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## FINANCIAL FOCUS



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## Your Accounting for a New Economy

# Recent Changes to the Work Opportunity Tax Credit: Businesses Should Not Be Missing These Opportunities

By Andrew Parker, Marcum, LLP

The Work Opportunity Tax Credit (WOTC) is a Federal Tax incentive which provides a tax credit to businesses for hiring qualified employees from twelve target groups. This credit, of up to \$2,400 per adult employee, is available to businesses across all industries. Unfortunately, many tax payers are unaware of the potential benefit or do not have systems in place within their hiring departments to take advantage of this credit.

The WOTC program is designed to encourage employers to hire job seekers from certain groups who are consistently faced with barriers to employment. When President Obama signed the American Recovery and Reinvestment Act of 2009 into law, the Act included two new WOTC groups.

New hires which can qualify employers for the WOTC include the following employees who must begin work after December 31, 2006 and before September 1, 2011:

- Long-term TANF Recipient. A member of a family that received or recently received Temporary Assistance to Needy Families (TANF) payments;
- Other TANF Recipient. A member of a family that is receiving or recently received TANF benefits for any 9-month period during the 18-month period ending on the hiring date;
- Qualified Food Stamp Recipient. An 18-39 year old member of a family that received Food Stamps for the past 6 months, or received Food Stamps for at least 3 of the past 5 months;
- Designated Community Resident. An 18-39 year old resident of one of the federally designated Empowerment Zones (EZs), Enterprise Communities (ECs), Renewal Communities (RCs). (Note: High-Risk Youth group has been renamed "Designated Community Resident" and expanded to include residents of Rural Renewal Counties);
- Summer Youth Employee. A 16-17 year old EZ/EC or RC resident hired between May 1 and September 15;
- Qualified Veteran. A veteran who is a member of a family that is receiving or recently received Food Stamps for at least a 3-month period during the past 15 months. The veteran group has been expanded to include disabled veterans who are entitled to compensation for a service-connected disability;

- Vocational Rehabilitation Referral. An individual who completed or is completing rehabilitative services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs;
- Qualified Ex-Felon. An individual who has been convicted of a felony and has a hiring date which is not more than one year after the last date on which he was so convicted or released from prison;
- SSI Recipient. A recipient of Supplemental Security Income (SSI) benefits for any month ending during the past 60 day period ending on the hire date.
- Hurricane Katrina Employee.
- Unemployed Veteran. A veteran who has been discharged or released from active duty in the U.S. Armed Forces at any time during the 5-year period ending on the hiring date, and received unemployment compensation under state or federal law for at least 4 weeks during the 1-year period ending on the hiring date.
- Disconnected Youth. An 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.

In order for a new employee to qualify as a member of one of the above groups for purposes of the WOTC, he/she must be certified by the State Employment Security Agency (SESA) or State Workforce Agency (SWA). A pre-screening notice to the SESA or SWA must be completed by the individual on or before the day that the individual begins work, and the notice must be signed and submitted by the individual and the employer within 28 days after the individual begins work. Once the employer receives a certification from the SESA that the individual is a member of one of the targeted groups, the WOTC can be claimed.

To find the address of the SWA in your state consult the Directory of State Coordinators at the following:

State Directories - [http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC\\_SWA\\_Directory.pdf](http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC_SWA_Directory.pdf)

Regional Directories - [http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC\\_Regional\\_Directory.pdf](http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC_Regional_Directory.pdf)

The IRS has made Form 8850 available to serve as the application for certification. In addition to Form 8850, the employer must also submit ETA form 9061 or 9062. After completion, the form should be sent to the appropriate state agency.

As previously stated, the maximum credit per individual is \$2,400. The employer is allowed to claim a credit of 40% of qualified wages paid to employees hired from one of the targeted groups; however the credit is limited to the first \$6,000 of wages paid to each individual during the first year of employment (thus, \$2,400). In order to maximize the benefit, the individual will need to work 400 hours and earn at least \$6,000. Additionally, a credit is allowed for certain qualified individuals employed for at least 180 days and qualifying Summer Youth Employees must work at least 90 days.

**Source: Marcum, LLP**