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## **PAYROLL TAX HOLIDAY & \$1,000 CREDIT FOR HIRING UNEMPLOYED WORKERS**

By Victor Sy, CPA

President Obama signed on March 18, 2010 the “**Hiring Incentives to Restore Employment Act of 2010**,” the centerpiece of which is a **payroll tax holiday** and a \$1,000 tax credit for businesses that **hire unemployed** workers.

**Payroll Tax Forgiveness:** To help stimulate the hiring of workers by the private sector, the new law exempts any 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 through 12/31/10. A company could save a maximum of \$6,621.

**Retention Bonus:** The employer also gets an **additional non-refundable tax credit of up to \$1,000** for keeping the worker for 52 weeks.

- **Effective Date:** Workers hired after February 3, 2010.
- The tax benefit of the new incentive is **immediate**. It puts money into a business' cash flow immediately, since the tax is not collected in the first place.
- The tax benefit applies only to **private-sector** employment, including nonprofit organizations.
- There is **no minimum weekly number of hours** that the new employee must work for the employer. There is **no maximum on 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 (not both) for 2010.
- An employer can't claim the new tax breaks for **hiring family members (child, grandchild, stepchild, sibling, stepbrother or stepsister, parent or stepparent, niece or nephew, uncle or aunt, or in-laws)**.
- 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**, under penalties of perjury, stating that he /she has **not been employed for more than 40 hours during the 60-day period** ending on the date the employment begins.
- The incentive works for both low-wage and high-wage workers. A business saves 6.2% on both a \$10,000 and \$60,000 per year workers.
- The payroll tax holiday does not apply to wages paid during the **first calendar quarter of 2010**. This gives the IRS time to issue guidance about the payroll tax holiday and gives employers time to adjust their payroll systems accordingly. TIP: Claim the amount of first-quarter wages that would have been forgiven as **a credit for the second quarter** of 2010.
- The credit for **retaining** qualifying new hires is the lesser of **\$1,000 or 6.2%** of the wages paid during the 52-consecutive-week period. Thus, the credit for a retained worker will be \$1,000 during the 52-consecutive-week period for wages up to \$16,129. The 52- weeks ends in 2011 so take the credit on your **2011** tax return.
- The payroll tax holiday **applies only to the 6.2% OASDI** portion of the employer's tax. It **doesn't apply to the 1.45% Medicare** portion of the employer's tax, nor to any part of the **employee's tax**. It also **doesn't affect the self-employment tax paid by self-employed individuals**.