on the IRS website and on the PayrollOrg website. To find the forms on the PayrollOrg website, select "News & Resources," then "Resource Library." Once in the Resource Library, check the box on the left side of the screen for "IRS Forms."

Outlook for 2025

As of November 15, California and New York continued to have outstanding loan balances (in addition to the Virgin Islands). These states and territory will face an increased credit reduction for 2025 if outstanding loans are not repaid by November 10, 2025. Last year, at approximately the same time, two states and the Virgin Islands had outstanding loan balances (down from 20 states in 2020). If Connecticut resumes borrowing and has an outstanding loan on January 1, 2025, the DOL will consider Connecticut a potential credit reduction state for 2025. ■

Learn About the Results of State and Local Ballot Measures on Election Day

The November 5 general election saw many state ballot proposals related to minimum wage and paid sick leave (PSL) (see PAYSTATE UPDATE, Issue 17, Vol. 26). Proposals in *Alaska*, *Missouri*, and *Nebraska* passed, creating PSL requirements in those states and raising the minimum wage rates for Alaska and Missouri. Voters in *Portland, Maine*, also passed an initiative to amend the city's emergency wage provisions. Voters in *Everett, Washington* passed a measure to create a local minimum wage.

Proposals in *Arizona*, *California*, *Massachusetts*, and *Washington* related to the minimum wage, tip credit, and long-term care insurance failed to pass. One initiative in *Oklahoma* regarding the minimum wage was not certified in time and will appear on a later ballot.

Proposals that passed

Alaska – minimum wage increase, PSL established. In Alaska, Ballot Measure No. 1 passed with 57.81% of the vote, which will raise the state minimum wage and create the right to PSL for Alaska employees [Division of Elections (DOE), Election Results, 11-19-24; DOE, Ballot Measure No. 1]. Effective July 1, 2025, the state minimum wage will increase to $13 per hour from $11.91 per hour (this updates *The Payroll Source®, §2.11-1*; see page four of this issue for more information). The minimum wage will increase annually on July 1 (effective July 1, 2026, $14 per hour; effective July 1, 2027, $15 per hour). Effective January 1, 2028, the minimum wage will be adjusted annually for inflation.

Effective July 1, 2025, Alaska employees will accrue a minimum of 1 hour of PSL for every 30 hours worked. Employers with 15 or more employees will be required to allow accrual of up to 56 hours of PSL yearly. Employers with 14 or fewer employees will only have to allow up to 40 hours of yearly accrual. PSL will be available for an employee or their family member's need for leave related to mental or physical illness, injury, or health condition; preventative care; or need related to domestic violence, sexual assault, or stalking.

Missouri – minimum wage increase, PSL established. Proposition A passed with 57.561% of the vote, which will increase the state minimum wage and establish a PSL law [Secretary of State, Unofficial Results, 11-20-24; SOS, Proposition A, 1-9-23]. Effective January 1, 2025, the state minimum wage will increase to $13.75 per hour from $12.30 per hour (this updates *The Payroll Source®, §2.11-1*). The minimum wage will increase again on January 1, 2026, to $15 per hour. Effective January 1, 2027, the minimum wage will be adjusted annually for inflation.

Effective May 1, 2025, employees will begin accruing 1 hour of PSL for every 30 hours worked. Employers with 15 or more employees will be required to allow accrual up to 56 hours yearly, and employers with 14 or fewer employees must allow accrual of up to 40 hours yearly. PSL may be used by the employee or their family member for a mental or physical illness, injury, health condition, preventative care, public health emergency, or leave related to domestic violence, sexual assault, or stalking.

Nebraska – PSL. Initiative 436 passed in Nebraska with 74.55% of the vote, creating a PSL program for employees, effective October 1, 2025. Employees will accrue 1 hour of PSL for every 30 hours worked. Small businesses, those with fewer than 20 employees, will be required to allow employees to accrue up to 40 hours of PSL yearly. Larger businesses will have to allow up to 56 hours of yearly accrual. PSL will be available for an employee or their family member's mental or physical illness, injury, health condition, preventative care, or closure due to public health emergency [Secretary of State, Unofficial Results, 11-18-24; Paid Sick Leave Petition, 7-11-23].

Portland, Maine – emergency wage provisions. Voters in Portland, Maine, passed an initiative by 51.1% to amend the emergency wage so that only a declared emergency by the city can cause the 1.5 times increase to the regular minimum wage to take effect. Currently, a declaration of emergency at the state level could also trigger the higher minimum wage [City of Portland, Question A].

Everett, Washington – minimum wage. Voters in Everett, Washington, passed a ballot measure that establishes a minimum wage of $20.24 per hour, effective July 1, 2025, for large employers with more than 500 employees. The minimum wage will be phased in over 2 years for small employers. Small employers are defined as having 15 - 499 employees or an annual gross revenue of $2 million or more [City of Everett, Initiative 24-01].

Proposals that failed

Several employment-related ballot measures failed to pass, including those in Arizona, Massachusetts, and Washington. Proposition 138 in Arizona failed to pass, with 74.76% of voters voting against it. The proposition would have modified the state tip credit [Secretary of State, 2024 General Elections, 11-19-24]. Question 5 in Massachusetts, failed to pass, with 64.44% of votes against the initiative. The initiative would have gradually decreased and eliminated the state tip credit. In Washington, Initiative 2124 failed to pass with 55.46% of votes against it. The initiative proposed amendments to the state long-term care insurance program [Secretary of State, Initiative Measure No. 2124, 11-20-24].

California – failed by narrow margin

In California, Proposition 32 would have raised the 2025 minimum wage to $18 per hour for employers with 26 or more employees. For employers with 25 or fewer employees, the minimum wage would have increased to $17 per hour. As of November 20, 2024, 50.8% of voters have voted against the change, while 49.2% of voters voted to approve the measure. The result will be certified by December 13, 2024 [SOS, State Ballot Measures, 11-20-24].

Oklahoma – initiative delayed

In Oklahoma, Initiative 832 was not certified in time to appear on the November 5, 2024, ballot. The initiative proposes an increase to the minimum wage. Initiative 832 will appear on the June 16, 2026, ballot [Office of the Governor, Executive Order 2024-25, 9-10-24]. ■