Client Alert

An informational newsletter from **Tonneson + Co**

Business tax changes in the 2010 HIRE Act

Below is an overview of the key tax changes affecting business in the recently enacted Hiring Incentives to Restore Employment (HIRE) Act.

Extension of enhanced small business expensing (Section 179).

The new law gives a one-year lease on life to enhanced expensing rules, which allow qualifying businesses the option to currently deduct the cost of business machinery and equipment, instead of recovering it via depreciation over a number of years. For tax years beginning in 2010, the maximum amount that a business may expense is $250,000, and the expensing election begins to phase out when a business buys more than $800,000 of expensing-eligible assets. These dollar limits are the same as those that were in effect for 2008 and 2009.

Payroll tax holiday and up-to-$1,000 credit for employers who hire unemployed workers.

To help stimulate the hiring of workers by the private sector, the new law exempts any private-sector employer that hires a worker who had been unemployed for at least 60 days from having to pay the employer's 6.2% share of the Social Security payroll tax on that employee for the remainder of 2010. A company could save up to a maximum of $6,621. As an additional incentive, for any qualifying worker hired under this initiative that is on the payroll for a continuous 52 weeks, the employer is eligible for an additional non-refundable tax credit of up to $1,000 after the 52-week threshold is reached, to be taken on their 2011 tax return. Workers hired after the date of introduction of the legislation (Feb. 3, 2010) are eligible for the payroll tax forgiveness and the retention bonus, but only wages paid after the date of the new law's enactment receive the exemption for payroll taxes.

Here are some additional features of the new hiring incentive:

- The tax benefit of the new incentive is immediate. It puts money into a business' cash flow immediately, since the tax is simply not collected in the first place.
- The tax benefit generally applies only to private-sector employment, including nonprofit organizations.
- There is no minimum weekly number of hours that the new employee must work and there is no maximum on the dollar amount of payroll taxes per employer that may be forgiven.
- For workers that would otherwise be eligible for the “Work Opportunity Tax Credit,” the employer must select one benefit or the other for 2010—no double dipping.
- An employer can't claim the new tax breaks for hiring family members.
- A worker who replaces another employee who performed the same job for the employer is not eligible for the benefit, unless the prior employee left the job voluntarily or for cause.
- The new hire must sign an affidavit stating that he or she has not been employed for more than 40 hours during the 60-day period prior to the date the employment begins.
- The incentive is not biased towards either low-wage or high-wage workers.
- The credit for retaining qualifying new hires is the lesser of $1,000 or 6.2% of the wages paid by the taxpayer to the retained worker during the 52-consecutive-week period.

Please contact your tax professional at Tonneson + Co. if you would like more details about these provisions or any other aspect of the new law.

tonneson + co
Certified Public Accountants & Consultants

401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com