

Hiring Incentives to Restore Employment Act

On March 17 Congress passed The Hiring Incentives to Restore Employment (HIRE) Act. The HIRE Act, aimed at building jobs, was signed into law by President Obama on March 18. Below are the major focuses of the HIRE Act.

Temporary Relief from Certain Payroll Taxes

Qualified employers will be exempt from paying the Old Age, Survivors and Disability Insurance (OASDI) portion of Social Security taxes for certain new workers from the date of the enactment of the HIRE Act through December 2010. The relief is only for the employer's portion of these taxes, not the employee's portion. All employers are qualified employers for this purpose except for governmental entities. However, state colleges and universities are included in the qualified employer category.

- OASDI Taxes - An employer normally pays 6.2% of a worker's salary, up to a wage cap, in OASDI tax. The wage cap for 2010 is \$106,800. The tax is deductible for the employer and therefore, relief from the tax will have a smaller savings after tax.
- Qualified Workers - A qualified worker must begin employment with a qualified employer after February 3, 2010 and before January 1, 2011. He or she must not have been employed more than 40 hours during the 60 days ending on the date employment begins with the qualified employer. The employee may be full-time or part-time. Workers that have previously been laid off may be rehired and still qualify. However, a qualified employee cannot displace a current employee unless that employee left voluntarily or for cause. Additionally, there are certain limits on employees related to the employer or its owners.
- Coordination with Work Opportunity Tax Credit - Wages for which the employer has relief from payroll taxes cannot also be used for the Work Opportunity Tax Credit. The employer can however, elect out of payroll tax forgiveness.

Tax Credit for Retained Workers

If these qualified workers continue to work for the qualified employer for 52 consecutive weeks, that employer may also be eligible for a tax credit. The credit would be the lesser of \$1,000 or 6.2% of the wages paid by the employer to the worker during the 52 week period. In addition, the retained worker must be paid an amount in the last 26 weeks of the period equal to at least 80% of his or her wages during the first 26 weeks of the 52 week period. For businesses with a calendar year end, this credit will be taken on the 2011 tax return.

Higher Expensing Levels for Business Property Extended

For tax years beginning in 2008 and 2009 businesses have been able to expense their first \$250,000 of qualified property purchases under Internal Revenue Code Section 179. The ability to expense this property under Section 179 began to phase out when qualifying purchases reached \$800,000. This higher expensing level previously expired for tax years beginning after 2009. The HIRE Act has now extended this enhanced Section 179 expensing level through tax years beginning in 2010.

Build America Bonds

The HIRE Act allows issuers of certain bonds to elect to receive a direct payment from the federal government equal to the amount of the federal tax credit that would otherwise be provided. Eligible bonds include renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds and qualified school construction bonds.

Disclosure and Reporting for Foreign Accounts

The HIRE Act requires foreign financial institutions to adhere to heightened reporting and disclosure rules. Included in these reporting requirements would be to provide the name, address and taxpayer identification number of each account holder who is a specified U.S. person. Also the foreign financial institution would be required to report the account number, account balance and gross withdrawals from the account. However, accounts held by an individual within the same financial institution with an aggregate value of not more than \$50,000 are excluded from the requirement. Publicly-traded corporations and exempt organizations are also excluded from the heightened reporting and disclosure requirements. Withholding agents will be required to withhold 30% of any withholdable payment to a foreign financial institution that does not agree to comply with the new reporting requirements. On the other side, the HIRE Act requires qualified individuals to report any interest in a specified foreign financial asset. Again the disclosure is excluded for foreign financial assets for which the aggregate value does not exceed \$50,000. The minimum penalty for failure to meet the reporting requirements is \$10,000.

For more information, contact Joyce Waterbury at 919.301.6715.

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