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The Work Opportunity Tax Credit: A Fact Sheet

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The 104th Congress replaced the Targeted Jobs Tax Credit (TJTC, 1978-1994) with the Work Opportunity Tax Credit (WOTC) in section 1201 of the Small Business Job Protection Act of 1996 (P.L. 104-188). The temporary credit was to have been effective for one year (October 1, 1996 through September 30, 1997). WOTC would have expired on October 1, 1997 had the 105th Congress not reauthorized it in the Taxpayer Relief Act of 1997 (P.L. 105-34).

P.L. 105-34 extended WOTC for 9 months through June 30, 1998. It also made some modifications to the credit, chief among them shortening from 400 hours to 120 hours the time that an eligible hire must remain on an employer's payroll in order for the credit to be claimed, changing the subsidy rate from 35%, and adding an eligible group (i.e., Supplemental Security Income recipients). These amendments apply to eligible individuals hired after September 30, 1997. (For information on legislative activity in the second session of the 105th Congress, see: U.S. Library of Congress. Congressional Research Service. *The Work Opportunity Tax Credit and the 105th Congress.* CRS Report 97-540 E, by Linda Levine.)

In the current version of the program, employers are entitled to a credit against their federal income tax liabilities for hiring members of the following 8 groups:

> (1) members of families receiving benefits under the Aid to Families with Dependent Children (AFDC) or its successor (Temporary Assistance for Needy Families, TANF) program for a total of any 9 months during the 18-month period ending on the hiring date; (2) qualified veterans who are members of families receiving assistance under a food stamp program under the Food Stamp Act of 1977 for at least a 3-month period during the 15-month period ending on the hiring date; (3) economically disadvantaged ex-felons with hiring dates within 1 year of the last date of conviction or release from prison; (4) high-risk youth (i.e., 18-24 year olds whose principal place of abode is an empowerment zone or an enterprise community, EZ/EC); (5) vocational rehabilitation referrals (i.e., individuals with physical or mental disabilities that result in substantial handicaps to employment who have been referred to employers upon completion of or while receiving rehabilitative services under a state rehabilitation plan or a program approved by the Department of Veterans Affairs; (6) summer youth (i.e., 16-17 year olds hired for any 90-day period between May 1 and September 15 whose principal

place of abode is an EZ/EC); (7) 18-24 year olds who are members of families receiving food stamp benefits for the 6-month period ending on the hiring date, or receiving benefits for at least 3 months of the 5-month period ending on the hiring date if family members no longer are eligible for assistance under section 6(o) of the Food Stamp Act of 1977; and, (8) Supplemental Security Income recipients who have received benefits for any month ending within the 60-day period ending on the hiring date.

Employers must retain all eligible hires for at least 120 hours in order to claim the credit. If WOTC-hires (except summer youth) are retained for 120-399 hours, firms can claim an income tax credit of 25% of the first $6,000 earned by the employee during the first year of employment. If WOTC-hires (except summer youth) are retained for 400 or more hours, the subsidy rate rises to 40%. For summer youth hires, the 25% or 40% subsidy rate is applied against the first $3,000 earned.

The actual value of the credit could be less than $1,500-$2,400 per eligible worker (or $750-$1,200 for summer-youth hires) depending on the employer's tax bracket. An employer's usual deduction for wages and salaries must be reduced by the amount of the credit as well. The credit also cannot exceed 90% of a firm's annual income tax liability, although the excess can be carried back 3 years or and carried forward 15 years.

On or before the day an employer offers a job to a potential WOTC-eligible group member, the employer or employer's agent must complete a pre-screening notice (IRS Form 8850, Work Opportunity Credit Pre-Screening Notice and Certification Request) which is to be signed by the employer and newly hired worker under penalties of perjury. The certification request must then be submitted to a local Employment Service (ES) office within 21 days after the individual has started work. The ES office subsequently certifies whether or not the new-hire is a member of an eligible group. If an ES office denies a request for certification of a new hire, it must provide a written explanation of its rationale to the employer. There is an alternative to this procedure, which was not used often under WOTC's predecessor, the Targeted Jobs Tax Credit: on or before the day a new-hire begins to work for an employer, the employer already has received a certification of eligibility from the ES.

Congress specified in the Labor Department's FY1998 appropriation (P.L. 105-78) that $20 million go toward ES administration of WOTC and the Welfare-to-Work Tax Credit (WWTC). (For information on the WWTC, see: U.S. Library of Congress. Congressional Research Service. *The Welfare-to-Work Tax Credit: A Fact Sheet*. CRS Report 97-784 E, by Linda Levine.) According to the ES, 126,113 WOTC certifications were issued to employers in FY1997. Almost 60% were for members of the AFDC/TANF eligible group, and another 21% were for members of the group comprised of 18-24 year olds in families receiving food stamp benefits.

In its FY1999 budget submission, the Administration estimated that the WOTC might have cost $110 million in FY1997. The revenue forgone estimate for FY1998 is $275 million, with the difference between the two years likely reflecting the reduction in the minimum employment period and the addition of an eligible group, both of which began on October 1, 1997.