

Update: June 2011

Tax Intelligence

Proposed WOTC Legislation – Updates and Guidance

Situation

The Work Opportunity Tax Credit (WOTC) is a federal tax credit program that is open to all employers of the 50 United States, Puerto Rico, and the U.S. Virgin Islands. It provides a tax credit of up to \$9,000 per new hire over two years to any employer who hires individuals who fall into one of several WOTC “target groups”.

Recently, Representative Aaron Schock (R) of Illinois and Representative Charles Rangel (D) of New York have introduced a bill (H.R. 2082) to “amend the Internal Revenue Code of 1986 to modify the work opportunity credit.” The goal of this bill is to avoid any hiatus or sun-setting of the Work Opportunity Tax Credit (WOTC) because it is currently set to expire on December 31st, 2011. Though such an expiration is not unprecedented because WOTC has gone on hiatus before, the current economic situation is renewing interest in WOTC as a vehicle for social service reform. Says Mr. Rangel:

“WOTC is a key element of welfare reform because it provides a bridge from welfare dependence to work. The program encourages employers to hire public assistance recipients and other needy individuals with few job skills and little or no work experience. Having a job is an essential component to keeping families together.”

This bill is notable as it extends WOTC for three (3) years through December 31, 2014. Further, it introduces “Alternative Certification” for specific WOTC categories wherein “information can be obtained by the individual hired or the employer and there is no reason for the State Workforce Agency (SWA) to go through the certification process since they simply will be reviewing documents supplied by the employer.” In addition, the proposed legislation reestablishes the “Unemployed Veteran” and “Disconnected Youth” qualification categories, and renames Disconnected Youth to “High-Risk Youth”. Also, veterans of the National Guard are now included in the official WOTC definition of “Veteran.” Mr. Schock comments:

“Unemployment . . . remains far too high. This extra tool [WOTC] will continue to assist and incentivize small businesses to hire new employees. This program is designed to help individuals who have fallen on bad luck or face other obstacles to employment, and offers a way forward where there might not be another avenue.”

The bill was referred to both the House Ways and Means and House Armed Services committees on June 1, 2011.

Solution

Now is the time for companies of all sizes and industries to implement and optimize tax incentive capture programs. As WOTC goes through its renewal process, there is a chance that some sort of pause or hiatus will affect the credit generation potential of hires made after Jan 1, 2012. However, if WOTC credits are identified before the current cutoff time, those individual hires for whom a tax credit is generated will continue to garner said tax credit for up to two years with no interruption. Effectively, the successful implementation of a WOTC screening program will add material value and will continue to pay dividends regardless of the ultimate resolution of the current WOTC legislative process.

Value

TALX has a dedicated team of experts with experience in all areas of federal, state and local taxation reviewing and monitoring new legislative developments to assist employers in capturing tax credit and incentive opportunities. If your company is interested in receiving more information on the proposed WOTC legislation, please contact Pete Krieshok at (314) 214-7325 or pkrieshok@talx.com, or visit our corporate blog at <http://blog.talx.com>.