

What is U.S. HIRE Act and Its Impact on India's IT Sector

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The Hiring Incentives to Restore Employment (HIRE) Act was a 2010 U.S. law aimed at boosting domestic hiring. Ironically, today “HIRE Act” has come to mean a new proposal to penalize offshoring. In September 2025, U.S. lawmakers introduced the Halting International Relocation of Employment (HIRE) Act, which would impose steep taxes on outsourcing. Such measures – along with other visa-crackdown proposals – threaten India's \$224+ billion IT services industry, which relies heavily on U.S. clients and work visas.

This report reviews the original HIRE Act (2010), the context of its enactment, and how revived or similar policies (like taxing outsourcing or restricting H-1B visas) could damage India's IT sector. We draw on legislative texts, industry data, and expert analyses.

The 2010 U.S. HIRE Act: Purpose and Provisions

The HIRE Act of 2010 (Public Law 111-147, enacted Mar 18, 2010) was a broad “jobs bill” designed to help U.S. employers hire more Americans. Its key provisions included:

- **Payroll tax credit for hiring unemployed:** Employers who hired new workers unemployed at least 60 days (between Feb 4 and Dec 31, 2010) received a credit equal to 6.2% (the employer's share of Social Security tax) on those wages. For each hire retained 52 weeks, employers could claim up to \$1,000 more in tax credits. In effect, the government waived the 6.2% payroll tax for those wages.
- **No direct H-1B or outsourcing rules:** The 2010 HIRE Act focused on domestic tax incentives and did **not** include provisions on H-1B visas or offshoring. It was primarily funded by closing tax loopholes (e.g. foreign bank account reporting) and extending existing programs.
- **Part of a wider jobs package:** The Act also funded expanded unemployment benefits and extended tax breaks to small businesses. It was signed by President Obama to address post-2008 recession unemployment. In Congress it was formally titled the American Jobs and Closing Loopholes Act of 2010.

In Summary, the 2010 HIRE Act was about subsidizing American hiring, not about forcing companies to keep jobs at home. However, it was enacted in a period of intense debate over outsourcing and job loss, setting the stage for later calls to “Buy American/Hire American” in subsequent years.

Revived Proposals: HIRE Act (2025) and Visa Crackdowns

In 2025, a new bill nicknamed the HIRE Act – the **Halting International Relocation of Employment Act** – has been introduced by U.S. legislators. This proposal turns the tables on outsourcing. Its main features (still at the bill stage) are:

- **25% Excise Tax on Outsourcing Payments:** Any payment by a U.S. company to a foreign person for labor or services would incur a 25% excise tax at source. Crucially, the bill makes such payments **non-deductible** for U.S. tax purposes. In other words, hiring an overseas service provider would cost at least 25% more (plus any state taxes) compared to hiring a domestic worker.

- **Broad Scope:** The tax is defined very broadly. “Outsourcing payments” include any fees, royalties, or service charges paid to foreign entities for work benefiting U.S. consumers . Even indirect subcontracting or transfer-pricing arrangements would fall under the tax. Any individual or company “that is not a U.S. person” is caught in this net . This wide scope aims to prevent U.S. firms from shifting work through third countries to avoid the tax.
- **Reporting and Penalties:** U.S. taxpayers paying outsourcing fees would have to report them to the IRS and certify accuracy under penalty of perjury . Failure to pay the tax triggers a 50% penalty on the unpaid amount . In practice, experts say these provisions would make outsourcing “structurally less attractive” .
- **Domestic Workforce Fund:** All tax revenue would flow into a new U.S. Domestic Workforce Fund . The proceeds (estimated in the billions) would be earmarked for retraining and hiring American workers, apprenticeships, and state employment programs . The bill explicitly ties the excise tax to promoting U.S. job growth.

In Parallel, U.S. policymakers are also discussing stricter rules on H-1B and L-1 visas. For example, past U.S. immigration bills (like the 2013 Senate “High-Skilled Integrity and Fairness Act”) would have barred companies from having too high a share of H-1B/L-1 workers . Executive actions under the Trump administration (e.g. “Buy American, Hire American” orders) tightened visa adjudication and wage requirements. And recently, the Trump campaign (again) signaled intent to sharply limit H-1B/L-1 visa usage. Altogether, these measures aim to “favor domestic hiring” over foreign labor.

India’s IT Industry Today: U.S. Dependence and Visa Use

India’s IT and BPO sector is heavily exposed to the U.S. market and visa regime. Key facts include:

- **Size of the sector:** The Indian IT/ITES industry earned about **\$224.4 billion** in export revenues in FY 2024-25 . It employs roughly **5.8 million** people nationwide . Technology services (software, applications, consulting) make up the lion’s share of that revenue. According to industry body NASSCOM, over half of India’s IT exports come from U.S. clients .
- **Major firms and U.S. share:** India’s top IT companies derive very large fractions of their business from North America. For example, in 2025 TCS generated roughly 48–50% of its revenue from North America . Infosys reported about **57.9%** of its revenue from North America in FY2025 . Wipro, HCLTech, Tech Mahindra and others also get around 40–60% of revenues from U.S. and Canadian customers. In concrete terms, **U.S. revenues are in the tens of billions USD** for each of the big firms.
- **Visa usage:** Historically, Indian companies have been the largest beneficiaries of U.S. H-1B visas . A recent analysis found that Indian firms alone secured roughly **20% of all H-1B visas** in 2024 . During Apr–Sep 2024, Indian-origin organizations were awarded about 24,766 of the 130,000 H-1Bs (about 19%) . TCS and Infosys lead in absolute numbers: in that six-month period, Infosys received 8,140 H-1B visas and TCS got 5,274 . (Combined with other Indians, the U.S. awarded Indian companies ~75% of all H-1Bs in 2023 .) Such visas allow Indian engineers to work temporarily at client sites in the U.S. and are a core part of the on-site/ off-shore project model.
- **Visa-dependence trends:** However, Indian firms have actively reduced visa dependence in recent years. Top CEOs report that U.S. operations now rely mostly on local hires. For instance, TCS’s CEO said that “more than 50 percent” of its U.S. workforce is American, and that TCS now requests only about 3,000–4,000 new H-1B visas per year (down from over 14,000 a few years ago) . Infosys similarly notes that over 60% of its U.S. staff are U.S. citizens or green-card holders; its on-site visa share has fallen from ~30% of staff to about 24% . HCLTech and Wipro report even lower H-1B ratios (roughly 20% on visas), meaning 80% are local hires. These

companies have set up training programs, partnership campuses, and “nearshore” delivery centers (e.g. in Mexico, Latin America) to shift workloads locally.

In Short, the Indian IT industry remains highly reliant on American clients and on U.S. immigration policy. Over 60% of the sector’s export revenues flow from the U.S. and Canada . Many contracts are still structured around sending Indian staff to U.S. sites. Any U.S. policy that raises the cost of offshore services or cuts visa access directly hits these business models.

Impact of Stricter U.S. Hiring/Outsourcing Policies on Indian IT

High Costs, Shrinking Margins: Analysts warn that a 25% outsourcing tax would erase India’s cost advantage. Rohit Jain of law firm Singhania & Co. observes that the tax “would sharply reduce the cost advantage that drives outsourcing to India,” slowing new contracts and squeezing margins . One EY India leader calculated that the combined effect of the 25% excise plus federal and state taxes could raise the effective cost of offshored services up to ~60% . In practice, U.S. clients facing a 25% hit would either pay more or demand price cuts from vendors. As one EY executive notes, many clients would likely force Indian suppliers to “absorb the tax impact by offering tax-inclusive pricing or reducing fees” .

Deal Flow and Contract Delays: There is concern that U.S. companies will react by slowing or curtailing outsourcing projects. Industry reports say clients are already “holding back new contracts” and inserting clauses to avoid tax liabilities . HfS Research president Saurabh Gupta comments that any curbs on outsourcing will compress both demand and supply: U.S. firms will scale back outsourcing spend, and Indian providers will see slower deal pipelines . In fact, after news of the HIRE Act, Indian IT stock indices dipped, reflecting investor worries . Experts foresee clients renegotiating older deals or shifting some work onshore or to other countries to hedge against the new rules .

Shift to Local Hiring (Onshoring): If U.S. clients must pay extra for foreign work, many will simply hire Americans instead. Observers predict a surge in U.S. on-shore hiring at the expense of visa workers. Moody’s notes that “stricter U.S. immigration rules will shrink the labor pool and pose risks” for firms reliant on foreign talent . Indeed, Indian companies report already boosting their U.S. staff: Infosys says 60% of its U.S. workforce are now Americans ; Wipro says 80% are locals . TCS has similarly ramped up U.S. recruiting and training programs for locals. Further U.S. restrictions would accelerate these trends. Companies would need to substitute American programmers and consultants (at roughly double the cost) for some roles previously done by H-1B employees. This raises project costs and forces firms to cut overhead elsewhere.

Revenue Exposure and Diversification: Since U.S. clients account for the majority of their revenues, Indian IT firms would likely see slower growth if that market contracts. Some analysts predict that new outsourcing contracts could “dry up” and margins “will shrink”, forcing companies to seek growth elsewhere . In fact, industry groups note that Indian firms are already diversifying into Europe, AsiaPacific and the Middle East . But no alternative market matches the U.S. in scale. Business consultants warn that a punitive U.S. law could push clients to spread work to third countries with local talent, or to rival vendors. Large U.S. tech firms (Google, Amazon, Microsoft) might resist such a tax, since they have deep global operations (and even own many India centers themselves). Still, smaller U.S. companies could pull back projects as cost/benefit shifts.

Legal and Operational Risks: The new excise tax regime includes strict reporting requirements and heavy penalties . Indian companies would need to audit all contracts with U.S. clients to track the tax. Any misclassification could lead to IRS scrutiny. Experts note it could prompt legal challenges (as some U.S. companies might sue, or Indian firms might lobby for exemptions) . In the short run, this regulatory uncertainty is itself a business risk.

In Summary, a revived HIRE Act or similar measures would turn Indian IT's main strength (low-cost access to U.S. markets) into a vulnerability. Clients paying a 25% penalty would demand deeper discounts, alternative delivery models, or simply reduce outsourcing. This would hurt Indian firms' revenues and profits. As EY India's tech lead warns, U.S. taxes plus state levies could nearly double the price of offshored services – a blow to any company competing on cost.

Case Examples: U.S. Policy and Indian IT in Practice

Several real-world examples illustrate how U.S. labor and immigration policy already affect Indian IT companies:

- **Visa compliance cases:** U.S. enforcement has penalized visa misuse. Notably, Infosys agreed to a \$34 million settlement in 2013 for allegedly misusing business-visitor visas to work on projects that should have required H-1B status. (Infosys denies wrongdoing.) This case – the largest ever in its category – underscored legal risks for noncompliance. It imposed costs on the firm and tarnished its image. Other companies have faced U.S. Department of Justice inquiries into H-1B and L-1 use.
- **“Buy American, Hire American” and visa caps:** The Trump administration's 2017 executive order and regulatory changes tightened visa rules, resulting in longer processing times and higher wages for H-1B workers. For years afterward, many Indian IT firms reported fewer approved H-1Bs. For example, in 2016–2017 TCS cut its new U.S. visa petitions to about onequarter of the previous level. Wipro, Infosys and others expanded their onshore footprints in response, opening facilities in Latin America and hiring U.S. staff. Those experiences show that policy changes can force rapid strategic shifts.
- **Legal proposals targeting outsourcing:** Various U.S. bills have sought to penalize visa-heavy firms. A 2013 Senate immigration bill (which never became law) would have banned companies with 50–75% visa workers in their U.S. operations – a direct attempt to constrain firms like Infosys, TCS and Wipro. Though that bill stalled in the House, its intent signaled how Indian providers could be singled out. Such legislative efforts prompt Indian firms to reorganize their delivery models (e.g. moving to hub-and-spoke models with more remote work) ahead of time.

These cases reveal a pattern: when U.S. policy tightens, Indian IT companies adapt by hiring more locals or offshore contractors outside the U.S., but at the cost of higher expenses or lower utilization of their Indian workforce. For example, after facing visa constraints, CEOs of Infosys and TCS publicly stated they were reducing visa use and increasing local hiring. Infosys CFO Jayesh Sanghrajka noted that U.S. “on-site mix” fell from ~30% of its staff to 24% over a few years. While these steps insulate the firms somewhat, they can only go so far without eroding the labor arbitrage model that built India's IT exports.

Expert Insights and Conclusions

Policy analysts and industry leaders offer sobering insights. Moody's credit analysts point out that shifts in U.S. visa rules or outsourcing taxes would raise Indian IT's costs and put pressure on profit margins. NASSCOM and consulting studies emphasize that since “India's outsourcing industry depends heavily on American demand,” any barrier to offshoring is a major risk. Many experts stress diversification and moving up the value chain. The proposed HIRE Act explicitly channels tax revenue into Domestic Workforce Funds, illustrating a U.S. intent to “reduce reliance on offshore outsourcing”. In this environment, Indian companies are urged to focus on higher-value services (AI, cloud, digital transformation) and to cultivate business outside North America. Some analysts even suggest that aggressive U.S. investment in AI and automation will further replace routine outsourcing work.

In Conclusion, while the original HIRE Act of 2010 was a domestic hiring incentive, its contemporary namesake (and related policies) aims to discourage outsourcing and foreign labor use. If enacted, these measures could sharply raise the cost of doing business for India's IT exporters. Over 60% of their market is American ; burdensome taxes or visa cuts would force them to renegotiate contracts, cut margins, and seek growth elsewhere. Historical experience (e.g. visa compliance settlements and past visa reforms) shows Indian firms can adapt, but at a cost. For Indian IT's sustainability, experts say the industry must both diversify its client base beyond the U.S. and shift to more specialized, innovation-led services that cannot be easily taxed away .

Sources: Legislative summaries, news reports and industry analyses as cited above. These include official summaries of the HIRE Act, published company results, and commentary from financial and policy experts.

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