

■ LEGISLATION UPDATE

Significant legislation has been passed which will have a financial impact for many years to come. Our firm will be staying on top of all developments so that we can best maximize results under the new law for our clients. We hope the following information on the HIRE Act and Health Care Reform will be helpful when planning for yourself or your business.

■ HIRE Act

To help energize business hiring and spending, Congress has passed and President Obama has signed the Hiring Incentives to Restore Employment (HIRE) Act (H.R. 2847). The HIRE Act provides for payroll tax forgiveness and an employer tax credit of up to \$1,000 for qualified new hires. The HIRE Act also extends enhanced Code Sec. 179 small business expensing and makes some enhancements to tax credit bonds. These measures are paid for, in part, by comprehensive reforms to the reporting and disclosure of accounts in foreign financial institutions, a further delay in implementation of worldwide allocation of interest and an acceleration of certain corporate estimated income tax payments. The HIRE Act is expected to be the first of several targeted jobs bills to be passed by Congress in 2010.

Hiring Incentives. Under the HIRE Act, a qualified employer's 6.2% OASDI Social Security tax liability is forgiven for wages paid on previously unemployed new hires for any 2010 period starting after March 18, 2010 through December 31, 2010. A "qualified employee" must start work any time after February 3, 2010 and before January 1, 2011, and generally must have been unemployed for at least 60 days before his or her start date.

Retained Worker Business Credit. Under the HIRE Act, employers that hire new workers who qualify for payroll tax forgiveness may also be eligible for a tax credit for each qualified employee. For the employer to be entitled to this new credit, the qualified employee must be retained on the employer's payroll for 52 consecutive weeks. The business credit under Code Sec. 38 will be increased, with respect to each qualified retained worker, by the lesser of \$1,000 or 6.2% of wages paid by the taxpayer to the qualified retained worker during the 52 week period.

A qualified retained worker must be paid an amount equal to at least 80% of his first 26 weeks of wages during the last 26 weeks of the 52-week qualifying period. The HIRE Act excludes wages earned by a domestic worker or an individual eligible for the foreign earned income exclusion. The HIRE Act also includes carryback rules for the credit.

Please contact us if you have questions about whether or not your business qualifies for any of the tax incentives available under the HIRE Act.

Timeline of Health Care Reform Effective Dates (Details on Page Two)

2010

- Small Business Health Care Tax Credit
- Dependent Adult Child Coverage

2011

- Only Doctor Prescribed Medicines Covered by FSAs/HSAs
- Value of Employer Health Benefits on W-2

2013

- Medicare 0.9% Increase for \$200k/\$250k+ Wages
- 3.8% Tax on Net Investment Income of High Income Taxpayers
- 10% AGI Floor on Itemized Medical Expenses
- \$2,500 cap on FSAs

2014

- Individual Shared Responsibility Penalty
- Coverage Subsidies
- Large Employer Mandate – "Play-or-Pay"

2018

- 40% Excise Tax on High-Cost Insurance

■ Health Care Reform

Two New Laws. Health care reform is actually made up of two new laws: the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010. The Patient Protection Act was crafted largely in the Senate and sets out the general framework of health care reform. The Reconciliation Act was prepared in the House to modify the Patient Protection Act, especially in the areas of tax credits and cost sharing for individuals with the intent to make coverage more affordable.

A feature common to both laws is delayed effective dates for many of the provisions, which makes strategic planning even more important. The timeline of effective dates included in this newsletter provides a brief summary of all changes and their planned implementation dates.

■ Health Care Reform For Businesses

Small Employer Tax Credit. Beginning in 2010, the health care reform package provides a temporary sliding-scale small employer tax credit to help offset the cost of employer-provided coverage. Generally a qualified small employer is one with no more than 25 employees and average annual wages of no more than \$50,000. The qualified small employer must contribute at least one-half of the cost of health insurance premiums for coverage of its participating employees.

In 2010 through 2013, qualified small employers may qualify for a tax credit for up to 35% of their contribution toward the employee's health insurance premium. After 2013, small employers that purchase coverage through an insurance exchange may qualify for a credit for two years of up to 50% of their contribution. Salary reduction contributions are not counted.

Small employers with 10 or fewer employees and average annual wages of less than \$25,000 would be eligible for the full credit. The credit is reduced for small employers with 11 to 25 employees and annual wages of \$26,000 to \$50,000. The wage amounts are indexed for inflation.

■ Health Care Reform For Individuals

Broader Medicare Tax Base. Beginning in 2013, the health care reform package will broaden the Medicare tax base for higher-income taxpayers using the following two methods:

- Individuals who earn more than \$200,000 for the year (\$250,000 for married couples) will pay an additional 0.9% in Hospital Insurance (Medicare) tax starting in 2013;
- Individuals whose adjusted gross income for the year exceeds \$200,000 (\$250,000 for joint filers), whether from wages or otherwise, will pay an additional 3.8% Medicare tax on net investment income starting in 2013.

Consider Roth IRA's. We encourage clients who may be impacted by the Medicare tax base increase to consider making an IRA to Roth IRA conversion. The rules for an IRA to Roth IRA conversion are very complex. A significant number of tax and financial considerations come into play when determining whether to convert your traditional IRA, employer-sponsored 401(k), 403(b), profit-sharing plan or Roth 401(k) to a Roth IRA. Please contact us to determine if an IRA to Roth IRA conversion is right for you.

■ Baylis & Company Ready to Advise

We welcome the opportunity to advise you on all compliance rules and tax-reduction opportunities that undoubtedly will arise. In the meantime, if you have any questions about any of the new laws, please do not hesitate to call us.

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