



Instructions for Form 940

Employer's Annual Federal Unemployment (FUTA) Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 11 hr., 43 min.

Learning about the law or the form 18 min.

Preparing and sending the form to the IRS 30 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0028), Washington, DC 20503. Do not send the tax form to either of these offices. Instead, see **Where To File** on page 2.

Items To Note

FUTA Tax Rate and Wage Base.—The FUTA tax rate is 6.2% through 1998, and the Federal wage base is \$7,000. Your state wage base may be different.

Household Employers.—After 1994, if you have only household employees, you will not be required to make deposits of FUTA tax. Instead, report and pay FUTA tax on your individual income tax return.

State Unemployment Information.—Employers must contact their state unemployment insurance offices to receive their state reporting number, state experience rate, and details about their state unemployment tax obligations.

General Information

Purpose of Form.—File Form 940 to report your annual Federal unemployment (FUTA) tax. You, as the employer, must pay this tax. Do not collect or deduct it from your employee's wages.

Use Form 940-EZ, a less complicated version of Form 940, to report your annual FUTA tax if—

1. You paid unemployment taxes ("contributions") to only one state.

2. You paid these taxes by January 31.

3. All wages that were taxable for FUTA tax were also taxable for your state's unemployment tax. If, for example, you paid wages to corporate officers (these wages are taxable for FUTA tax) in a state that exempts these wages from its unemployment taxes, you cannot use Form 940-EZ.

For more details, get Form 940-EZ. Do not file Form 940 if you have already filed Form 940-EZ for 1994.

Use the current year form to avoid delays in processing.

Who Must File.—In general, you must file Form 940 if you were not a household or agricultural employer during 1993 or 1994, and you pass either of the following tests:

Test 1. You paid wages of \$1,500 or more in any calendar quarter.

Test 2. You had one or more employees for some part of a day in any 20 different weeks. Count all regular, temporary, and part-time employees. A partnership should not count its partners.

Note: *If there is a change in ownership or other transfer of business during the year, each employer who meets test 1 or 2 must file. Organizations described in section 501(c)(3) do not have to file.*

The filing tests are different for household and agricultural employers, as explained below.

Household Employers.—File Form 940 if you paid cash wages of \$1,000 or more in any calendar quarter in 1993 or 1994 for household work in a private home, local college club, or a local chapter of a college fraternity or sorority.

Note: *See Pub. 926, Employment Taxes for Household Employers, for more information, and filled-in Forms 940 and 940-EZ.*

Agricultural Employers.—File Form 940 if either test below applies to you:

Test 1. You paid cash wages of \$20,000 or more to farmworkers during any calendar quarter in 1993 or 1994.

Test 2. You employed 10 or more farmworkers during some part of a day (whether or not at the same time) for at least 1 day during any 20 different weeks in 1993 or 1994.

Count aliens admitted on a temporary basis to the United States to perform farmwork, also known as workers with H-2(a) visas, to determine if you meet either test. However, wages paid to these aliens are not subject to FUTA tax before 1995.

Magnetic Media Reporting.—You may file Form 940 using magnetic media. **Pub. 1314**, Magnetic Tape Reporting of Form 940, Employer's Annual Federal Unemployment Tax Return (FUTA), explains the requirements. You can get this publication by calling 1-800-TAX-FORM (1-800-829-3676).

Penalties and Interest.—Avoid penalties and interest by making tax deposits when due, filing a correct return, and paying the proper amount of tax when due. The law provides penalties for late deposits and late filing unless you show reasonable cause for the delay. If you file late, attach an explanation to the return. Get **Circular E**, Employer's Tax Guide, for information on penalties.

There are also penalties for willful failure to pay tax, keep records, make returns, and filing false or fraudulent returns.

Not Liable for FUTA Tax.—If you receive Form 940 and are not liable for FUTA tax for 1994, write "Not Liable" across the front, sign the return, and return it to the IRS.

Credit for Contributions Paid Into State Funds.—You can claim credit for amounts you pay into a certified state (including Puerto Rico and the U.S. Virgin Islands) unemployment fund by the due date of Form 940. Your FUTA tax will be higher if you do not pay the state contributions timely.

“Contributions” are payments that state law requires you to make to an unemployment fund because you are an employer. These payments are contributions only to the extent that they are not deducted or deductible from the employees’ pay.

Do not take credit for penalties, interest, or special administrative taxes that are not included in the contribution rate the state assigned to you. Do not take credit for voluntary contributions paid to get a lower assigned rate.

You may receive an additional credit if you have an experience rate lower than 5.4% (.054). This applies even if your rate is different during the year. This **additional** credit is equal to the difference between actual payments and the amount you would have been required to pay at 5.4%.

The total credit allowable may not be more than 5.4% of the total taxable FUTA wages.

Special Credit for Successor Employers.—A successor employer is an employer who received a unit of an employer’s trade or business or all or most of the property used in the trade or business of another employer. The successor employer must employ one or more individuals who were employed by the previous owner immediately after the acquisition.

You may be eligible for a credit based on the state unemployment contributions paid by the previous employer. You may claim these credits if you are a successor employer and acquired a business in 1994 from a previous employer who was not an employer for FUTA purposes during 1994. The previous employer must not (1) have paid wages of \$1,500 or more in any calendar quarter in 1994, or (2) have employed any employee(s) for any 20 or more weeks during 1994. See section 3302(e) and Regulations 31.3302(e)-1. Enter in Part II, line 3, columns (a) through (i) the information of the predecessor employer as if you paid the amounts.

Successor employers may be able to count the wages that the previous employer paid to their employees when reporting the payments for services that exceed \$7,000 on line 3. See the instructions for line 3 on page 3.

General Instructions

When To File.—The due date of the 1994 Form 940 is January 31, 1995. However, if you deposited all tax when due, you may file on or before February 10. Your form is filed on time if it is properly addressed and postmarked no later than the due date.

Where To File.—In the list below, find the state where your legal residence, principal place of business, office, or agency is located. Send your return to the **Internal Revenue Service** at the address listed for your location. No street address is needed.

Note: *Where you file depends on whether or not you are including a payment.*

Florida, Georgia, South Carolina

Return without payment:	Return with payment:
Atlanta, GA 39901-0046	P.O. Box 105887 Atlanta, GA 30348-5887

New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)

Return without payment:	Return with payment:
Holtzville, NY 00501-0046	P.O. Box 1365 Newark, NJ 07101-1365

New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Return without payment:	Return with payment:
Andover, MA 05501-0046	P.O. Box 371307 Pittsburgh, PA 15250-7307

Illinois, Iowa, Minnesota, Missouri, Wisconsin

Return without payment:	Return with payment:
Kansas City, MO 64999-0046	P.O. Box 970010 St. Louis, MO 63197-0010

Delaware, District of Columbia, Maryland, Pennsylvania, Puerto Rico, Virginia, U.S. Virgin Islands

Return without payment:	Return with payment:
Philadelphia, PA 19255-0046	P.O. Box 1251 Newark, NJ 07101-1251

Indiana, Kentucky, Michigan, Ohio, West Virginia

Return without payment:	Return with payment:
Cincinnati, OH 45999-0046	P.O. Box 6977 Chicago, IL 60680-6977

Kansas, New Mexico, Oklahoma, Texas

Return without payment:	Return with payment:
Austin, TX 73301-0046	P.O. Box 970017 St. Louis, MO 63197-0017

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming

Return without payment:	Return with payment:
Ogden, UT 84201-0046	P.O. Box 7024 San Francisco, CA 94120-7024

California (all other counties), Hawaii

Return without payment:	Return with payment:
Fresno, CA 93888-0046	P.O. Box 60378 Los Angeles, CA 90060-0378

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

Return without payment:	Return with payment:
Memphis, TN 37501-0046	P.O. Box 1210 Charlotte, NC 28201-1210

FUTA Tax Amount To Deposit.—Although Form 940 covers a calendar year, you may have to make deposits of the tax before filing the return. Determine your FUTA tax for each of the first three quarters by multiplying by .008 that part of the first \$7,000 paid to each employee during the quarter. If any part of the amounts paid are exempt from state unemployment taxes, you may deposit an amount more than the .008 rate. For example, in certain states, wages paid to corporate officers, certain payments of sick pay by unions,

and certain fringe benefits, are exempt from state unemployment tax.

If the tax is \$100 or less at the end of a quarter, you do not have to deposit it, but you must add it to the tax for the next quarter. Then, in the next quarter, if the total undeposited tax is more than \$100, you must deposit it. For the fourth quarter, follow the instructions in Part III on page 4 to figure your tax liability. If your liability for the fourth quarter (plus any undeposited amount from any earlier quarter) is over \$100, deposit the entire amount by the due date of Form 940 (January 31). If the tax is \$100 or less, you can either make a deposit or pay it with your Form 940 by its due date.

The deposit due dates are shown in the following chart:

If underdeposited FUTA taxes are over \$100 on—	Deposit them by—
March 31	April 30
June 30	July 31
September 30	October 31
December 31	January 31

How To Deposit.—Use **Form 8109**, Federal Tax Deposit Coupon, when you make each tax deposit. The IRS will send you a book of deposit coupons when you apply for an employer identification number (EIN). Follow the instructions in the coupon book. If you do not have coupons, see “Depositing Taxes” in chapter I of Circular E.

Make your deposits with an authorized financial institution (e.g., a commercial bank that is qualified to accept Federal tax deposits) or the Federal Reserve bank for your area. To avoid a possible penalty, do not mail deposits directly to the IRS. Records of your deposits will be sent to the IRS for crediting to your business accounts.

Identifying Your Payments.—Write your EIN, “Form 940,” and the tax period to which the payment applies on your check or money order. This will help ensure proper crediting of your account. On balance due payments of \$100 or less (Part II, line 9), make your check or money order payable to the “Internal Revenue Service.” Enter the amount of payment on the payment voucher at the bottom of Form 940. If the employer information is not preprinted on the payment voucher, enter the requested information. On payments over \$100, make your check or money order payable to the depository or Federal Reserve bank where you make your deposit.

Specific Instructions

Employer’s Name, Address, and Identification Number.—Use the preaddressed Form 940 mailed to you. If you must use a form that is not preaddressed, type or print your name, trade name, address, and EIN on it. If you do not receive your EIN by the time a return is due, write “Applied for” and the date you applied for the number.

Questions A through C.—Answer the applicable questions. The answers will direct you to the correct form to file. If you answered “Yes” to all the questions, you may file Form 940-EZ, a simplified version of Form 940. If you answer “No” to any of the questions, complete and file Form 940.

Final Return.—If you will not have to file returns in the future, check the box on the line below question C. Then complete and sign the return. If you start paying FUTA wages again, file Form 940 or 940-EZ.

Amended Return.—Be sure to use a Form 940 for the year you are amending. If you are correcting a 1990 or prior year form, write “Amended Return” at the top of the form. To amend a 1991 or later Form 940, check the amended return box above Part I. File the amended return with the Internal Revenue Service Center where you filed the original return. Complete and sign a new Form 940 with the correct amounts for the tax year you are correcting. Attach a

statement explaining why you are filing an amended return. For example, you are filing to claim the 90% credit for contributions paid to your state unemployment fund after the due date of Form 940.

If you are filing an amended return after June 30 to claim contributions to your state’s unemployment fund that you paid after January 31, attach a copy of the certification from the state. This will expedite the processing of the amended return.

Part I—Computation of Taxable Wages

Line 1—Total payments.—Enter the total payments you made to employees during the calendar year. Include payments even if they are not taxable for Federal unemployment. Report salaries, wages, commissions, fees, bonuses, vacation allowances, amounts paid to temporary or part-time employees, the value of goods, lodging, food, clothing, noncash fringe benefits, benefits made from a section 125 (cafeteria) plan and sick pay (including third party if liability transferred to employer). For details on sick pay, see **Pub. 952**, Sick Pay Reporting. Include the amount of tips reported to you in writing by your employees. Also, include contributions to a 401(k) pension plan. Enter the amount before any deductions.

How the payments are made is not important in determining if they are wages. Thus, you may pay wages for piecework or as a percentage of profits, and you may pay wages hourly, daily, weekly, monthly, or yearly. You may pay wages in cash or some other way, such as goods, lodging, food, or clothing. For items other than cash, use the fair market value at the time of payment.

Line 2—Exempt payments.—“Wages” and “employment” as defined for FUTA purposes do not include every payment and every kind of service an employee may perform. In general, payments excluded from wages and payments for services excepted from employment are not subject to tax. The amounts reported on line 2 are exempt from FUTA tax. You may deduct these exempt payments from total payments only if you explain them on line 2. Amounts that may be exempt from your state’s unemployment tax, for example, corporate officer’s wages, may not be exempt from Federal unemployment tax.

Enter payments for the following items:

1. Agricultural labor, if you did not meet either of the tests in **Agricultural Employers** on page 1.
2. Benefit payments for sickness or injury under a worker’s compensation law.
3. Household service if you did not pay cash wages of \$1,000 or more in any calendar quarter in 1993 or 1994.
4. Certain family employment.
5. Certain fishing activities.
6. Noncash payments for farmwork or household services in a private home that are included on line 1. Only cash wages to these workers are taxable.
7. Value of certain meals and lodging.
8. Cost of group-term life insurance.
9. Payments attributable to the employee’s contributions to a sick pay plan.
10. Benefits that are excludable under a section 125 (cafeteria) plan.
11. Any other exempt service or pay.

For more information, see **Special Rules for Various Types of Services and Products** in Circular E.

Line 3.—Enter the total amounts over \$7,000 you paid each employee. For example, if you have 10 employees to whom you paid \$8,000 each during the year, enter \$80,000 on line 1 and \$10,000 on line 3. **Only the first \$7,000 paid to your employee is subject to FUTA tax. DO NOT use the state**

wage limitation for this entry. Generally, the state wage base is a different amount than the Federal wage base of \$7,000.

If you are a successor employer and have acquired a business from a previous owner who was an employer liable for FUTA tax, you may be able to count the wages that employer paid to the employees who continue to work for you when you figure the \$7,000 wage limit. Enter on line 3 the payments that exceed the \$7,000 wage base, including the payments by the previous employer. See code section 3306(b) and Regulations 31.3306(b)(1)-1(b).

Line 5—Total taxable wages.—This is the total Federal taxable wage amount. Use this amount in Part II to compute the maximum FUTA tax and the maximum credit.

Part II—Tax Due or Refund

Line 1.—Multiply the total taxable wages in Part I, line 5, by .062. This is the maximum amount of FUTA tax.

Line 2.—Multiply the total taxable wages in Part I, line 5, by .054. This is the maximum credit that is used to offset FUTA tax.

Line 3.—You must complete all applicable columns to receive any amount of credit. Your state will provide an experience rate. If you have been assigned an experience rate of 0% or more, but less than 5.4% for all or part of the year, use columns (a) through (i). If you have not been assigned any experience rate, use columns (a), (b), (c), and (i) only. If you have been assigned a rate of 5.4% or higher, use columns (a), (b), (c), (d), (e), and (i) only. If you were assigned an experience rate for only part of the year or the rate was changed during the year, complete a separate line for each rate period.

If you need additional lines, attach a separate statement with a similar format. Also, if you are a successor employer, see **Special Credit for Successor Employers** on page 2.

Column (a).—Enter the two-letter abbreviation of the name of the state(s) that you were required to pay contributions to (including Puerto Rico and the U.S. Virgin Islands).

Column (b).—Enter the state reporting number that was assigned to you when you registered as an employer with each state. **Be sure to enter the correct number.** Failure to enter the correct number may result in unnecessary correspondence.

Column (c).—Enter the state taxable payroll on which you must pay taxes to the unemployment fund of each state shown in column (a). If your experience rate is 0%, enter the amount of wages that you would have had to pay on if the rate had not been granted.

Column (d).—Enter the beginning and ending dates of the experience rate shown in column (e).

Column (e).—Your “state experience rate” is the rate the state taxes your payroll for state unemployment purposes. This rate may change from time to time based on your “experience” with the state tax fund. For example,

unemployment compensation paid to your former employees, and other factors. If you do not know your rate, contact your state unemployment insurance service. The state experience rate can be stated as a percent or a decimal.

Column (f).—Multiply the amount in column (c), Taxable payroll, by 5.4% (.054).

Column (h).—Subtract column (g) from column (f). If zero or less, enter zero. This additional credit is the difference between the 5.4% and the state experience rate.

Column (i).—Enter the contributions actually paid to the state unemployment fund by January 31, 1995. Do not include amounts you are required to pay but have not paid by the January 31 due date. See **Amended Return** on page 3. If you are claiming excess credits as payments of state unemployment contributions, attach a copy of the letter from your state. Do not include any penalties, interest, or special administrative taxes (such as surcharges, employment and training taxes, excise tax, and assessments which are generally listed as a separate item on the state’s quarterly wage report) not included in the contribution rate assigned to you.

Line 3a.—Enter the totals of columns (c), (h), and (i) on this line.

Line 3b.—Add line 3a, columns (h) and (i) only. If you file Form 940 after its due date and any contributions in column (i) were made after January 31, 1995, your credit for late contributions is limited to **90%** of the amount which would have been allowable as a credit on account of such contributions had they been paid on or before January 31, 1995. For example, if \$1,500 of state contributions was paid on time, and \$1,000 was paid after January 31, 1995, the total tentative credit on line 3b would be \$2,400 (\$1,500 + \$900 (90% of \$1,000)). This is assuming there is no additional credit in column (h).

Note: *If you are receiving additional credit (column (h)) because your state experience rate is less than 5.4%, the additional credit is not subject to the 90% limitation.*

Line 6.—Enter the smaller of Part II, line 2, or line 3b. This is the credit allowable for your payments to state unemployment funds. If you do not have to make payments to the state, enter zero on this line.

Part III—Record of Quarterly Federal Unemployment Tax Liability

Complete this part if your total tax (Part II, line 1, or line 7) is over \$100. To figure your FUTA tax liability **for each of the first three quarters of 1994**, see **FUTA Tax Amount To Deposit** on page 2. Enter this amount in the column for that quarter. This is your liability, not your deposit.

Your liability for the fourth quarter is the total tax (Part II, line 7) minus your liability for the first three quarters of the year. The total liability must equal your total tax. Otherwise, you may be charged a failure to deposit penalty figured on your average liability.

