



GILLAM & ZETZL, INC.

Certified Public Accountants

HIRE Act: Incentives to Hire and Retain the Unemployed

Dear Client:

In an effort to confront high unemployment, the Hiring Incentives to Restore Employment (HIRE) Act provides incentives for hiring and retaining unemployed workers. Under the HIRE Act, a qualified employer's 6.2 percent share of OASDI Social Security tax liability is forgiven for new hires, and a general business credit is allowed for each retained worker that satisfies a minimum employment period.

Payroll Tax Forgiveness for Hiring Unemployed Workers. The HIRE Act provides relief from the employer share of OASDI taxes paid by a qualified employer with respect to certain covered employment. Covered employment is limited to service performed by a qualified individual in a trade or business of a qualified employer, or in the furtherance of the activities related to the purpose or function constituting the basis of the employer's exemption under Code Sec. 501. This provision applies to wages paid beginning on the day after enactment and ending on December 31, 2010.

Although a qualified employer does not include the United States, any State, any local government, or any instrumentality thereof, a qualified employer may include a public higher education institution.

A qualified individual is any individual who:

1. begins work for a qualified employer after February 3, 2010, and before January 1, 2011;
2. certifies by signed affidavit (under penalties of perjury) that he or she was employed for a total of 40 hours or less during the 60-day period ending on the date such employment begins (an example affidavit is attached to this letter);
3. is not employed to replace another employee of the employer unless such employee separated from employment voluntarily or for cause; and
4. is not a related party.

Employers who qualify for the OASDI forgiveness in the first quarter of 2010 will receive the benefit through a credit toward general second quarter 2010 OASDI liability; they can't simply stop paying the 6.2 percent OASDI tax immediately on wages paid to new hires. After the First quarter, however, the employer does not pay the 6.2 percent tax as wages are paid.

A qualified employer may not receive the work opportunity tax credit on wages paid to an individual during the one-year period beginning on the hire date for the same wages used to qualify for the forgiveness of payroll tax. However, an employer may elect to not have payroll tax forgiveness apply.

Business Credit for Retention of Certain Newly Hired Individuals. Under the HIRE Act, an employer's general business credit is increased by the lesser of \$1,000 or 6.2 percent of salary for each retained worker that satisfies a minimum employment period. Generally, a retained worker is an individual who is a qualified individual as defined for purposes of the provision for payroll tax forgiveness. However, the credit is available only with respect to such individual, if the individual:

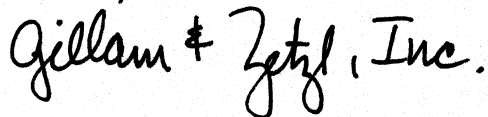
1. is employed by the employer on any date during the tax year;
2. continues to be employed by the employer for a period of not less than 52 consecutive weeks; and
3. receives wages for such employment during the last 26 weeks of such period that are at least 80-percent of such wages during the first 26 weeks of such period.

Therefore, an employer will qualify for the full \$1,000 credit for each new hire with a salary over the 52 week retention period of at least \$16,129. An employer that hires some part-time new employees, in addition to full-time employees, is entitled to the full \$1,000 credit, if, of course, the part-time or full-time employee decides to stay for 52 weeks.

Because payroll taxes are deductible as an ordinary and necessary business expense, employers may have a correspondingly smaller business expense deduction on their 2010 tax returns. By combining the benefit of the business credit for new hires with the forgiveness incentive, employers in the highest brackets will realize a net tax benefit of just over four percent of wages paid to qualified new employees, up to the \$106,800 social security maximum wage base. Therefore, for the maximum \$6,622 tax forgiveness for a new hire, a net benefit of approximately \$4,304 would be realized.

If you have any questions regarding the hiring incentives under the HIRE Act, please call our office at your earliest convenience. Details may also be found at our website: www.gillamzetzl.com.

Yours truly,



Gillam & Zetzl, Inc.