IS IT TIME TO HIRE?

New Law Offers Incentives to Add Workers

Thinking of hanging out the Help Wanted sign? Might be a good idea—and tax-wise too. The aptly named HIRE Act ("Hiring Incentives to Restore Employment") was signed into law in mid-March, making this an opportune time to increase personnel.

The HIRE Act creates two significant tax inducements designed to encourage companies to hire and retain unemployed workers: a Social Security tax exemption, and a tax credit for retaining newly hired employees.

BEEF UP YOUR WORKFORCE
EXEMPTION ON SOCIAL SECURITY TAX

The new law provides employers an exemption from their share of Social Security taxes attributable to any wages paid to a qualifying new employee after March 18, 2010, and before December 31, 2010. Since Social Security tax is imposed on employers at a rate of 6.2% on the initial $106,800 (for 2010) of wages paid to each employee, this exemption could provide a savings of up to $6,621 for each newly hired employee.

Private sector employers, taxable businesses, tax-exempt organizations, and public colleges and universities are eligible—however, government employers are not.

To qualify for the tax exemption, employers will need to make certain those they hire meet certain requirements. Specifically, new employees must:

- Certify they have been unemployed, or employed for less than 40 hours, during the 60 days immediately preceding their start of employment
- Commence employment after February 3, 2010, and before January 1, 2011
- Not replace an existing worker, unless that worker left the job voluntarily or was terminated for cause
- Be unrelated to the employer, and not own—directly or indirectly—more than 50% of the employing company

An employer who claims the Social Security tax exemption with respect to wages paid to a qualified employee in 2010 cannot claim the Work Opportunity Tax Credit (WOTC) for that same employee during the initial year of employment. Employers will want to compare the benefit of this Social Security tax exemption and WOTC, as the WOTC may provide a greater tax benefit for wages paid to lower-compensated workers.

It's important to note that the exemption does not eliminate an employer's liability for its share of Medicare tax on an employee's wages, nor that employee's share of Social Security and Medicare taxes.

KEEP UP THE GOOD WORK
TAX CREDIT FOR RETAINING EMPLOYEES

The HIRE Act also offers incentives to retain those new workers. For each qualified employee a company hires in 2010, that company is entitled to a non-refundable income tax credit for any tax year ending after March 18, 2010, in which these requirements are first satisfied:

- The qualified worker was employed by the company on any date during the tax year
- That same worker was employed by the company for 52 consecutive weeks
- During the last half of the 52-week period, the employee's wages were not less than 80% of the wages paid during the first half of that same period

The tax credit available to an employer for each qualified employee is equal to the lesser of $1,000 or 6.2% of each qualified employee's wages paid during the applicable 52-week period. Unused credits may be carried forward but cannot be carried back.

Ready to hire? If you would like to take advantage of the HIRE Act's incentives and need more information, please call us for some help. This could be a win-win for your company—and for a deserving job candidate as well.

Tax
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