

LONG ISLAND EARNED INCOME TAX CREDIT COALITION

The Health & Welfare
Council of Long Island



NEW TAX INCENTIVES IN THE HIRE ACT

The president signed the new Hiring Incentives to Restore Employment (HIRE) Act into law on March 18, 2010. This law features new tax breaks for hiring and retaining unemployed workers, an extension of the higher Section 179 deduction allowed for 2009 and an enhancement of the Build American Bonds program. Here are the particulars:

Unemployed workers: The new law "forgives" the 6.2% Social Security tax that employers must pay on the wages of qualified employees. This effective exemption covers wages paid to the workers for any period in 2010 from March 19, 2010, through December 31, 2010. The 6.2% tax applies to the first \$106,800 of wages paid to an employee in 2010.

For this purpose, a "qualified employee" is one who begins work for your company 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. Special transitional rules may apply to application of this tax break.

Note that the exemption may be claimed for part-time as well as full-time workers. But no exemption is available for a worker who is related to the employer or owns more than 50% of the business.

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

Section 179 deduction: Under Section 179, a business owner could currently deduct up to \$250,000 of qualified business assets placed in service in 2009. The maximum deduction was reduced if assets placed in service exceeded \$800,000. These figures were scheduled to decline for assets placed in service after 2009. For 2010, the maximum deduction drops to \$125,000 with a phase-out threshold of \$500,000 (both adjusted for inflation). The new law preserves the higher deduction and phase-out threshold for 2010. Also, off-the-shelf software continues to be eligible for the Section 179 deduction for one more year. But note that the HIRE Act does not extend "bonus depreciation" to business assets placed in service this year.

Tax credit bonds: The American Recovery and Reinvestment Act of 2009 (ARRA) authorized state and local governments to issue "Build America Bonds." To enhance the program, the new law allows issuers of qualified tax credit bonds to receive direct payment from the federal government equal to the tax credit. The tax credit bonds include new clean renewable-energy bonds, qualified energy conservation bonds, qualified zone academy bonds and qualified school construction bonds.

The new HIRE Act did not address other tax "extenders" or alternative minimum tax relief. More legislation may be forthcoming.

June 2010

Source: <http://www.ratafia.com/taxtips.html>