

## Small Business Jobs and Wages Tax Cut

In one year, our economy has come back from the brink of depression, and is now growing again. But as the President made clear in his State of the Union address, he will not be satisfied until economic growth is translating into robust job growth. Although businesses are beginning to invest and expand again, many remain reluctant to hire. In this environment, we have a unique opportunity to accelerate the pace of job growth by providing businesses – particularly America’s small businesses – with a tax cut for putting more Americans back to work. That is why the President is outlining the details of his proposed “Small Business Jobs and Wages Tax Cut.” The proposal is simple and straightforward:

- **Businesses will receive a \$5,000 tax credit for every net new employee that they employ in 2010.** The total amount of credit will be capped at \$500,000 per firm, to ensure that the majority of the benefit goes to small businesses.
- **Small businesses will be reimbursed for the Social Security payroll taxes they pay on real increases in their payrolls.** Specifically, firms that increase wages, expand hours or hire new workers would get a credit against the added payroll taxes that result. This bonus would be based on Social Security payrolls, so it would not apply to wage increases above the current taxable maximum of \$106,800.
- **Firms will be able to claim the credit on a quarterly basis, which gets money out to businesses quickly and provides an early incentive to hire and increase payrolls.** Non-profits will be eligible for the credit and start-ups will be eligible for half the credit.
- **The proposal is estimated to cost \$33 billion.**

Examples of how the Small Business Jobs and Wages Tax Cut would work:

- Tax credits for new hires. A small business that hires ten new employees in 2010 will receive a \$50,000 tax credit to help offset the costs of those new hires. However, if the same small business lays off ten employees in 2010 and hires five new employees, it would receive no credit.
- Tax credits for pay raises. A small business with 50 employees that, through increased hours or higher pay, provides all of its employees a \$1,000 real wage increase in 2010 will receive a \$3,100 tax credit, enough to cover the Social Security payroll taxes on those increases.
- No benefits for gaming. A small business that fires 10 workers and hires 10 workers to replace them would see no net increase in employment and thus would not receive a credit. A small business that lays off 10 employees making \$50,000 each and hires 20 employees making \$25,000 each will receive no credit. Likewise, a small investment firm that raises salaries for its top employees from \$300,000 to \$350,000 will not receive a credit.

The [Congressional Budget Office](#) recently identified this type of job creation tax cut as *the most effective* way to help accelerate job growth of all the policy options it evaluated. The general approach has received support from a wide range of economic analysts and experts, including [Morgan Stanley](#), the [Economic Policy Institute](#), the Small Business Majority, [Paul Krugman](#), [Mark Zandi](#), and [Alan Blinder](#).

## Details of the President's Proposed Small Business Jobs and Wages Tax Credit

President Obama's Small Business Jobs and Wages Tax Credit is designed to provide a cost-effective, immediate jump-start to job creation and wage growth. The credit will provide American businesses with a powerful short term incentive to not only create good jobs but to increase wages and hours for Americans with jobs who face ongoing economic uncertainty in the current environment.

- A \$5,000 tax credit for each net new job created in 2010. Employers would receive a tax credit of up to \$5,000 against their payroll taxes for every net new employee they hire in 2010. The credit is designed to help jumpstart job growth by giving employers an incentive to add jobs or accelerate the hiring they would have done later in the future. Start-ups would be eligible for half the credit, which provides an incentive for entrepreneurship while avoiding gaming. The credit would be administered off an employer's unemployment insurance wage base (equal to 72% of the unemployment insurance wage base increase, or \$5,000 credit for each additional worker who earns at least \$7,000).
- An additional tax credit to reimburse payroll taxes on increases in inflation-adjusted payrolls. Businesses will receive a bonus 6.2 percent tax credit on aggregate wages in excess of inflation – reimbursing the employer for the Social Security payroll taxes they pay on those payroll increases. This provides firms with an incentive to increase wages or work hours for existing employees as well as hire new employees at a higher wage. This wage bonus would be calculated off the Social Security payroll tax base, so firms would not get credit for increasing wages for employees making more than the current taxable maximum of \$106,800.
- A cap at \$500,000 per business to incentivize small business hiring. All firms with net employment increases will be eligible for these credits. But to ensure that small businesses receive the bulk of the incentive to hire, the maximum credit will be limited to \$500,000 per business.
- Anti-abuse provisions to ensure that employers do not game the system. Businesses that reduce employment or payrolls in 2010 would be ineligible for both the \$5,000 credit and the wage bonus. The credit would also include anti-abuse provisions designed to deny or limit the credit to employers that seek to game the system by, for example, replacing full-time employees with part-time employees. This will include limiting the maximum jobs credit amount to 25% of the increase in a firm's Social Security payroll wage base. In addition, rules would prevent businesses from renaming themselves or merging in order to claim the credit.
- Quarterly payment option to accelerate payments to firms. Employers would have the option of receiving the tax credit on a quarterly estimated basis. This helps get money in the hands of employers earlier in the year, could help increase awareness of the credit and provides an early incentive to hire.