

EMPLOYERS: **11** Ways to Earn Income Tax Credits For Your Company

The Work Opportunity Tax Credit (WOTC): An Employer-Friendly Benefit for Hiring Job Seekers Most in Need of Employment

In This Fact Sheet:

- **How to Earn a Tax Credit For New Hires**
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Background and Updates:

Use of the WOTC has substantially increased in recent years as Congress has introduced new target groups, expanded several target groups' requirements, increased the tax credit for certain groups and introduced new flexible filing provisions. For example, during Fiscal Year 2008, over 691,421 certifications were issued by the state workforce agencies, and this figure is growing every year.

On February 17, 2009, the President signed into law the *American Recovery and Reinvestment Act of 2009* (Recovery Act). The Recovery Act introduced two new target groups: 1) Unemployed Veterans, and 2) Disconnected Youth. Individuals in these two new target groups must begin work for an employer during 2009 or 2010. The *Small Business and Work Opportunity Tax Act of 2007* (P.L. 110-28) extended the WOTC Program through August 31, 2011. This Act and the *Tax Relief and Health Care Act of 2006* (P.L. 109-432), amended certain target group definitions and introduced new provisions that streamline the WOTC program and make it easier for the business sector to participate. For example, P. L. 109-432 eliminated the Welfare-to-Work Tax Credit (WtWTC) by merging it into the WOTC and making the *Long-term TANF Recipient* another WOTC target group. This Fact Sheet discusses the consolidated WOTC as extended and modified by the three Acts mentioned above. The Work Opportunity Tax Credit can now be as much as:

- **\$2,400** generally for each new adult hire,
- **\$1,200** for each summer youth hire,
- **\$4,800 for each new disabled veteran hire**, and
- **\$9,000 for each new long-term TANF recipient hired over a 2-yr. period.**

By Participating in the WOTC Program Employers:

- Make the hiring decision,
- Complete minimal paperwork to claim the tax credit, and
- Can claim a tax credit on an unlimited number of qualifying new hires.
- Includes hiring full-time, part-time and temporary employees.

Hire From Among These 11 Groups of Job Seekers to Qualify for the WOTC

1. **Temporary Assistance (TANF) Recipient *** -- Member of a family that received TANF payments for any 9 months during the 18-month period ending on the hiring date.
2. **Veteran *** -- Member of a family that received assistance under the Supplemental Nutrition Assistance Program (SNAP) (food stamps) for at least a 3-month period during the 15-month period ending on the hiring date; **or** a disabled veteran entitled to compensation for a service-connected disability and is hired not more than one year after being discharged or released from active duty; **or** a disabled veteran entitled to compensation for a service-connected disability and was unemployed for a period or periods totaling at least 6 months (whether or not consecutive) in the one-year period ending on the hiring date.
3. **Ex-felon** -- Individual who was convicted of a felony and who is hired not more than one year after the conviction or release from prison.
4. **18-39 Year-old Designated Community Resident *** and individual who is at least age 18 but not yet 40 on the hiring date and lives within an Empowerment Zone (EZ), Renewal Community (RC), or Rural Renewal County (RRC). **
5. **Vocational Rehabilitation Referral** -- Disabled person referred to the employer upon completion of (or while receiving) rehabilitation services approved by the State, an Employment Network under the Ticket-to-Work Program, or the Department of Veterans Affairs.
6. **16-17 Year-old Summer Youth** -- Individual who works for the employer between May 1 and September 15, is at least age 16 but not yet 18 on the hiring date (or if later, on May 1), has never worked for the employer before, and lives in an Empowerment Zone or Renewal Community. **
7. **18-39 Year-old SNAP (Food Stamps) Benefits' Recipient *** -- Member of a family who is at least age 18 but not yet 40 on the hiring date, **and** who received SNAP (food stamps) benefits for **either** the 6-month period ending on the hiring date, **or** he/she is no longer eligible for such assistance under Section 6(o) of the Food Stamp Act of 1977, but the family received SNAP benefits for at least 3 of the 5-month period ending on the hiring date.
8. **SSI Recipient** -- Individual who is receiving Supplemental Security Income benefits for any month ending during the past 60-day period ending on the hiring date.
9. **Long-term TANF Recipient *** -- Member of a family that received Temporary Assistance for Needy Families (TANF) for at least 18 consecutive months ending on the hiring date; **or** receives TANF payments for any 18 months (whether or not consecutive) beginning after August 5, 1997, and the earliest 18-month period beginning after August 5, 1997, ended during the past 2 years prior to the hiring date; **or** whose family stopped being eligible for TANF payments because Federal or state law limited the maximum time those payments

could be made, and the individual is hired not more than 2 years after such eligibility ended.

10. **Unemployed Veteran** -- A veteran hired after 2008 and before 2011, who is certified as: 1) having been discharged or released from active duty at any time during the 5-year period ending on the hiring date, **and** 2) having received unemployment compensation under State or Federal law for not less than four weeks during the one-year period ending on the hiring date.
11. **Disconnected Youth** -- Individual who is certified as: 1) having attained age 16 but not age 25 on the hiring date, 2) not regularly attending any secondary, technical, or post-secondary school during the 6-month period preceding the hiring date, 3) not regularly employed during such 6-month period, **and** 4) not readily employable by reason of lacking a sufficient number of basic skills.

Transition Relief: Any employer who hires an unemployed veteran or disconnected youth after December 31, 2008, and before September 17, 2009, will be considered to satisfy the deadline in Section 51(d)(13)(A)(ii)(II) if the employer submits IRS Form 8850 to a State Workforce Agency to request certification not later than October 17, 2009.

Some employees do not qualify the employer for the WOTC. They include:

- Relatives and dependents,
- Majority owners of the employer, or
- Former employees

* The individual need not receive the assistance for the entire period if the family received it for the entire period **and** the individual was on the grant and thus received assistance for at least one day of the specified period.

** For information on EZ/RCS, visit <http://www.hud.gov/cr> or call 1-800-998-9999. For information on RRCs see *Instructions* to IRS 8850, June/07.

CLARIFICATION: *The former “long-term TANF recipient” target group under the WtWTC is now a new WOTC target group. This new target group retains its former statutory definition and the more generous tax credit provisions for a tax credit of as much as \$9,000 over a two-year period per new hire. With respect to this target group, the first-year WOTC is increased to 40% of qualified wages for the first year of employment and 50% of qualified wages for the second year of employment. Qualified wages are capped at \$10,000 per year. To qualify employers for this tax credit, new hires must be employed at least 120 hours.*

Certification of an Employee Takes Four Simple Steps:

An employer must request and receive certification from the NYS Department of Labor – Economic Development Services Unit that the **new hire** is a member of one of the twelve WOTC target groups before the employer can claim the WOTC on its federal income tax return. To request certification, the employer must:

1. Complete by the date of the job offer, if not already completed by the job applicant, page 1 of IRS [Form 8850](#), *Pre-Screening Notice and Certification Request for the Work Opportunity Credit* **and**
2. Complete the Employer information section on page 2 of IRS Form 8850 after the individual is hired; **and**
3. Complete one of the following forms as appropriate:
 - [ETA Form 9061](#), *Individual Characteristics Form*, if the new hire has not been given a conditional certification, ETA Form 9062, or
 - *Part II Employer Declaration* on the ETA Form 9062 Conditional Certification form the job applicant has given you, **and**
4. Mail the signed/dated IRS and ETA forms to the NYS Department of Labor – Economic Development Services Unit at the address below **not later than 28 days after the new hire begins work.**

**New York State Department of Labor
Economic Development Services Unit
Building 12, Room 200
State Office Building Campus
Albany, NY 12240**

How To Figure The WOTC

For most target groups, the WOTC is based on *qualified wages* paid to the employee for the *first year of employment*. Generally, qualified wages are capped at \$6,000. The credit is 25% of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours and 40% for those employed 400 hours or more. **That amounts to a maximum tax credit of \$1,500** for those employed at least 120 hours but fewer than 400 hours **and a maximum tax credit of \$2,400** for those employed 400 hours or more **for that one hire**.

Summer Youth Employees. Wages are capped at \$3,000 for 16 and 17 year-olds working for a 90-day period between May 1 and September 15.

Disabled Veterans. Wages are capped at \$12,000.

Long-term TANF Recipients. Wages are capped at \$10,000. The WOTC is also available for the employee's qualified second-year wages, also capped at \$10,000. The credit is 40% for the first year and 50% of qualified wages for the second year of employment. **This amounts to a maximum tax credit of \$9,000 over two years (\$4,000 in year one and \$5,000 in year two for that one hire).**

How To Claim Your WOTC

To claim the WOTC tax credit, the employer must request and be issued a certificate for each employee from the NYS Department of Labor – Economic Development Services Unit. The certificate proves that the employee is a member of a targeted group.

You will need [IRS Form 5884](#) to claim the WOTC tax credit. This form is available at your local IRS Office or at www.irs.gov/pub/irs-pdf/f5884.pdf

The tax is a federal income tax credit. You file for the credit when you fill out your annual Business Federal Income Tax Forms.