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Much has changed in the alternative universe of tax law since we last visited. Passage of the Hiring Incentives to Restore Employment Act (HIRE) and two major health care acts insures we'll all be trying to figure out what the new laws mean. Let's look at the HIRE Act first and then turn our attention to the much more complex health care reform legislation

HIRE ACT

This new law seeks to encourage businesses to hire unemployed workers by offering significant tax incentives.

◆ **Payroll Tax Relief:** Most employers hiring certain unemployed individuals will be exempt from the employer's 6.2% social security tax on wages. . .eligible individuals must begin work after February 3, 2010 and before January 1, 2011. . .they are also required to assert in writing that they have not worked more than 40 hours in the 60 days immediately preceding employment. . .individuals related to the employer are not eligible; neither are employees who replace other employees, unless the latter leave voluntarily or are terminated for cause.

◆ **Tax Credit for Retaining New Employees:** The Act allows a tax credit of up to \$1,000 for employers who keep these new workers employed. . .eligible employees are those who are employed for 52 consecutive weeks. . .the amount of the credit will be \$1,000 for each employee earning more than \$16,129 during that period.

◆ **Expensing Limits Extended:** The Act also increases amounts paid for fixed assets which can be immediately deducted. . .these business assets—computers, equipment, cars, etc.—would ordinarily be deducted over several years. . .for 2010 businesses may immediately deduct up to \$250,000 for equipment costs, provided they purchase less than \$800,000 of these fixed assets.

Health Care and Reconciliation Acts

Much more sweeping than the HIRE Act, these new laws begin to change the way health care is delivered in this country. The legislation deeply divided congressional Republicans and Democrats, as the final votes were highly partisan. But whether or not you supported passage, it's now the law of the land. Some provisions take effect immediately; others are delayed for several years. Among the most noteworthy:

◆ **Small Business Tax Credit:** Effective at once, businesses with fewer than 25 employees may be eligible for a credit of up to 35% of the cost of employee health insurance premiums. . .the employer must pay at least half of the employee's individual premiums. . .the amount of the credit is reduced for employers paying average wages over \$25,000. . .the maximum credit increases to 50% by 2014.

◆ **Other Immediate Changes:** Insurers can no longer limit lifetime benefits. . .children with preexisting conditions can't be denied coverage (the same will become true for adults in future

years; in the meantime, uninsured adults with preexisting conditions can buy subsidized health insurance). . . children without access to employer insurance can stay on a parent's policy until age 26. . . Medicare recipients will receive a \$250 rebate after the first \$2,830 they spend on prescription drugs.

◆ **Coming Soon:** State and regional insurance "exchanges" will offer standardized insurance plans. . . essential benefits will be offered in every such plan. . . premiums, co pays and deductibles will vary, but comparison shopping—primarily on the internet—is intended to be easy. . . many individuals and families purchasing medical insurance through the exchanges will be eligible for subsidies. . . some small businesses will also be eligible to purchase insurance through the exchanges.

◆ **So Who's Gonna Pay for All This?** Uninsured individuals will eventually face a new tax for failing to obtain health insurance. . . very expensive plans offered by employers will be hit with a new tax too. . . individuals earning more than \$200,000 annually and couples earning more than \$250,000 will pay an additional .9% on earned income and an extra 3.8% on unearned income. . . tax-free deferrals in medical flexible spending accounts will be limited to \$2,500 per year. . . there's also a new 10% excise tax on tanning salon visits.

Make no mistake, all of this is huge. It's expected that more than 30 million currently uninsured individuals will have health insurance by the time the law fully phases in. We can all expect many, many interesting developments along the way. Stay tuned for further details.

Other Tax Trivia

On to more mundane tax events.

◆ **Are They Coming After Me?** The Internal Revenue Service recently issued data on the statistical likelihood of being audited. . . roughly 1% of individual income tax returns were audited. . . more than a third of these were for returns with an earned income tax credit claim. . . almost 80 percent of individual audits were simple correspondence exams, with no face-to-face interaction between the taxpayer and the IRS. . . about 1.3% of C corporation returns were audited. . . the audit rate was less than one-half of one percent for S corporation and partnership returns.

◆ **How About Those Guys in the White House?** CNN reports that the Obamas paid \$1.8 million in federal income tax, on income of about \$5.5 million. . . they reported over \$300,000 in charitable contributions, not including the \$1.4 million Nobel Peace prize money Barack Obama donated to charity. . . the Bidens reported a more modest \$71,000 of taxes paid on income of about \$333,000.

With another tax season in the books, we look forward to resuming "normal" work schedules and having more time to enjoy with family, friends, and the great Oregon outdoors. Summer's just around the corner. We'll visit with you again after it arrives.