

Financial Commentary

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THE JOBS BILL

How effectively could it address America's unemployment rate?

How about a tax break for companies that hire? A new jobs bill introduced by Sen. Majority Leader Harry Reid (D-NV) proposes major tax incentives for hiring businesses. If the bill becomes law, will these incentives make a dent in the unemployment rate? Or will they matter little? Not everyone is optimistic.

On February 24, the \$15 billion job creation measure passed 70-28 in the Senate and headed for the House of Representatives.¹ Just what is in this Senate bill?

The big perk: the “Hire Now” tax cut. If the bill becomes law, a business that hires someone who has worked less than 40 hours in the previous 60 days could skip paying its share of the new hire's Social Security tax for the rest of 2010. That's 6.25% of the employee's salary. Companies could realize a payroll tax savings of up to \$6,622 per new hire. (In case you are wondering, the federal government would reimburse the SSA for the lost taxes.)^{2,3,4}

If the new employee lasted 52 weeks on the job, the business would get a \$1,000 tax credit on its 2011 federal return.³

The other perks. The Section 179 deduction limit for small business capital purchases was raised to \$250,000 for 2009, and this bill would keep the limit at \$250,000 for the 2010 tax year. The “Build America” bond program would be extended and expanded - that's the program created to help state and local governments raise funds for infrastructure projects. The current federal subsidy for state highway spending would also be extended.^{1,2}

The fine print. Any private-sector employer, any non-profit organization and any public-sector college or university would qualify for the “Hire Now” tax break. While a business that owes no tax could not get the \$1,000 new-hire tax credit for 2011, it would be allowed to carry that credit forward to the future. There would be no limit on the amount of new employees a business could hire en route to claiming the credit.⁸

Is this really going to make a difference? Well, Sen. Reid believes that the bill could create and save as many as 1 million jobs. Analysts feel that may be stretching it. Economic Policy Institute economist Heidi Shierholz thinks the measure could result in “tens of thousands of jobs, but it is absolutely nowhere near big enough” to reduce the unemployment rate.³

Under the bill, a “new” hire does not have to be an additional employee. It can also be a worker replacing someone who quit or was fired.³ So service sector businesses with high turnover might get some major tax breaks. There might be a lot of hiring among such companies, but not a lot of net job creation.

Is another bill just ahead? According to *The Atlantic*, Sen. Reid plans to introduce a second jobs bill with much greater scope. This proposed (and almost certainly more expensive) legislation would extend jobless benefits and COBRA for millions, as well as numerous tax credits and programs scheduled to sunset. State Medicaid funding would be extended and Medicare physician payments would be updated through this bill as well. While *The Atlantic* says it has copies of the bill, Sen. Reid's office has not yet confirmed its contents. The Senator has mentioned rolling out multiple bills in the next few weeks to address the country's unemployment problem.⁵

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Citations.

¹ marketwatch.com/story/senate-sends-15-billion-jobs-bill-to-house-2010-02-24 [2/24/10]

⁴ boston.com/business/personalfinance/managingyourmoney/archives/2010/02/tax_incentives.html [2/24/10]

² sfgate.com/cgi-bin/article.cgi?f=/c/a/2010/02/24/BU3H1C6M8V.DTL [2/24/10]

⁴ online.wsj.com/article/SB20001424052748704240004575085410014175900.html [2/24/10]

⁵ politics.theatlantic.com/2010/02/the_next_jobs_bill.php [10/25/10]

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