

Tax Alert

PI & CERELLI, GILSTEIN
COMPANY, LLP

Certified Public Accountants and Consultants

The Hiring Incentives to Restore Employment (HIRE) Act

March 2010

On March 18, 2010, President Obama signed legislation providing tax breaks to get Americans quickly back to work. Details of the Act include:

Employer Incentives

- Employers will receive an exemption from Social Security taxes when they hire an unemployed worker after February 3, 2010 and before January 1, 2011. The worker must have been unemployed for at least 60 days.

√ The Social Security tax rate is 6.2% on the first \$106,800.

√ If employer hires one person and pays \$50,000 this year, the Social Security tax saved is \$3,100.

- More beneficial to hire the worker early in the year to maximize the tax benefit.
 - √ For example, paying someone \$50,000 annually and you hire them April 1; the tax savings would be \$2,300. Hiring them in December, the tax savings would be \$300.
- The exemption only applies to wages paid in 2010.
- It is interesting that this provision is elective. If they take advantage of this provision, the wages are not eligible for the Work Opportunity Credit.
 - √ Work Opportunity credit is available when certain targeted individuals are hired. If you hire such a person, the credit is much better than taking advantage of the Social Security tax exemption.
- The Medicare taxes would still be due. Medicare taxes are 1.45% of all wages paid.

Unemployed Workers who Qualify

- The worker must be an addition to the workforce or a replacement worker for someone who left voluntarily or for cause.
 - √ People hired after a layoff would not qualify.
- Workers who previously worked not more than 40 hours during the 60 day period also qualify.
- Family members and other relatives do not qualify.
- Household employers cannot claim this credit.

Monitoring

- The worker is required to provide a statement to the employer that he or she has been unemployed for 60 days or has worked fewer than 40 hours during this same period.
- IRS is establishing a form that employees can use to submit to the employer.

Impact on the Employee

- He/she gets a job.
- Employee would still be subject to the Social Security withholding from his or her paycheck.
- Employee would still receive the same Social Security benefits in the future even though the employer did not pay its portion of the Social Security taxes.

(next page)

What Employers Should Do Now

- Identify those employees hired after February 3, 2010 to determine if they qualify as an eligible employee. Keep track of the wages paid after March 18th since the employer will get a credit for those Social Security taxes paid in the first quarter on the second quarter reporting period. Starting April 1st, the employer can stop paying the Social Security taxes on the qualified worker.
- If they are processing payroll in-house, they need to make sure the software program has been modified to reflect this change. Employers don't want to send more money to the government than they need to. They would get it back when they file the quarterly payroll tax return but that wouldn't be for several months.

Impact on Social Security System

- There will be no impact on the Social Security fund since the legislation includes a provision that the general fund will transfer an equivalent amount to the Social Security fund. Therefore, it is neutral to the Social Security system.

Other Incentives for Hiring

- An additional tax credit up to \$1,000 for each new employee retained for 52 weeks.
 - Worker's pay cannot drop below 80% of compensation during the last 26 weeks of the 52 week period.
 - Hiring a qualified worker for \$16,130 will get the entire \$1,000 benefit.
 - Employers won't see this benefit until they file their 2011 tax returns in 2012.
- √ Some employers may be able to reduce 2011 estimated tax payments to accelerate the benefit.

Other Items in the Bill

- The ability to quickly write off equipment has been extended through the end of 2010.
- √ The amount is \$250,000 rather than the current \$125,000.
- √ The \$250,000 is reduced when equipment purchased exceed \$800,000.
- √ This gets money back into the business to hopefully create new jobs.

Paying for the Legislation

Provisions have been included to pay for the legislation.

- One of the revenue raisers imposes a 30% withholding penalty on foreign financial institutions that do not agree to disclose their U.S. account holders to the Internal Revenue Service.
- Attempt is to crack down on tax evasion and improve compliance with reporting foreign accounts.
- The IRS recognizes that some taxpayers have foreign accounts in countries with privacy rules that make it more difficult for the IRS to know about the accounts.
- Some foreign laws prevent the disclosure of account holders' names. This new legislation requires the financial institution to obtain a waiver from the account holder. If the waiver is not obtained, the account is to be closed.

Taxpayers with Accounts in Foreign Countries

- Part of this legislation would require taxpayers to disclose their foreign accounts on their U.S. income tax returns and extend the statute of limitations from 3 years to 6 years.

**PI & CERELLI, GILSTEIN
& COMPANY, LLP**

Certified Public Accountants and Consultants

144 Westminster Street
Providence, RI 02903
pgco.com | 401-831-0200

Patricia A. Thompson, Tax Partner

Contact: 401-831-0200 patt@pgco.com