

Accountability

Business and Individual Tax Updates



June 2010

President's Message

Summer has finally arrived! It goes quickly so take advantage of this beautiful weather while you can.

Speaking of going quickly, there are two topics in this newsletter you may also want to take advantage of while you can. First, many of you asked about converting Traditional IRA's into Roth's with the new federal law changes but were discouraged because the State of Wisconsin was not on board. Now, as of March, that has changed. Second, for those of you with employees, the HIRE Act has given plenty of incentive to hire new employees if you have the opportunity to do so this year. Read on for more details and remember to enjoy the summer!

Julie A Huth

Update for Businesses

Hiring Incentive to Restore Employment Act (HIRE)

President Obama signed an interesting Act on March 18 of this year; it is called the Hiring Incentive to

Restore Employment Act (**HIRE**). This Act includes a special payroll exemption and a "new hire retention credit" for employers; both apply to newly hired qualified employees.

Who is a "hired qualified employee"?

- A person (no age requirement) who has not been employed for more than 40 hours during the prior 60 days before hire (the 60 days must be continuous).
- This person must sign Form W-11 or a similar Affidavit (under penalties of perjury) stating the following: "I certify that I have been unemployed or have not worked for anyone for more than 40 hours during the 60-day period ending on the date I began employment with this employer. Under penalties of perjury, I declare that I have examined this affidavit and, to the best of my knowledge and belief, it is true, correct and complete".

The employer cannot claim the social security tax exemption (described later in this newsletter) until the affidavit is signed. The affidavit does not have to be notarized or sent to the IRS but available with the employer's records.

- The hiring must occur after February 3, 2010 and before January 1, 2011. Please note, the qualified hiring date is February 3, 2010, but wages are not exempt until **March 18, 2010**, the date the bill was signed.
- The qualified person cannot be related to the employer, this includes in-laws or anyone related to a 50% stock holder
- The reason for hiring cannot be to replace another person who was terminated without cause. It is OK to replace someone who left voluntarily or with cause (downsizing). Also, a qualified employee can be a worker that was laid

off and rehired, as long as they have not worked more than 40 hours during the previous 60 day period before rehire.

What is the special payroll deduction?

The **employer** is exempt from paying their 6.2% share of social security (payroll tax) on the wages paid to the qualified worker. However, Medicare payroll tax is not exempt.

Starting March 18, 2010, this exemption can be claimed for the wages earned by the qualified worker hired February 3, 2010 thru December 31, 2010. Keep in mind, this exemption does not include the employee's 6.2% share of social security tax, so the employee's paycheck will be the same and the exemption will not affect future social security benefits.

The employer will claim the deduction on their quarterly 941 filings with the IRS. A new form 941 with lines to claim the exemption is now available, you can view it at www.irs.gov.

For those hired, there is not a set number of hours or weeks that they have to work in order to receive the payroll tax exemption.

What is the "new hire retention credit?"

In addition to the special payroll deduction, if the qualified employee is **retained for at least one year**, the employer (business) may claim a new hire retention credit of up to \$1000 on their 2011 tax return.

A few other important items regarding HIRE...

Certain businesses are not eligible for the payroll exemption or credit. Household employers and federal, state, and local government employers (but not colleges and universities) are not eligible.

Also, employers must be careful with their 941 filings. The employer cannot claim the exemption until the signed affidavit is received from the qualified employee. If the signed W-11 or similar affidavit is received after the 941 is filed and wages were paid, the employer has to fill out a corrected 941 to claim the exemption.

Depending on the situation, there are a lot of questions that can arise about this special payroll deduction for employers. For more information, go to the IRS

website at www.irs.gov; search "HIRE". Various fact sheets under "Hire Act: Questions and Answers for Employers" are very helpful.

Update for Individuals

2010 Roth IRA conversion: Wisconsin now has the same rules as the IRS

For tax year 2010, all taxpayers can convert traditional IRA's into Roth IRA's and avoid the 10% penalty on the conversion amount for both federal and state purposes.

In previous years, not everyone could convert to a Roth IRA due to income limitations.

Keep in mind, tax is due on the conversion amount and this tax is based on your tax bracket. Wisconsin is joining the IRS by allowing the tax due to be paid entirely on their 2010 tax return; or postpone payment until the filing of the 2011 and 2012 tax return.

If you like more details, please call our office and we would happy to help you.

Extension on Individual Tax Incentives

This July, the Senate is expected to pass a House bill which extends until December 31, 2010 the following deductions: additional standard deduction for property taxes; the state sales tax deduction for those who do not deduct state income tax; the higher education (college) tuition deduction (\$2000 - \$4000) and the teacher's classroom expense deduction (\$250). We will have more information in our next newsletter to confirm that this did pass!

Important Reminders for 2010

Social Security: Wages up to \$106,800 are subject to social security. Medicare does not have a limit.

Mileage Rates per mile:

2010

Business...	50.0 cents
Medical ...	16.5 cents
Charity...	14.0 cents
Moving....	16.5 cents

Health Savings Accounts:

Maximum deductible contribution 2010:

Individual...\$3050 Family...\$6150