

**New Payroll Tax Benefits in 2010 and 2011**  
**Payroll Tax Exemption and New Hire Retention Credit**

The HIRE Act (signed into law on March 18, 2010) contains two new tax benefits available to employers who hire certain previously-unemployed workers:

**Payroll Tax Exemption (2010 payroll returns)** –Employers get an exemption from their share of social security taxes on wages paid to qualifying employees from 3/19/10 through 12/31/10.

**New Hire Retention Credit (2011 income returns)** – General business credit of up to \$1,000 for each qualified employee retained for at least 52 consecutive weeks.

Qualified Employee:

- Employee began employment with qualified employer after 2/3/10 and before 12/31/10 (but wages considered only after 3/18/10), and
- Employee was not employed for more than 40 hours during the 60-day period ending on the date that qualified employment began, and
- Employee is not employed by qualified employer to replace another employee unless the other employee voluntarily separated from employment or was terminated for cause (lack of work due to economy is reasonable cause), and
- Employee is not a family member or related in certain other ways to employer.

Employee let go due to reduced workload can be rehired as qualified employee if they meet the above conditions.

Qualified employee must sign affidavit, under penalties of perjury (Form 11 or facsimile). Employer must make inquiry of employee hired during eligible dates; employee is responsible for giving correct prior employment history and signing form.

Qualified Employer – all but household employers and government employers qualify for these benefits.

**Benefit:** Employer's share of qualified employee's social security tax (6.2% match) reduces payroll tax liability on Line 6c/d of Form 941. The employee portion must still be withheld and remitted. Employer still pays full Medicare portion of taxes.

**New Hire Retention Credit** (Form 5884-B) will be available for 2011 returns. The credit is the lesser of \$1,000 or 6.2% of wages paid by the employer to the qualified employee during the consecutive 52-week period. However, the credit is contingent on the employee's pay during the second half of the 52-week period being at least 80% of the pay during the first half. Salaries exceeding \$16,129 over the 52 weeks will qualify for the \$1,000 maximum credit.

**Immediate Employer Action Steps:**

- Track qualified employees 2010 start dates and 52 week credit trigger date in 2011
- Obtain affidavits from qualified employees
- Amend applicable 2010 quarterly payroll returns (only 2Q-4Q; short 1Q exemptions reported on 2Q return, Line 12d/e)