

Using Tax Credits to Encourage Hiring of Homeless and Disabled Veterans

Fact Sheet #2

What is the Work Opportunity Tax Credit (WOTC)?

The WOTC is a federal tax credit that encourages employers to hire job-seekers with employment barriers by allowing them to recover a portion of the wages paid during the initial period of employment. For many employers, especially small businesses, this tax credit may provide an additional incentive to hire and retain veterans who qualify for the credit. The Small Business and Work Opportunity Tax Act of 2007 extended the WOTC program through August 31, 2011.

What types of workers would qualify the employer to receive the WOTC?

Individuals hired from the following nine target groups may qualify an employer for the WOTC.

- A. Recipients of Temporary Assistance to Needy Families (TANF).
- B. Unemployed veterans receiving Food Stamps or veterans with a service connected disability who either (a) have a hiring date which is not more than one year after having been discharged or released from active duty, OR (b) have aggregate periods of unemployment during the one year period ending on the hiring date that equal or exceed six months.
- C. Ex-felons hired no later than one year after conviction or release from prison.
- D. Individuals who have attained ages 18 but not 40 on the hiring date who reside in an Empowerment Zone, Renewal Community, or Rural Renewal County.
- E. Vocational rehabilitation referrals.
- F. Summer youth ages 16 through 17 who reside in an Empowerment Zone, Enterprise Community, or Renewal Community.

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- G. Food Stamp recipients ages 18 but not 40 on the hiring date.
- H. Recipients of Supplemental Security Income (SSI).
- I. Long-term family assistance recipients.

Homeless or disabled veterans who do not qualify under group B may qualify under other groups (i.e., SSI recipients, VR referrals, ex-felons, etc.).

How much tax credit can an employer receive?

All new qualified employees must work a minimum of 120 hours in order to qualify for a credit. The credit for most of the WOTC target groups is based on the first \$6,000 in wages. The employer can receive:

- A 25% credit for workers who work at least 120 hours but less than 400 hours, and
- A 40% credit for workers who work at least 400 hours for a maximum credit of \$2,400

Credits for the Disabled Veterans or Unemployed Veterans target groups are based on the first \$12,000 in wages. The employer can receive:

- A 25% credit for workers who work at least 120 hours but less than 400 hours, and
- A 40% credit for workers who work at least 400 hours for a maximum credit of \$4,800

Credits for Long Term Family Assistance can be earned for the first two years of employment based on the first \$10,000 in wages each year.

- A 25% credit of qualified wages is paid in the first year of employment for employees completing 120 hours but less than 400 hours

- A 40% credit of qualified wages is paid in the first year of employment for employees completing 400 hours or more for a maximum first year credit of \$4,000
- A 50% credit of the qualified wages is paid for the second year of employment for a maximum second year credit of \$5,000

Is there a limit to the number of employees an employer can claim?

There is no limit on the number of employees for whom the employer can claim the credit.

How does it work?

To apply, employers need only complete two single-page forms and mail them to their state's WOTC Coordinator:

1. IRS form 8850. This form must be mailed to the employer's state workforce agency no later than the 28th day after the job applicant begins work. IRS form 8850 is available at: <http://www.irs.gov/pub/irs-fill/f8850.pdf>

Instructions for the form are at: <http://www.irs.gov/pub/irs-pdf/i8850.pdf>.
2. U.S. Department of Labor form ETA 9061. If the new employee has not been conditionally certified, the employer and/or the new employee must complete, sign and date ETA Form 9061. This form is available from the U.S. Department of Labor at: <http://www.doleta.gov/business/Incentives/opptax/>.

This page also includes a link to a directory of state WOTC Coordinators.

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