EMPLOYER ENGAGEMENT QUICK GUIDE | WORK OPPORTUNITY TAX CREDIT (WOTC)

WHAT IS THE WORK OPPORTUNITY TAX CREDIT?

The Work Opportunity Tax Credit (WOTC) program is a federal tax credit available to employers if they hire individuals from specific targeted groups that have had significant barriers to employment. The tax credit is based on three factors:

- The category of workers hired
- The wages paid to those workers in their first year of work, and
- The hours they work

WOTC is currently authorized through December 31, 2025.
For updated information, visit dol.gov/agencies/eta/wotc.

WHAT TYPES OF WORKERS QUALIFY FOR WOTC?

When a business is in the process of hiring, they first determine if the applicant being hired fits into one of the specific categories that qualify the business for the Work Opportunity Tax Credit. The categories of workers that may qualify a business for the WOTC are:

- Veterans
- TANF Recipients (Long-Term Temporary Assistance for Needy Families)
- SNAP (Food Stamp) Recipients
- Designated Community Residents (living in Empowerment Zones or Rural Renewal Counties)
- Vocational Rehabilitation Referral
- Ex-felons
- Supplemental Security Income (SSI) Recipients
- Summer Youth Employee (living in Empowerment Zones)
- Long-Term Family Assistance Recipients
- Qualified Long-Term Unemployment Recipients

TIP

In addition to the general qualification, there are specific qualifications within each category. This Dept. of Labor Work Opportunity Tax Credit Eligibility Chart includes details.

HOW TO QUALIFY THE WORKER

There are two forms that the employer and the applicant must complete by the time the employee begins work. If the forms are not completed during the hiring process, the employer won't be able to get the tax credit.

First, the IRS pre-screening form IRS Form 8850:

- When the job offer is made, the applicant completes the first page showing their eligibility.
- When the applicant is hired, the employer completes the second page providing the business information and information on the hire.

Secondly, the Department of Labor Form 9061. The applicant completes the form and the employer verifies the documents the person submits as verification. (Some applicants may have already completed Conditional Certification DOL Form 9062 instead.)

ICI ExploreVR
INSTITUTE FOR COMMUNITY INCLUSION, UMASS BOSTON

The contents of this factsheet do not represent legal advice and is provided for general informational purposes only. For specific references to this and related laws, please verify your state statutes and laws, as well as consult with your agency/ business attorney or certified public accountant.

As soon as the worker is hired, the employer must submit these two forms to the state workforce agency (or state employment agency) for a determination on the eligibility of this worker for WOTC credit. The state workforce agency will send the employer a determination letter notifying them of worker's eligibility status.

TIP

Don't file form 8850 with the IRS. Instead, file with the state workforce agency no later than the 28th calendar day after the person begins working. A list of state workforce agencies can be found here: www.dol.gov/agencies/eta/wotc/contact/state-workforce-agencies

WHAT EMPLOYEES ARE NOT ELIGIBLE?

Even if they might otherwise make a business eligible for the tax credit, the business can't get the tax credit for hiring

- Relatives or dependents, including children, stepchildren, spouse, parents, siblings, step-siblings, nephews, nieces, uncles, aunts, cousins, or in-laws
- Majority owners of the business

WAGES COUNTED FOR THE TAX CREDIT

The next step after hiring, is determining the amount of wages for the tax credit for each eligible employee. The wages must be paid in the first year of employment, so employers will have to wait one year to submit the application for the tax credit to the IRS.

Employers may include all payments made to the employee in that year, with these details:

- The wages must be wages on which the business has paid Federal Unemployment (FUTA) tax, and
- They must actually have been paid by the business directly. Wages subsidized by another party or paid indirectly by the business don't count toward the WOTC

DETERMINING THE TAX CREDIT

It gets a little more complicated when calculating the hours worked and the amount of the tax credit because the amounts differ depending on the category of the employee. The employee must have worked 120 hours or more during the year for the business to receive a credit equal to 25% of the wages. If the employee works at least 400 hours, the business may claim 40% of the wages. There are maximum hours for each category.

FILING FOR THE WORK OPPORTUNITY TAX CREDIT

After the worker is hired, and the business has received the letter from the state's workforce agency showing that the worker qualifies, the tax credit may be claimed by completing and submitting IRS Form 5884 with the business tax return. For this form, the business adds up all the wages of qualified workers, depending on their hours worked and their category, and multiplies these amounts by the number of hours worked during the year and the appropriate percentages (as described above).

RESOURCES

Internal Revenue Service

www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit

Department of Labor

www.dol.gov/agencies/eta/wotc

The Program on Innovative Rehabilitation Training on Employer Engagement is a project of ExploreVR at the Institute for Community Inclusion, UMass Boston. ExploreVR offers VR agencies easy and convenient access to a range of VR research, related data, training and tools for planning, evaluation, and decision-making. Funding for this project is provided by the Rehabilitation Services Administration (RSA) Grant #H263C190012.

ExploreVR

INSTITUTE FOR COMMUNITY INCLUSION, UMASS BOSTON