

HIRE Act Employs Three New Tax Breaks

The new Hiring Incentives to Restore Employment (HIRE) Act—signed into law on March 18, 2010—features three new tax breaks for employers. It creates a tax incentive for hiring workers who are currently unemployed, adds a new tax credit for retaining previously unemployed workers and extends enhanced tax benefits of Section 179 “expensing.” Here are the details.

1. Payroll tax forgiveness: Under the new law, employers are exempted from the usual 6.2% Social Security tax they are required to pay on wages of qualified employees. This exemption covers wages paid to employees from March 19, 2010, through December 31, 2010. Note: For 2010, the 6.2% tax applies to the first \$106,800 of wages paid to an employee (the same as 2009).

A “qualified employee” is defined as someone who begins work for the employer after February 3, 2010, and before January 1, 2011. The employee cannot have worked more than 40 hours during the previous 60 days. The 60-day period ends on the worker’s start date. The IRS has created a new form for claiming the exemption.

The exemption is available for both part-time and full-time workers. But no exemption is allowed for a worker who is related to the employer or owns more than 50% of the business.

2. Retained worker credits: The new law also allows an employer to claim a tax credit for keeping qualified workers employed for at least 52 consecutive weeks. The credit is equal to the lesser of \$1,000 or 6.2% of the employee’s wages paid during this time. Note: A retained worker must be paid an amount equal to at least 80% of the first 26 weeks of wages paid during the last 26 weeks of the 52-week period.

3. Section 179 deduction: Under Section 179, an employer may currently deduct, or “expense,” the cost of qualified business property placed in service during the year, up to a specified limit. The deduction is reduced on a dollar-for-dollar basis if the cost of the property exceeds an annual threshold.

Recent tax laws have increased these amounts. For 2009, an employer could expense up to \$250,000 of the cost of business property. This maximum deduction was reduced if property placed in service exceeded \$800,000. However, without any legislation, the maximum deduction was scheduled to revert to \$134,000, with a phaseout threshold of \$530,000.

The new law continues the higher figures through 2010. In addition, it preserves the Section 179 deduction for off-the-shelf software. Note: The new law did not extend "bonus depreciation" deductions that had previously accompanied Section 179 enhancements.

In summary: The HIRE Act presents new tax-saving opportunities for employers. Seek professional assistance to maximize the tax benefits.