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**Subject: Payroll Tax Changes – Be Ready!**

**Congress is increasingly using tax deductions, credits and exemptions, implemented through employer payroll systems, to stimulate job creation and deal with unemployment. Some recent actions and proposed laws are:**

**Cobra Subsidy Extension**

Employers subject to Cobra now must notify employees who are involuntarily terminated through March 31, 2010 of their legal rights to claim government subsidized Cobra health coverage. The original 65% Cobra subsidy program was scheduled to expire at the end of 2009. Look for this subsidy of health insurance coverage to be considered each month until unemployment is reduced.

**“Jobs For Main Street” Proposal**

Congress will soon pass legislation which will provide employers social security tax exemptions and Federal income tax credits if they hire unemployed workers. Employers must monitor 2 provisions which will directly affect payroll:

- ✓ One component will provide an exemption from social security tax to employers for their “employer match” of FICA taxes. This exemption will apply to new hires who sign an affidavit that they have not worked more than 40 hours during the previous 60 days. The employer will save payroll taxes equal to 6.2% of the new employee wages. This exemption will be effective for new hires after the date the law is enacted, and will last through the end of 2010; and
- ✓ The same workers who qualify for the “payroll tax holiday” will also entitle the employer to a \$1,000 Federal income tax credit if they are retained by the employer for at least 52 weeks. These income tax credits will be claimed on employers’ 2011 Federal tax returns, or will flow through to the owners of “S” corporations and LLC’s.

**INDIANA UNEMPLOYMENT TAXES**

As Indiana employers know, their Indiana unemployment tax wage base and tax rates were increased effective January 1, 2010. These taxes are not required to be paid until April.

The Indiana Legislature has been debating a proposal to delay the enactment of the new law until 2011, noting that the increased Indiana unemployment taxes will further erode the finances of most Hoosier employers.

Stay tuned on this one. The Indiana Legislature's adjournment deadline is March 14, and Governor Daniels is in favor of the delay if he is presented with a bill to sign.

### **What's all this Mean?**

Every employer's payroll system and tax structure must be prepared to implement quick changes in order to take advantage of likely near-term tax deductions, credits and exemptions.

AccuPay will be closely monitoring all of these tax proposals so that we can act promptly. Our "CPP/CPA service teams" specialize in income and payroll tax laws.

**Call us at 885-7600 regarding these or other payroll tax matters --- and don't forget that these proposed "new hire" tax savings are in addition to significant tax savings available through the "work opportunity tax credit (WOTC) " program!**

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.