



### **Tax Breaks for New Hires**

*By Richard M. Ornstein, CPA*



Two new tax benefits are now available to employers hiring workers who were previously unemployed or only working part time. These provisions are part of the recently enacted Hiring Incentives to Restore Employment (HIRE) Act.

Employers who hire unemployed workers before Jan. 1, 2011 may qualify for a 6.2-percent payroll tax incentive, in effect exempting them from their share of Social Security taxes on wages paid to these workers after March 18, 2010. This reduced tax withholding will have no effect on the employee's future Social Security benefits, and employers would still need to withhold the employee's 6.2-percent share of Social Security taxes, as well as income taxes. The employer and employee's shares of Medicare taxes would still apply to these wages.

Alternatively, for each worker retained for at least a year, businesses may be eligible to claim a general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns.

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These tax breaks offer a boost to employers willing to expand their payrolls. Businesses and nonprofits should keep these benefits in mind as they plan for the year ahead.

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The two tax benefits are especially helpful to employers who are adding positions to their payrolls. New hires filling existing positions also qualify but only if the workers they are replacing left voluntarily or for cause. Family members and other relatives do not qualify.

In addition, the new law requires that the employer get a signed statement from each eligible new hire certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked less than a total of 40 hours for someone else during the 60-day period. Employers will need to provide Form W-11(Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit) to each eligible employee, and employers will need to keep the completed form in their files.

Businesses, agricultural employers, tax-exempt organizations and public colleges and universities all qualify to claim the payroll tax benefit for eligible newly-hired employees. Household employers cannot claim this new tax benefit.

Employers claim the payroll tax benefit on the federal employment tax return they file, usually quarterly, with the IRS. Eligible employers will be able to claim the new tax incentive on their revised employment tax form beginning with the second quarter of 2010. There are a number of tax credits for which your business may be eligible. Contact a tax professional today to assist you in determining how much you might save through these credits.

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