

Titus Tax Alert

Senate Passes \$17.6 Billion Jobs Bill; President Obama Signs Bill into Law, Indicates More Must be Done

March 22, 2010

On Wednesday March 17, 2010, the Senate overwhelmingly approved by a vote of 68-29 a \$17.6 billion job creation bill (H.R. 2847), known as the Hiring Incentives to Restore Employment (HIRE) Act, which includes tax breaks for businesses that hire and retain employees. The Senate first approved the jobs creation bill on February 24th, and the House passed a modified version of the measure on March 4, 2010 by a vote of 217 – 201. The House added two provisions to pay for the infrastructure spending and corporate tax breaks. Specifically, the House amendments altered the Senate version as follows: (1) the bill makes technical corrections to improve the effectiveness and administration of incentives for hiring and retaining new employees, and extends these benefits to businesses in U.S. territories and possessions; (2) the bill restores the full value of the direct payment option for certain tax credit bond programs; (3) the bill delays the effective date of the worldwide allocation of interest provision for an additional year (through 2020) to ensure that the cost of the bill is fully offset. The House amendments offset approximately \$2 billion of the bill’s cost over 10 years, which prevented a waiver of the PAYGO rules. Because the House amended the latest Senate version of the bill, it essentially meant the Senate had to approve the measure with no further changes to expedite the enactment of the provision into law. On Wednesday, the Senate passed the House version, which moved the bill to President Obama for his signature.

On Thursday March 18, 2010 President Obama signed the HIRE bill into law. Obama indicated that the measure will help the private sector start hiring again, but also stated that this action is “by no means enough.” The legislation and the Ways and Means Committee summary of the Act are linked below.

The centerpiece of the bill is a \$1,000 hiring and retention income tax credit and a payroll tax holiday that account for \$13 billion of the nearly \$18 billion cost associated with the bill. These provisions are designed to encourage businesses to hire workers who have been unemployed for at least 60 days. The tax break for new hires was originally crafted by Sens. Chuck Schumer, D-N.Y, and Orrin Hatch, R-Utah.

Further specifics included in the 4-prong bill are delineated below:

- A \$13 billion program that would exempt employers from paying their 6.25 percent of Social Security payroll taxes for the remainder of 2010 for each worker hired after February 3, 2010 and before January 1, 2011, and who has been unemployed for at least 60 days. If the employee is still on the payroll after 52

weeks and could be claimed on the employer's 2011 tax return, the business owner would receive an additional tax credit of the lesser of \$1,000 or 6.2% of the wages paid to the employee in 2010. Affected employees still would be required to pay their portion of Social Security taxes. This tax break could save companies a maximum of \$6,621 or 6.2 percent of total wages paid in 2010 up to the \$106,800 FICA wage cap;

Example: Assume employer hires 100 individuals on April 1, 2010 who are paid an average salary of \$50,000 and who also meet the requirements above. Under this scenario, potential tax savings to the employer under the proposed legislation may total \$234,375 of payroll taxes (100 x \$50,000 x 9/12 x 6.25%) as well as \$100,000 (100 x \$1,000) in tax credits.

- The bill extends the 2008 and 2009 expensing thresholds under section 179, thereby allowing taxpayers (mainly small businesses) to elect to expense up to \$250,000 of certain capital expenditures for equipment (subject to a phase out once the expenditures exceed \$800,000) in 2010 in lieu of depreciating those costs over their useful lives. This provision is designed to help small businesses grow and to provide an incentive for companies to purchase vehicles and machinery in 2010;
- The bill contains a one-year reauthorization of the Highway Trust Fund, which is a federal subsidy for road and bridge repairs and transit programs carried out at the state level (i.e., the provision would be extended through 2010); and
- The Build America Bonds program would be modestly expanded to allow states and municipalities to borrow at lower costs to finance additional infrastructure projects through a federal government subsidy.

Comments

Much larger job stimulus bills (\$150 billion Senate bill and \$140 billion House bill) are still on the horizon, which would extend unemployment insurance and COBRA coverage as well as a multitude of expired tax provisions, and also would provide funding to the states to help meet their Medicaid obligations. Even more jobs bills are being formulated, and the debate continues as to the best way to create jobs through government spending.

- To see the House Ways and Means Committee Summary, click [here](#).
- To see the entire bill, click [here](#).

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