

Tax relief for employers

To stimulate more private sector job growth, Congress has enacted the Hiring Incentives to Restore Employment Act. The new law offers employers two distinct tax breaks for hiring “qualified” employees in 2010. A qualified employee is one hired after February 3, 2010, and before January 1, 2011, for either full-time or part-time work. The new hire must have been unemployed for 60 days before being hired, “unemployed” defined as having worked for less than 40 hours during that period. The new hire must not displace an existing employee, unless the other employee separated from service voluntarily or for cause. Employees who are related to the employer are not eligible.

The first tax break is forgiveness of the 6.2% Social Security tax for 2010. Note that Medicare taxes continue to apply, and the employee’s share of these taxes is not affected. The employee’s future Social Security benefits are also unaffected. An amount equal to the uncollected Social Security taxes will be transferred from the general fund to the Social Security trust funds.

The maximum tax break comes to \$6,621.60 per employee. Because the payment of these taxes is deductible, the maximum net tax benefit comes to \$4,304 for a top-bracket employer. However, few new employees are likely to earn more than the \$106,800 Social Security wage base in 2010. The sooner the employee is hired, the larger the tax benefit.

If the employee is retained for 52 weeks, the second tax break kicks in, a \$1,000 tax credit. Employment must be for 52 consecutive weeks, and the compensation for the last 26 weeks must be at least 80% of the compensation for the first 26 weeks. The rule prevents manipulation of the credit.

The Congressional Budget Office estimated that these tax changes will reduce revenue by \$13 billion. That implies that more than 5 million 2010 hires will qualify for this tax treatment.

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