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Tax Cuts for Hiring

WASHINGTON, D.C. (MARCH 18, 2010) BY WEBCPA STAFF

President Obama has signed legislation that provides employers with tax incentives to hire unemployed workers.

The Hiring Incentives to Restore Employment, or HIRE, Act, was approved by the Senate by a 68-29 bipartisan vote on Wednesday, March 18, 2010. It is the first of a series of bills that the administration and Congress plan to introduce to reduce the unemployment rate.

The centerpiece of the HIRE Act is a new payroll tax exemption to provide employers with incentives to hire and retain new employees. The bill provides businesses, including small businesses, with an exemption from Social Security payroll taxes for every worker hired in 2010 who has been unemployed for at least 60 days. The maximum value of this incentive is \$6,621, which equals 6.2 percent of wages paid in 2010, up to the FICA wage cap of \$106,800. The longer that a business has a new qualified worker on its payroll, the greater the tax benefit.

There is also an additional \$1,000 income tax credit for every new employee retained for 52 weeks. For small businesses, the bill extends Recovery Act provisions that double the amount small businesses can immediately write off their taxes for capital investments and purchases of new equipment made in 2010 from \$125,000 to \$250,000.

“These tax breaks offer a much-needed boost to employers willing to expand their payrolls, and businesses and nonprofits should keep these benefits in mind as they plan for the year ahead,” said IRS Commissioner Doug Shulman in a statement.

The bill also expands the Build America Bonds direct payment option to include the issuers of qualified school construction bonds, qualified zone academy bonds, clean renewable energy bonds, and qualified energy conservation bonds.

In addition, the bill extends funding for surface transportation programs through Dec. 31, 2010, to help states and localities invest in infrastructure. It includes language continuing the application and enforcement of the minority-owned business enterprise-contracting requirements for surface transportation projects.

The bill also transfers approximately \$20 billion from the General Treasury and to the Highway Trust Fund, as the HTF is estimated to run short of funds in June. This transfer will reimburse the HTF for interest it should have collected in the past and will allow the federal government to support existing federal highway and transit programs through the end of this year at the levels authorized for fiscal year 2009.

To pay for the \$17.6 billion cost of the bill, revenue-raising offsets provide the Treasury Department with new tools to find and prosecute U.S. individuals who hide assets overseas from the Internal Revenue Service. The bill would require new reporting by foreign financial institutions to give the IRS more data to detect fraud and tax evasion. The bill also delays for three years (through 2020) a tax break enacted in 2004 that would let U.S. multinational companies that have shipped jobs overseas reduce their U.S. taxes by deducting more of their worldwide interest income against their U.S. income. The worldwide allocation of interest provision has never gone into effect, and no company currently utilizes this provision.

To qualify for the hiring tax credit, the new law requires that the employer get a statement from each eligible new hire certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked less than a total of 40 hours for someone else during the 60-day period. The IRS is currently developing a form employees can use to make the required statement.

Businesses, agricultural employers, tax-exempt organizations and public colleges and universities all qualify to claim the payroll tax benefit for eligible newly hired employees. Household employers cannot claim this new tax benefit.

Employers claim the payroll tax benefit on the federal employment tax return they file, usually quarterly, with the IRS. Eligible employers will be able to claim the new tax incentive on their revised employment tax form for the second quarter of 2010. Revised forms and further details on these two new tax provisions will be posted on IRS.gov during the next few weeks.

If you would like additional guidance on implementation of this new law, please call Goodman & Company, CPAs, **610-253-2745**.

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