

Work Opportunity Tax Credit and Welfare-To-Work Tax Credit

What Is the Work Opportunity Tax Credit?

The Work Opportunity Tax Credit (WOTC) is a federal tax credit program available to employers who hire new employees from eight "targeted" groups, which have historically had difficulty in finding employment. The credit is used to reduce the federal tax liability of private-for-profit employers.

How Does an Employer Use WOTC?

When an employer believes that a prospective employee meets the qualifications for WOTC, the employer may make a job offer to that individual. On or prior to the date the job offer is made, the employer and employee must complete and sign a "Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits," (IRS-8850) and submit the notice to the Employment Security Commission of North Carolina. This information must be postmarked no later than the 21st day after the individual begins work for the employer for the tax credit to be utilized.

Under the provisions of the Taxpayer Relief Act of 1997, employers can claim a maximum federal income tax credit of \$2,400.00 per eligible worker. The credit is based on 40% of up to \$6,000.00 in qualified wages paid during the first year of employment. The employee must work a minimum of 400 hours (120 hours for Summer Youth) to be eligible for the tax credit. If the employee works a minimum of 120 hours, but not more than 399 hours, the tax credit is based on 25% of up to \$6,000.00 in qualified wages, or a maximum of \$1,500.00. The exact amount of net savings depends upon each employer's tax bracket plus the amount of qualified wages paid.

What Happens Next?

An Individual Characteristic Form (ETA-9061) that designates which target group the employer believes the new employee falls under must be completed. It is recommended that both the IRS-8850 and the ETA-9061 be submitted simultaneously. This expedites the certification process. Once both forms have been submitted, along with any necessary documentation, an eligibility determination will be made. If the employee is determined to be eligible, an Employer Certification will be issued. If the employee is determined to be ineligible, an Employer Letter of Denial will be issued.

Target Groups

A. IV-A Recipients

A person receiving assistance under a IV-A program, TANF (Temporary Aid for Needy Families) formerly known as AFDC (Aid to Families with Dependent Children), for any 9-months during the 18-month period ending on the hiring date.

B. Veterans

A person who has served active duty in the Armed Forces of the United States for a period of more than 180 days or was discharged from active duty in the Armed Forces of the United States for a service-connected disability and is a member of a family receiving Food Stamps for at least a 3-month consecutive period during the last 15 months ending on the hiring date.

C. Ex-Felons

Any person who has been convicted of a felony under any statute of the United States and who has a hiring date which is not more than one year after the later of the date on which he/she was so convicted or the date released from prison, and is a member of an economically disadvantaged family.

D. High Risk Youth

Any person who is at least age 18 but not yet age 25 on the hiring date and has his/her principal place of abode within an Empowerment Zone or Enterprise Community.

E. Vocational Rehabilitation Referral

Any person having a physical or mental disability which, for that individual, constitutes or results in a substantial handicap to employment, and was referred to the employer upon, or at any time after, completing or while receiving rehabilitative services pursuant to an individualized written rehabilitation plan (IWRP) under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973 or a rehabilitation program for veterans, carried out under Chapter 31 of Title 38, U.S. Code.

F. Summer Youth

Any person who performs services for the employer between May 1 and September 15, and has attained age 16 but not 18 on the hiring day, (or by May 1 of the calendar year involved), and has not been employed by the same employer prior to the 90-day (summer) period, and has his/her principal place of abode within an Empowerment Zone or Enterprise Community.

G. Food Stamp Recipient

Any person between the ages of 18 and 24 who is a member of a family receiving assistance under a food stamp program for the 6-month consecutive period ending on the hiring date, or receiving such assistance for at least 3 consecutive months of the 5-month consecutive period ending on the hiring date, in the case of a family member who is an able-bodied adult without dependents and ceases to be eligible for such assistance.

H. SSI Recipients

Any person receiving Supplemental Security Income (SSI) assistance for any month during the 60 day period ending on the hiring date.

Please Note: To Apply for the Work Opportunity Tax Credit a Pre-Screening Notice form 8850 and a Individual Characteristic form ETA-9061 must be completed and mailed to: Employment Security Commission of North Carolina, Applicant Services Unit, ATTN: WOTC, P.O. Box 27625, Raleigh, North Carolina 27611.

In order to obtain certification for this program, the Pre-Screening Notice must be completed on or before the start date of employment and must be mailed no later than the 21st day after the employee begins work.