

HIRE Act – Employers Motivated By Tax Breaks to Hire Quickly

A new law provides tax breaks and credits to eligible employers for certain new hires. Legislation known as the Hiring Incentives to Restore Employment (HIRE) Act of 2010 was signed into law March 18, 2010. HIRE provides payroll tax breaks and business tax incentives for employers hiring unemployed workers in 2010. The law is structured to motivate employers to move quickly to take full advantage of its provisions.

The law provides two primary tax benefits to employers for the hiring of “qualifying” new employees in 2010.

Payroll Tax Exemption for 2010. Employers are eligible for a payroll tax incentive for qualifying new employees hired. Employers do not have to pay the 6.2% employer portion of social security tax for these new hires during 2010.

The tax incentive will not affect the employee’s future Social Security earnings. An employer must still withhold and remit the employee’s 6.2% portion of Social Security, income taxes, and the employer and employee’s medicare taxes.

General Business Tax Credit for Retained Workers. Employers may be able to claim a general business tax credit up to \$1,000 for each qualifying employee hired. The employee must remain employed with the company for a full year (52 consecutive weeks). The credit may be taken against the employer’s 2011 taxes. The retained worker must have been paid during the last 26 weeks (of this 52 week period) an amount that is equal to at least 80 percent of pay for the first 26 weeks.

“Qualifying” New Hire. New hires qualify for these tax incentives if hired after February 3, 2010, and before January 1, 2011, and if they have been unemployed for at least sixty days prior to being hired or have worked fewer than forty hours for another employer during the previous sixty days. Employers are required to obtain a signed verification statement of qualification from new hires. The IRS is developing a form for this purpose.

While these tax benefits are focused on new positions added to an employer’s payroll, a new hire filling an existing position will qualify if replacing an employee who left voluntarily or was terminated for cause. New workers who make more than the \$106,500 social security wage base are not eligible, nor are family members of the employer. Household workers are also ineligible.

The HIRE Act is intended to motivate employers to create sustained jobs. The bill was promoted as potentially creating 250,000 jobs and providing \$18 million in tax incentives. Nonprofit employers should consider whether they can benefit from HIRE’s tax incentives.

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