



## TC Services USA, Inc. The Tax Credit Professionals

### Understanding Tax Credits: Work Opportunity Tax Credit (WOTC)

The federal government offers several tax credits to help businesses lower their tax liability by hiring candidates from targeted groups. Federal tax credits also include the Empowerment Zone Employment Credit and Indian Employment Credit (Indian Reservation), and additional federal incentives are available through economic development credits. Additionally, many states offer tax credits and incentives that focus on training, growth, and new employment. Finding available tax credits and incentives for which your business is eligible mainly touches upon the disciplines of tax, accounting, legal and HR, but it can also impact hiring managers. Where to open a new retail business, service or manufacturing facility, for instance, entails a close look at potential tax credits, as well as other factors.

### Background

WOTC is available to eligible employers who hire and retain certain veterans and people from other target groups who have historically been viewed as facing significant barriers to employment. Businesses can claim tax credits, up to a maximum of \$9,600 per eligible employee, depending on the target group eligibility of the person hired and the number of hours worked at the new employer.

The WOTC program began on October 1, 1996 and has endured the test of time through several expirations and renewals by Congress. Most recently, the program expired on December 31, 2014, but was renewed via legislation passed in December 2015. The legislation extended WOTC tax credits retroactively from January 1, 2015 through the end of 2019 – only the second time in the program's history that it has enjoyed a 5-year renewal.

### Impact to Employers: Determining Program Eligibility

To be eligible to receive a WOTC credit, you must pre-screen job applicants for eligibility on or before the day on which you extend any offer of employment, then submit an IRS Form 8850 to the appropriate State Workforce Agency (SWA) for each eligible new hire within 28 days following their start date. The Department of Labor (DOL) Employment and Training Administration (ETA) Form 9061 (Individual Characteristic Form) must accompany the Form 8850 to the appropriate SWA.

Establishing internal systems can help ensure you are maximizing your capture of tax credits for which you are eligible. The following requirements apply under the WOTC program:

- Applicant must provide the pre-screening information and complete the IRS Form 8850 on or before the date any form of job offer is extended
- The IRS Form 8850 and DOL ETA Form 9061 must be submitted to the State Workforce Agency within 28 days following the eligible employee's job start date
- Eligible employees must work a minimum of 120 hours in the first year of employment, with higher credit amounts available to the employer after the employee has worked 400 hours
- Eligible employees must be a new hire from one of the following targeted groups:
  - ✓ Qualified Veterans
  - ✓ Vocational Rehabilitation Referred Individual
  - ✓ Supplemental Security Income Recipient
  - ✓ Designated Community Resident
  - ✓ Supplemental Nutrition Assistance Program (SNAP) (Food Stamp Recipient)
  - ✓ Long-Term Temporary Assistance for Needy Families (TANF) Recipient
  - ✓ Qualified Long-Term Unemployment Recipient
  - ✓ Qualified Ex-Felon
  - ✓ Short-Term TANF Recipient
  - ✓ Summer Youth Employee

## Category Changes

WOTC is a dynamic program where categories may periodically change to add additional target groups of individuals who face significant barriers to employment. In 2007, there was an expansion of target groups: for example, the then High-Risk Youth target group changed from the qualified age range of 18-24 years of age to 18-39 and was renamed the Designated Community Resident target group. The Welfare to Work credit was absorbed into WOTC, becoming the Long-Term TANF Recipient target group, and service-connected disabled and unemployed veterans were added as new categories. In 2005, in response to Hurricane Katrina, the WOTC program added a special temporary category for individuals impacted by the hurricane.

Most recently, in response to the high national unemployment rate, the "Qualified Long-Term Unemployment Recipient" was added as a new category under the WOTC program. To qualify, a newly hired employee must have been hired after December 31, 2015 and have been unemployed for 27 consecutive weeks or longer, and received unemployment compensation at some time during their period of unemployment.

# Opportunity

Generally, employers can earn a tax credit equal to 25 percent or 40 percent of a new employee's qualified first-year wages, up to the maximum wage amount for the target group to which the employee belongs.<sup>1</sup>

- For all target groups, except the Long-Term TANF recipient, employers can earn 25 percent if the employee works at least 120 hours in the first year of employment, and 40 percent if the employee works 400 hours or more.
- For the Long-Term TANF target group, employers can earn 40 percent if the employee works at least 400 hours in the first year and 50 percent if the employee works at least 400 hours in the second year of employment.

The following limits apply:

- Up to \$2,400 per eligible employee for most target groups for the first year of employment only, calculated based on a maximum wage allowance of \$6,000
- Up to \$1,200 per eligible employee for the Summer Youth target group, hired and working between May 1 and Sept 15, calculated based on a maximum wage allowance of up to \$3,000
- Up to \$9,600 per eligible employee for certain Veteran categories for the first year of employment only, calculated based on a maximum wage allowance of up to \$24,000
- Up to \$9,000 per eligible employee for the Long-Term TANF recipient category over the course of the first two years of employment only (up to \$4,000 in the first year and \$5,000 in the second year), calculated based on a maximum wage allowance of up to \$10,000 annually

## Review Program Administration

Review your administrative practices to make sure you're maximizing your capture of WOTC credits for which you are eligible in the future. Employers can use the DOL's [WOTC Calculator](#) to estimate what they might earn in tax credits under the WOTC program. Also, it's important to remember that screening in a timely manner is a critical requirement of the WOTC program – you must use IRS [Form 8850](#) to screen your applicants for WOTC eligibility on or before the date on which you extend any form of job offer.

You may want to consider adding WOTC screening to your existing Applicant Tracking System program implementing, for example, a pre-built job applicant screening solution that ensures you're screening your applicants and completing the full WOTC process in a timely manner in accordance with program requirements. A robust solution with multiple screening methods (including mobile) can help you take better advantage of the WOTC program.

We recommend that employers continue to work closely with their tax credits team to ensure all necessary supporting documentation is being submitted in a timely manner.

## TC Services USA, INC. - Compliance Resources

TC Services USA is committed to assisting businesses with increased compliance requirements resulting from rapidly evolving legislation. Our goal is to help minimize your administrative burden across the entire spectrum of employment-related tax credits, so you can focus on running your business.

If you have any questions regarding our services, please call 212-635-9500.

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