

# Get Paid for New Hires by the Feds

Hiring new employees is one of the most important yet costly processes that a growing business undertakes. Fortunately, federal tax law equips businesses with various tools to help offset the cost of this process. One such tool is the Work Opportunity Tax Credit (WOTC): a relatively straightforward, lucrative incentive that benefits employers, employees, and society. While some businesses claim cumulatively over \$1 billion in credits through WOTC each year, others forego the substantial savings that WOTC offers (Source: <http://www.doleta.gov/business/incentives/opptax/wotcEmployers.cfm>). This may be due to simple unawareness of the credit, or businesses may be reluctant to pursue a program that might be time-consuming and difficult to implement properly. Regardless of the reason, businesses that do not seek qualification through WOTC may be missing an opportunity to significantly reduce their federal tax burdens.

Designed to mitigate the high unemployment rate that persists among certain groups of job-seekers, including veterans and recipients of government assistance, WOTC rewards employers by offering them up to \$9,000 in tax credits for each new qualifying employee hired. The credit is available to businesses of all sizes, and there is no limit to the number of new employees that may qualify. Therefore, a business that undergoes a large expansion of its labor pool may save tens of thousands of dollars through WOTC. Although the credit applies primarily to for-profit businesses, tax-exempt organizations may also qualify by hiring veterans and taking a credit against the employer's share of Social Security taxes.

(Source: [http://www.doleta.gov/business/incentives/opptax/PDF/employers\\_wotc\\_program\\_brochure\\_5\\_24\\_12.pdf](http://www.doleta.gov/business/incentives/opptax/PDF/employers_wotc_program_brochure_5_24_12.pdf)). While scoring significant savings for employers, the credit also benefits society by helping members of the target groups transition into the workforce and attain economic self-sufficiency. (Source: <http://www.doleta.gov/business/incentives/opptax/wotcEmployers.cfm>).

Due to its many benefits, Congress expanded WOTC in recent years by adding new target groups, increasing the credit amount for some groups, and introducing new flexible filing provisions (Source: WOTC Fact Sheet). WOTC lapsed on December 31, 2014. However, when the program has lapsed in the past, Congress has typically renewed it retroactively to the date of expiration. According to the U.S. Department of Labor, employers should continue to submit WOTC applications at this time in anticipation that the program will be renewed retroactively. (Source: <http://www.doleta.gov/business/incentives/opptax/wotcEmployers.cfm>).



***Don't miss out on these Tax Credits! Congress has typically renewed WOTC retroactively to the date of expiration.***

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## Work Opportunity Tax Credit (WOTC)

In order to claim WOTC, an employer must hire a member of one of the following target groups:

- Certain recipients of Temporary Assistance for Needy Families (TANF) and Aid to Families with Dependent Children (AFDC)
- Qualifying veterans
- 18-39 year-old Supplemental Nutrition Assistance Program (SNAP) recipients
- 18-39 year-old residents of an Empowerment Zone, Renewal Community, or Rural Renewal County
- 16-17 year-old youths who work for the employer between May 1 and September 15 and live in an Empowerment Zone or Renewal Community
- Disabled persons 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.
- Ex-offenders who are hired not more than a year after the date of conviction or release from prison
- Supplemental Security Income recipients
- Disconnected youths at least 16 years of age but less than 25 who, during the 6-month period preceding the hiring date, were not regularly attending any secondary, technical, or post-secondary school and were not regularly employed. The individuals must not be readily employable due to a lack of sufficient basic skills.

More information on the specific attributes required for each target group may be found at the Department of Labor's website (<http://www.doleta.gov/business/incentives/opptax/eligible.cfm>). The employee must not be a relative or dependent of the employer, must not have worked for the employer at any time in the past, and must not be a majority owner of the employer's business (Source: WOTC Fact Sheet).

The amount of the credit ranges from \$1,200 to \$9,000 per new employee, with the specific amount dependent upon the target group from which the employee is hired. The Department of Labor's website provides detailed information about the maximum credit amounts per employee (<http://www.doleta.gov/business/incentives/opptax/benefits.cfm>).

The calculation is two-tiered based on the number of hours that the qualifying employee works in the first year of employment:

- If a new employee works at least 120 but less than 400 hours, the credit will equal 25 percent of the employee's first year wages, up to \$6,000.
- If the employee completes at least 400 hours, the credit will be 40 percent of first year wages, up to \$6,000.

Compared to other tax incentives, WOTC is reasonably straightforward: a qualifying employee may work as little as 120 hours, and the employer will still receive a credit on all wages paid. An employer may receive the greatest benefit under the program, a credit of \$9,000 over two years, for hiring a long-term AFDC/TANF recipient who works at least 400 hours. The credit amounts to 40 percent of wages earned during the first year and 50 percent of wages earned during the second year, up to \$10,000 annually (Source: Presentation Manual).



## Work Opportunity Tax Credit (WOTC)

Employers must complete four steps in order to receive WOTC:

**Step One:** The employer must request certification from its state workforce agency (SWA) before claiming the credit on its tax return. This may be done by filling out a Form 8850 to prescreen employees and submitting it to the SWA no later than 28 days after the date the employee begins work. Time is of the essence: this strict 28-day deadline is one of the most important requirements to which a business must adhere as it applies for WOTC.

**Step Two:** The employer must submit Form 9061, the Individual Characteristics Form, to the SWA.

**Step Three:** The employer awaits a determination from the SWA regarding the new employee's eligibility under WOTC.

**Step Four:** If the SWA determines that the employer qualifies for WOTC, the employer must file with the IRS, typically using Form 5884.

(Source: [http://www.doleta.gov/business/incentives/opptax/PDF/employers\\_wotc\\_program\\_brochure\\_5\\_24\\_12.pdf](http://www.doleta.gov/business/incentives/opptax/PDF/employers_wotc_program_brochure_5_24_12.pdf)).

**In order to maximize their savings through WOTC, many businesses seek the aid of professional tax experts. Capital Review Group (CRG) provides the expertise to help businesses navigate WOTC, from screening potential employees to ensuring that the required government forms are filed correctly and in a timely manner. CRG's approach is customized to the specific needs of our clients and assumes the entire administrative burden of the program without interfering in any way with the business's hiring procedures.**

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