Getting Credit for Hiring

You can expect to get a tax credit for hiring additional employees in 1977, 1978

(Editor’s Note: In an effort to increase employment in the construction industry, Congress has approved of a jobs tax credit where you, as an employer, may obtain a tax incentive for increasing employment during this year and in 1978. The following article contains the information that your accountant or bookkeeper needs to take advantage of this new program.)

The jobs tax credit recently enacted into law establishes for employers a tax incentive for creating new jobs. Employers who hire additional employees during 1977 and 1978 can qualify for this credit for their tax years beginning in 1977 and 1978.

The jobs tax credit is based upon the employer’s wage base under the Federal Unemployment Tax Act (FUTA). Most employers maintain records needed to file FUTA returns (Form 940) and, therefore, should find no need for additional recordkeeping generated by the jobs tax credit.

In deciding whether to take the necessary actions to generate a jobs tax credit, an employer should consider:

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1. For tax years beginning in 1977, the jobs tax credit is 50% of the amount by which an employer’s FUTA wages paid during 1977 exceeds 102% of FUTA wages paid during 1976. For tax years beginning in 1978 the credit is 50% of the amount by which FUTA wages paid during 1978 exceeds 102% of FUTA wages paid during 1977.

Note: By definition, FUTA wages are limited to $4,200 for each employee.

2. The allowable credit is limited to:
   • 50% of the excess of total wages paid (without $4,200 wage limit) during the current year over 105% of total wages paid (without $4,200 wage limit) during the previous year
   • 25% of FUTA wages paid during 1977 (or 1978)
   • $100,000 for any given year (except for additional credit for handicapped individuals)
   • the employer’s income tax liability for the year, but unused credits can be carried back to the 3 preceding tax years and carried over to the 7 succeeding tax years.

3. Additional credit is allowable for tax years beginning in 1978 or 1978 amounting to 10% of FUTA wages paid to new employees who are handicapped individuals (including handicapped veterans) who have received vocational rehabilitation. Only wages paid during the 1-year period after the beginning of the individual’s rehabilitation plan are taken into account. The additional 10% credit is limited to 20% of the credit otherwise allowable (disregarding the overall $100,000 limit).

4. The employer’s income tax deduction for salaries and wages for the year must be reduced by the jobs tax credit allowable for the year (including any amount of credit that exceeds tax liability for the year).

5. Wages paid to an employee are taken into account only if more than half the employee’s wages are paid for services performed in the United States in the employer’s trade or business.

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Other Pertinent Considerations

Wages paid to employees who are not covered under the FUTA system are excluded for computing the jobs credit. However, wages paid for agricultural labor and for railway labor are included. Wages paid by governments and tax-exempt organizations (except certain farm cooperatives) do not qualify under any circumstances.

Certain special rules are designed to:
   • prevent artificial creation of a credit by a self-employed person’s merely incorporating the business
   • allocate the credit between buyer and seller where ownership of a major portion of a business changes hands
   • treat all employees of commonly controlled businesses (such as controlled groups of corporations, or proprietorships, partnerships, corporations, etc., that are under common control) as employees of a single employer.

A publication specifically devoted to jobs tax credit is now available at IRS local field offices.