GROWERTALKS

5/1/2022

Affordable Hiring With Help From Uncle Sam

Mark E. Battersby

Uncle Sam, the IRS and the Department of Labor all want to help businesses cut their labor costs. Most notably, the Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers for hiring individuals from certain targeted groups who have consistently faced significant barriers to employment.

Best of all, the WOTC is a credit that, unlike a deduction from taxable income, directly reduces the annual tax bill. In other words, the WOTC is a direct, dollar-for-dollar write-off and it isn't chicken feed.

Calculating the WOTC

In general, the WOTC equals up to 40% of up to $6,000 in wages paid to or incurred on behalf of an individual who:

• Is in their first year of employment

• Is certified as being a member of a targeted group

• Performs at least 400 hours of service for the operation

That generally works out to a maximum tax credit of $2,400. A 25% rate applies to wages for qualified individuals who perform fewer than 400, but at least 120 hours of service for the employer.

For disabled veterans, the credit may be available for the first $24,000 of wages or up to $9,600 per worker. And, once again, the tax credit—unlike a tax deduction—offsets the employer's final tax bill.

Although an employer cannot claim the WOTC for employees who are rehired, employers can claim the Work Opportunity credit against taxable income for the year that they "realize" the credit. In other words, the year that the credit was awarded, not the year the employee was hired.

Unfortunately, the WOTC is "non-refundable," meaning the business must have a so-called tax "liability" against which to use the credit. However, a growing business can carry the current year's unused WOTC back one year and then forward for up to 20 years.

How the WOTC works

Because lawmakers incentivized hiring, employers can claim the tax credit for a qualifying employee in their first year of hire. After all, staying on the job for more than a year is great, but the WOTC was designed to give people a chance at a job.

As mentioned, the tax credit, depending on the category of the person hired, allows a business to claim between $2,400 and $9,600 per person. Businesses that do a lot of hiring—especially those hiring hourly workers—would benefit by attempting to determine whether job candidates fall within one of the targeted groups.

The groups targeted by Congress include those on government assistance programs, veterans, the disabled, felons and the long-term unemployed. Specifically, the categories are:

• Qualified IV-A Recipient

• Qualified Veteran

• Ex-felon

• Designated Community Resident (DCR)

• Vocational Rehabilitation Referral

• Summer Youth Employees

• Supplemental Nutrition Assistance Program (SNAP) Recipient

• Long-Term Family Assistance Recipient

• Qualified Long-Term Unemployment Recipients

The WOTC along with other workforce programs that incentivize workplace diversity are often overlooked sources that can be tapped for combatting worker shortages. Recent changes to two programs illustrate how rewarding hiring from these pools can be.

The Returning Heroes Tax Credit, for example, now provides incentives of up to $5,600 for hiring unemployed veterans, while the Wounded Warriors Tax Credit doubles the existing WOTC for long-term unemployed veterans with service-connected disabilities—up to $9,600.

Another credit, the Differential Wage Payment Credit, pays employers who pay Reserve and National Guard employees while they're away on active duty for more than 30 days and who've been employees for more than 90 days. The credit of up to $4,000 is now permanently available to all employers.

Accommodating the workforce

Despite the tax incentives, going the extra mile to accommodate workers from these pools can be expensive. Fortunately, several incentives, in addition to the WOTC, exist to ease the financial burden. In addition to the WOTC, employers can take advantage of other hiring incentive programs, such as the now-expired Employee Retention Credit. Today's incentives include:

• **Veteran Hire Incentives:** The U.S. Department of Labor's Special Employer Incentives (SEI) Program provides assistance to employers who hire veterans. The SEI program connects qualified veterans with a specific role in a business. Employers are reimbursed for up to half the veteran's salary to cover certain supplies and equipment, additional instruction expenses and any loss of production.

• **Disabled Access Credit:** The Disabled Access Credit provides a non-refundable tax credit for businesses incurring expenditures for providing access to persons with disabilities. An eligible small business is one that earned $1 million or less or had no more than 30 full-time employees in the previous tax year.

• **Barrier Removal Tax Deduction:** The Architectural Barrier Removal Tax Deduction encourages businesses to remove architectural and transportation barrier to the mobility of person with disabilities and the elderly. Businesses may claim a tax deduction of up to $15,000 a year for qualified expenses for items that must normally be capitalized.

Even better, a business may use the Disabled Tax Credit and the architectural/transportation tax deductions together in the same tax year if the expenses meet the requirements of both provisions. To use both, the deduction is equal to the difference between the total expenditures and the amount of the credit claimed.

Federal hiring help

The Workforce Innovation and Opportunities Act, or WIOA, offers improved services to employers along with incentives to prepare entry-level workers, train workers transitioning to positions requiring different skill sets and “upskilling” current workers. Thanks to the WIOA, employers have greater flexibility when trying to cope with today’s economy—everything from preparing entry-level workers to retraining workers to “up-skilling” current workers. In other words, the WIOA contributes to economic growth and business expansion by ensuring the workforce system is job-driven, all of which supports developing skilled workers and matching them to employers. And don’t forget about resources such as:

• **Career one-stop business centers:** American Job Centers offer a range of customized training options to meet a business’ needs and assist in recruiting, hiring, training or up-skilling the workforce (careeronestop.org).

• **Business services toolkit:** Offers a range of tools and resources that any business can use, as well as links to more specialized, customized solutions for a business’ workforce needs (careeronestop.org/businesscenter/toolkit.aspx).

• **Incumbent worker training:** Business-led state and local workforce boards offer training services to help businesses remain competitive by updating or enhancing the skills of their current workforce. On a limited basis, workforce boards can reimburse employers for the extraordinary costs of training new frontline hires through on-the-job and customized training. Information about this and other hiring incentives can be found on the DOL’s website (dol.gov).

And don’t forget those State Workforce Agencies (SWA) that administer the WOTC certification process and coordinate with American Job Centers and other agencies to help employers connect with skilled job seekers who may be in WOTC targeted groups. Employers should contact their SWA for assistance connecting with other agencies and filing WOTC certification requests.

While some jobseekers may be pre-certified as from a WOTC target group, this pre-certification, while helpful, isn’t required for hiring or claiming the tax credit. Some job candidates that may be a good fit for your operation and eligible for the WOTC may not have a pre-certification.

A SWA or another participating agency can determine whether a job seeker may be in a WOTC-targeted group and provide a Conditional Certification ETA Form 9062. The state agency then gives that pre-certification to the job-ready applicant to use during their job search. The Conditional Certification serves as an official record or WOTC pre-certification.

A PEO for every WOTC

A Professional Employer Organization, or PEO, is a firm that provides a service under which an employer can outsource employee management tasks, such as employee benefits, payroll and worker compensation, recruiting, and risk/safety management, as well as training and development. Until recently, claiming the WOTC as a client of a PEO remained a complex exercise. Who the tax credits technically belong to varies from state-to-state and case-by-case.

Fortunately, this changed thanks to an IRS program that allowed a PEO to become a “Certified” Professional

Employer Organization, or CPEO, allowed to offer value-added benefits to their clients while clearing up the question of who owned tax credits. Today, any business that doesn't want to administer WOTC in-house can work with a PEO to either claim the credit or assign it to the CPEO.

Here today, gone down the road

There's no limit on the number of qualified individuals that a business can hire, making the WOTC a significant option for any employer willing to add a screening phase to their hiring process. Of more immediate concern, the WOTC is only a temporary tax break.

The WOTC was extended through 2025, giving employers several more years of tax incentives to hire eligible workers, including veterans. Will your business join other employers who cut their expenses and currently claim over $1 billion in tax credits each year under the WOTC program? **GT**

Mark E. Battersby is a freelance writer who specializes in business finance. He can be reached at mebatt12@earthlink.net.