

focus

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HIRE Act incentives require action by year end

If you're considering hiring new workers, you may want to do so soon. Why? To take advantage of two provisions of the Hiring Incentives to Restore Employment (HIRE) Act, which became law in March. These provisions provide incentives for hiring and retaining workers. But hires must be made by year end, and the sooner you make the hires, the more tax savings you can enjoy.

Payroll tax forgiveness

One of the act's most significant provisions is payroll tax forgiveness.

This essentially exempts qualified employers (generally employers other than government entities) from having to pay the 6.2% Social Security portion of Federal Insurance Contributions Act (FICA) taxes on certain new hires. However, the exemption applies only to wages paid to the employees between March 19 and Dec. 31, 2010. The employees must be hired after Feb. 3, 2010, and before Jan. 1, 2011.

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The HIRE Act's benefits aren't available to household employees or family members who are brought on as employees. But the act places no limit on the number of payroll tax exemptions an employer can claim.

To qualify for the exemption, new employees must not have worked for more than 40 hours in the 60 days before starting their new jobs.



In fact, they need to sign a statement certifying this under penalty of perjury. The IRS created Form W-11 for this purpose. You can create and use a similar form if you prefer.

Keep in mind that new hires don't need to have recently lost their jobs. You could hire a graduating student or a stay-at-home parent re-entering the workforce and qualify for the payroll tax exemption.

However, new employees can't fill existing positions unless the former employees left either voluntarily or for cause. In other words, you can't simply fire workers for no reason and then hire new employees to obtain the tax exemption. On the other hand, if you let go of an employee because the workload dropped, when sales pick up you can re-hire the former employee or bring on a new one and take advantage of the payroll tax exemption.

Your employees may be concerned that this exemption will negatively affect their future Social Security benefits. Assure them that the exemption doesn't affect these calculations. Also, you still need to withhold Social Security and Medicare payments from the employees you hire.

You claim the payroll tax exemption on Form 941.

Retention credit

The act also offers a retained worker tax credit. This is calculated as the lesser of 6.2% of the wages paid to a new worker in 2010 or \$1,000, as long as he or she remains on the job for at least 52 weeks.

To qualify for the retained worker credit, the employees must qualify for the payroll tax exemption and their salary during the second half of their year on the job must be at least 80% of their pay in the first half. Employees can be either full- or part-time.

Bear in mind that you can't take advantage of the tax benefits available through both the HIRE Act and the Work Opportunity credit. So if a new hire would qualify for either break, determine which one offers the greater benefit.

Deciding whether to hire

Even though the tax benefits available under the HIRE Act are valuable, by themselves they may not be enough to warrant bringing on new employees. Before adding to your staff, determine whether your company's cash flow is strong enough to reasonably support another employee. This requires forecasting your sales and expenses for at least the next year.

You'll also want to assess your company's goals. If you wish to expand your company's services, will you need employees, or can you turn to independent contractors? Even with the HIRE Act's benefits, using independent contractors may be more appropriate for your business. In addition, determine where in the organization a new employee would fit, the responsibilities he or she would assume and the goals he or she would be expected to achieve.

Section 179 expensing

The tax breaks provided by the Hiring Incentives to Restore Employment (HIRE) Act aren't related only to employment. The act also extends 2009's higher Section 179 expensing limits to 2010.

Sec. 179 expensing allows you to deduct the entire cost of qualified property you purchase and put into use during the tax year, rather than recovering the costs over time through a depreciation deduction.

Under the HIRE Act, for 2010 the expensing limit is \$250,000 (up from \$134,000). Your ability to expense begins to phase out, however, if your business buys more than \$800,000 (up from \$530,000) in qualified property during the tax year. Property that qualifies for the deduction includes machinery and equipment, livestock and off-the-shelf software. The property must be used for trade or business.



Take action soon

Even though unemployment rates remain high, the economy is beginning to show signs of recovery. If your company is in a position to hire new employees, you may want to do so before year end to qualify for the HIRE Act breaks. ♦

What's the right income tax withholding for you?

Each year, nearly three out of four taxpayers claim an income tax refund. The IRS reports that for 2009 the average refund was nearly \$3,000.

To be sure, receiving a check from the IRS for a few thousand dollars is nice. On the other hand, giving the government an interest-free loan for close to a year isn't the best use of your money. In fact, nearly 75% of respondents to a recent survey by the National Foundation for Credit Counseling said they'd prefer to keep their money and break even at tax time.

If you're like most people, adjusting your tax withholding is something that persistently slips to the bottom of your to-do list. However, it pays to periodically review the amounts you're having withheld.



Reasons to modify withholding amounts

You can modify your withholding at any time during the year, or even several times within a year. You'll especially want to check your withholding if:

- ◆ Last year you received a large tax refund, you owed more income tax than you could pay at once or the amount you owed was subject to a penalty.
- ◆ You've added a dependent, gotten married or divorced, or purchased a home.
- ◆ You've started or lost a job, or the amount of interest or capital gains you've earned has jumped or dropped significantly.

Whether you expect a big refund or anticipate having a large balance due, if you know what lies ahead for next April you can make better decisions today and avoid any unpleasant surprises down the road. Even if you haven't encountered any major life changes during the past year, changes in the tax laws may affect withholding levels, making it worthwhile to double-check your withholding.

You can modify your withholding at any time during the year.

How to change withholding amount

To determine whether it makes sense to change the amount withheld from your paycheck, crunch the numbers using the withholding calculator on the IRS Web site. (You can find the link at irs.gov/individuals.) In addition, IRS Publication 919, "How Do I Adjust My Tax Withholding?" contains information and worksheets to help you calculate

the amount of tax that should be withheld. Before taking action, however, seek the opinion of your tax advisor.

In general, to boost the amount withheld, you decrease the number of allowances you claim on your Form W-4. You can also enter an additional amount to withhold on the same form. Conversely, if you wish to reduce the amount that's being withheld, increase the number of allowances you claim. For most workers, changes typically will go into effect

several weeks after you turn in your new Form W-4.

Your money, your decision

In light of the tough economy, it's a safe bet that most people would rather receive more of their income throughout the year instead of giving Uncle Sam an interest-free loan on their hard-earned money. Contact your tax advisor to help you assess your financial situation and determine what your ideal withholding amount should be. ♦

Sibling vs. sibling

Managed effectively, sibling rivalry can benefit a family business

As long as their parents can remember, Andy and Chris were in competition against each other. "I bet I can eat my cereal faster than you can!" "Cannot!" As they grew, their competitive nature manifested itself in high school football, track and debate club.

The boys' father, Jim, owned a successful business selling boats. When it came time for Andy and Chris to begin working in the family business as adults, Jim had serious concerns. He knew that sibling rivalry could bring out the best in each son, but if it went too far, it could be detrimental to the business. To make it work in the company's favor, Jim needed to learn the sources of sibling rivalry and how to manage it effectively.

Role of birth order

To harness the energy of sibling rivalry, family business owners first need to understand the factors that shape their children's personalities, relationships and business philosophies.



These range from their basic genetic makeup and gender, to their life experiences and the family environment when they were growing up. Birth order can be significant in explaining the dynamics at work among siblings.

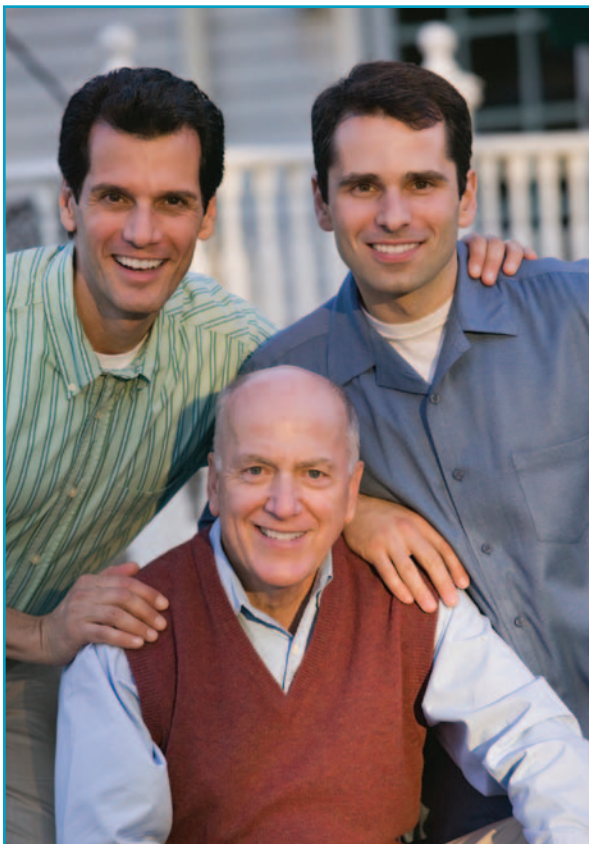
The firstborn basks in the family spotlight — until the next baby comes along. This child may naturally feel a little jealous of younger

siblings. He or she may aim to please parents through obedience and assuming responsibility. But there's also a danger of becoming authoritarian, overly protective and almost parental toward the rest of the brood.

A middle child may feel somewhat overlooked by his or her parents. He or she may try hard to stand out, and compete to win the parents' affection. To attract attention, a middle child may focus on developing different abilities or, on the other hand, rebel.

The baby of the family is often the most pampered and may grow to depend on family members' ministrations. He or she may end up suffering from low self-esteem or, at the other extreme, may learn how to exploit the "baby" position for all it's worth.

If your children haven't grown out of their rivalry before going to work for your family business, they may develop clashing business philosophies, with one having a more conservative orientation toward business growth, and the other leaning toward the entrepreneurial side.



Create a fair playing field

Now that you know where rivalry begins, it's important to know how to help your children use their competitive energy for the greater good of your business and family.

Family business owners need to understand the factors that shape their children's personalities, relationships and business philosophies.

For starters, treat all employees equally. Develop and implement policies and procedures for qualifying, hiring and promoting your children just as you would other employees. And if, for estate and income tax reasons, your children as a group are more highly compensated than non-family employees, educate them as to why this is the case, stressing that the higher compensation is not based on performance.

In addition, make your expectations clear to your children. Define and communicate the roles you expect your children to play in working with siblings and meeting business goals. From the time they join your staff, tell your children exactly what their responsibilities are, what constitutes professional behavior with other employees, and what goals they need to attain.

Help siblings use their unique skills. One way to keep your children at odds is to constantly compare their respective strengths and weaknesses. Instead, call attention to what each one can contribute.

A win-win situation

Because of his strong leadership and measured approach, Jim has been successful in turning his sons' sibling rivalry into a healthy competition. Andy and Chris may still try to top each other to see who can be top seller each month, but they both realize that, no matter which one has the higher numbers, it's to the benefit of the company. When managed effectively, sibling rivalry can be a family business' secret weapon. ♦

4 steps to fight back against identity theft

You're going about your day when you receive a phone call from your credit card issuer. Several high-dollar purchases have been made with your credit card halfway across the country, and your issuer is checking to determine if it was, in fact, you who made the purchases. Needless to say, it wasn't. Your identity has been stolen, and you're left feeling violated and helpless.

Even though you might have taken the necessary steps to safeguard your personal data, such as shredding data-sensitive documents, monitoring financial statements and protecting your Social Security number, there's no way to completely eliminate the risk of identity theft. And as people increasingly use the Internet to pay bills, trade stocks and access their bank accounts, the risk of identity theft rises exponentially.

Take action now!

After the initial shock of the news, you must take action to clear your name and wrestle back your identity. The Federal Trade Commission (FTC) has a four-step action plan you should implement as soon as you learn of fraudulent activity:

1. File a fraud alert on your credit reports. By alerting one of the three consumer reporting companies of the fraud, you'll make it more difficult for the thief to open new accounts in your name. The good news is that you have to contact only one of the companies, because the one you contact is required to notify the other two. Here are the names and phone numbers of the three consumer reporting companies:

- ◆ **TransUnion:** 800-680-7289
- ◆ **Equifax:** 888-766-0008
- ◆ **Experian:** 888-397-3742

After you file the fraud alert, you're entitled to request a free copy of your credit report from each of the three companies. Carefully review each report for any suspicious activity,

including unfamiliar debt and accounts you didn't open. If you find fraudulent or inaccurate information, correct it and continue to monitor your credit history.

2. Close accounts that have been tampered with or fraudulently opened.

If there are accounts you need to close, speak with a representative of the security or fraud department of the financial institution. Follow up the phone call by writing a letter to the credit card company or bank and include copies of supporting documents.



3. File a complaint with the FTC. If you choose to share your identity theft complaint with the FTC, you can help law enforcement officials across the country track fraudulent activity and, ultimately, catch perpetrators. To file your complaint, contact the FTC Identity Theft Hotline at 877-ID-THEFT (877-438-4338).

4. Contact local law enforcement. The benefits of alerting your local police department (or the police department of the city in which the identity theft happened) are twofold: You're providing law enforcement with details that can lead to the possible arrest of the fraudster, and doing so provides you with supporting documentation you can forward to any creditors that may need evidence of the crime.

Identity theft happens

Nearly 10 million people fall victim to identity fraud each year, according to the FTC. If you discover that your identity has been stolen, you aren't alone, and you can take steps to fight back to clear your good credit record. ◆