

Hiring Welfare Recipients Can Reduce Employer Taxes by \$8,500 Per New Hire: The New Welfare-to-Work and Work Opportunity Tax Credits



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What Are The New Employer Tax Credits?

The Taxpayer Relief Act of 1997 reauthorized the Work Opportunity Tax Credit (WOTC) and established a new Welfare-to-Work Tax Credit for hiring long-term welfare recipients, which will be administered under the WOTC certification procedures established by the Small Business Job Protection Act of 1996 (P.L. 104-188).

Long-term welfare recipients can now earn their employers a Welfare-to-Work Tax Credit of up to \$3,500 for their first and \$5,000 for their second year of employment. Other welfare recipients can earn employers a WOTC of up to \$2,400 for their first year of employment. Moreover, the number of new hires who can Qualify employers for these tax credits is unlimited.

These employer tax credits are an important tool in a diverse toolbox of flexible strategies designed to help people gain on-the-job experience and move from welfare to work. They join other welfare-to-work initiatives and targeted tax credits that help American workers gain economic self-sufficiency and increase American productivity and economic growth.

What Welfare Recipients Qualify Employers For These Federal Tax Credits?

• "Long-term family assistance recipients" who can earn their employers the Welfare-to-Work Tax Credit of up to \$8,500 per new hire are members of a family:

- That received Aid to Families with Dependent Children (AFDC) or its successor program, Temporary Assistance for Needy Families (TANF), for at least 18 consecutive months before date of hire, or
- Whose AFDC or TANF eligibility expired under federal or state law after August 5, 1997, or
- That received AFDC or TANF for a total of at least 18 months, beginning after August 5, 1997,
- Who begin work any time after December 31, 1997, and before May 1, 1999.

The Welfare-to-Work Tax Credit for new hires employed 400 or more hours or 180 days is 35% of qualified wages for the first year of employment and 50% for the second year; qualified wages are capped at \$ 10,000 per year.

• Other welfare recipients who can earn their employers the Work Opportunity Tax Credit of up to \$2,400 per new hire are members of a family:

- That received AFDC or TANF for a total of any 9 of the 18 months before date of hire
- Who begin work any time after September 30, 1997, and before June 30, 1998.

The WOTC for new hires employed 400 or more hours is 40% of qualified wages for the first year of employment; qualified wages are capped at \$6,000. The credit for those employed 120 to 400 hours is 25%.

What Steps Do Employers Need To Take To Earn These Tax Credits?

Employers must apply for and receive certification from their state employment agency that their new hire belongs to one of the nine groups of job seekers eligible for the Welfare-to-Work or Work Opportunity Tax Credit before claiming it on their federal income tax return.

•To apply for certification that a new hire qualifies for one of these tax credits,* employers need only complete two one-page forms:

- IRS Form 8850, *by the day the job offer is made*, and
- U.S. Department of Labor ETA Form 9061 (or ETA 9062, if the job applicant has already been conditionally certified), and

•Mail the signed IRS 8850 and ETA 9061 or 9062 to their state employment agency WOTC Coordinator; *the IRS 8850 must be mailed to the State WOTC Coordinator not later than 21 days after the new hire's start date*

To get IRS Form 8850 (Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Tax Credits), download it from <http://www.irs.ustreas.gov> or call IRS at 1-800-829-3676

To get ETA 9061 (Individual Characteristics Form), download it from <http://www.doleta.gov/wotc.htm> or call your state employment agency WOTC Coordinator (see below)

What Other New Hires Can Earn Employers The Work Opportunity Tax Credit?

- 18-24 year-old members of a family receiving food stamps,
- Veterans who are members of a family receiving food stamps,
- Vocational rehabilitation referrals,
- 18-24-year-old residents of one of the 105 federally designated Empowerment Zones and Enterprise Community (EZ/ECs),
- 16-17-year-old EZ/EC residents hired as Summer Youth employees
- Low-income ex-felons, and
- Supplemental Security Income recipients -- *a new WOTC target group*

For More Information About The Welfare-to-Work and Work Opportunity Tax Credits

- Visit our WOTC website: <http://www.doleta.gov/wote.htm> or call
- Call your State WOTC Coordinator (to get a directory of all State WOTC Coordinators, visit our WOTC website or call 202-219-9092)
- For information on the tax-related aspects of these tax credits, call Robert Wheeler at IRS at 202-622-6060
- For information on the Department of Labor's Welfare-to-Work Grant Program, visit its website: <http://wtw.doleta.gov> or call 202-208-7281
- For information about EZ/ECs, visit their website: <http://www.ezec.gov> or call 1-800-998-9999

**Note: Employers may claim both the Welfare-to- Work and the Work Opportunity tax credit for the same individual, but not in the same taxable year*

