

Important New Legislation that May Affect Your Business

On March 18, 2010, President Obama signed the new *Hiring Incentives to Restore Employment Act* (HIRE) into law. Among other things, this federal legislation creates brand new tax breaks for hiring and retaining unemployed workers, including a payroll tax holiday and a tax credit of up to \$1,000. Here are the details:

Payroll Tax Holiday – Normally, an employer is required to pay its share of Social Security taxes on wages earned by employees. For 2010, the portion of the tax is 6.2% on the first \$106,800 of wages. Under the HIRE act, employers who hire workers who have been unemployed for at least 60 days are excused from paying this 6.2% tax for those workers through the end of 2010. The workers need to have been hired after February 3, 2010 (the date the legislation was introduced), and only wages paid after March 19, 2010 (the date of the new law's enactment) receive this exemption from payroll taxes.

Example: If a qualified employee is hired between March 19 and December 31, 2010 and receives \$50,000 in wages in 2010, the employer saves \$3,100 (6.2% of \$50,000) in Social Security tax.

A “qualified employee” is one who:

- Begins work after February 3, 2010 and before January 1, 2011
- Has not been employed for more than 40 hours during the previous 60 days ending on their start date
- Was not hired to replace another employee unless the former employee separated from service voluntarily or for cause
- Is not related to the employer and does not own more than 50% of the business, either directly or indirectly

Qualified employees may be either full time or part time, and there is no minimum requirement for hours worked. The payroll tax forgiveness does not apply to the 1.45% Medicare portion of payroll taxes. Household employees cannot claim the new tax benefit.

Qualified employees must sign an affidavit, under penalties of perjury, certifying that they were unemployed during the 60 days before beginning work, or that they worked fewer than 40 hours for another employer during that period. The IRS is currently developing a form employees can use to make this required statement – when it's available, we will notify clients and post it on our website.



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The tax benefit of this new incentive is immediate. It puts money into a company's cash flow immediately, since the tax is simply not collected in the first place. The exemption officially begins with wages paid in the second calendar quarter of 2010. Employers entitled to tax relief for the first quarter 2010 will be credited against their Social Security liability for the second quarter.

If you are a Mize, Houser payroll client, we are adjusting our system to accommodate this payroll tax holiday. If you are not a Mize, Houser payroll client, please contact your payroll service to ensure they are preparing for this event.

Additional Income Tax Credit – In addition to the payroll tax holiday, an employer can claim an income tax credit if it retains a qualified worker for a minimum of 52 consecutive weeks. The credit is the lesser of \$1,000 or 6.2% of the employee's wages paid during the 52-week period. This means that if a qualified employee worked the 52 consecutive weeks and was paid at least \$16,129.03 during that period, the tax credit claimed by the employer would be the maximum \$1,000. This credit would be taken on the employer's 2011 tax return. In order to be eligible, the employee's pay in the second 26-week period must be at least 80% of their pay in the first 26-week period.

Other Information:

- If a worker qualifies both for this program as well as the Work Opportunity Tax Credit (WOTC), the employer must select one benefit or the other – no double dipping.
- The tax benefit generally applies only to private sector employers, including nonprofit organizations – public sector jobs are generally not eligible for either benefit.
- There is no minimum weekly number of hours a qualified employee must work, and there is no maximum on the dollar amount of payroll taxes per employer that can be forgiven.

If you have further questions, please give us a call at one of our offices below. And – did you know we send out an email newsletter every other week with important information like this? If you'd like to subscribe, please send your email address to mhco@mizehouser.com.