

## WHAT IS WOTC?

**The Work Opportunity tax credit (WOTC)** is a federal income tax credit that's available to businesses that hire members of certain "targeted" groups. Here's how your business may be able to benefit from this potentially lucrative tax break.

### THE BASICS:

WOTC encourages businesses to hire from certain categories of workers who face significant barriers to employment. The allowable credit amount is based on a portion of wages paid to an eligible worker during the first year of employment or, in some cases, during the first two years.



## WOTC RULES AND RESTRICTIONS:

- ▶ **Minimum hours of work.** No credit is available unless the worker completes at least 120 hours of work. The credit is reduced if the individual works at least 120 hours but less than 400 hours.
- ▶ **Rehired workers.** The credit is available only for *new hires*. Wages paid to an individual who was previously employed by your business and is rehired don't qualify.
- ▶ **Related parties.** Wages paid to certain individuals who are related to the employer or business owner don't qualify.
- ▶ **Deduction of wages reported.** A business can't claim a compensation deduction for any portion of wages claimed as a WOTC. For instance, if the allowable credit for an employee is \$2,400, you must deduct that amount from the employee's total wages used as a business expense.



## WOTC TARGETED GROUPS

**Current law provides the following categories of WOTC-eligible workers:**

- ▶ Qualified IV-A Recipient (TANF)
- ▶ Qualified Veteran
- ▶ Ex-Felon
- ▶ Designated Community Resident
- ▶ Vocational Rehabilitation Referral
- ▶ Summer Youth Employee
- ▶ Supplemental Nutrition Assistance Program (SNAP)
- ▶ Supplemental Security Income (SSI) Recipient
- ▶ Long-Term Family Assistance Recipient (Long-Term TANF)
- ▶ Qualified Long-Term Unemployment Recipient

The last targeted group was added to the list under the Protecting Americans from Tax Hikes (PATH) Act of 2015. Since January 1, 2016, the WOTC has been available for hiring long-term unemployment recipients, defined as those who have been unemployed for a period of at least 27 weeks and who received state or federal unemployment benefits during all or part of that time.

## WOTC PROCESS OVERVIEW:

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### Step 1 of 3:

- ▶ Each new hire or applicant completes the 8850 form
- ▶ These forms can be filled out or completed online
- ▶ They must be submitted with 28 days of hire

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### Step 2 of 3:

- ▶ Applications will be validated and submitted to the state with proof of status
- ▶ Employees will be pre-qualified, certified, or denied
- ▶ All pre-qualified and certified employees should be given the appropriate amount of hours and wages to get the maximum tax credit

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### Step 3 of 3:

- ▶ Payroll will be collected for all certified employees.
- ▶ Completed IRS forms are generated and sent to the company for filing

## HOURS AND WAGES

- ▶ Employees who work a minimum of 120 hours are eligible for a partial tax credit.
- ▶ Employees who work a minimum of 400 hours are eligible for the max credit.
- ▶ Credit is calculated using a set percentage of wages.

Non-Veteran WOTC Target Groups	Worked at least 120 hours but less than 400 hours	Worked at least 400 hours
Short-Term TANF Recipient	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Long-Term TANF Recipient	<b>N/A</b>	<b>Up to \$9,000</b> (over 2 years) (40% of \$10,000 of first-year wages and 50% of \$10,000 of second-year wages)
SNAP (food stamp) Recipient	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Designated Community Resident	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Vocational Rehabilitation Referral	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Ex-Felon	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
SSI Recipient	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Summer Youth Employee	<b>Up to \$750</b> (25% of \$3,000 of first-year wages)	<b>Up to \$1,200</b> (40% of \$3,000 of first-year wages)
Qualified Long-Term Unemployment Recipient	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
Veteran Target Group	Worked at least 120 hours but less than 400 hours	Worked at least 400 hours
Receives SNAP (food stamps) benefits	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
<b>Entitled to compensation for service-connected disability:</b>		
Hired 1 year after leaving service	<b>Up to \$3,000</b> (25% of \$12,000 of first-year wages)	<b>Up to \$4,800</b> (40% of \$12,000 of first-year wages)
Unemployment at least 6 months	<b>Up to \$6,000</b> (25% of \$24,000 of first-year wages)	<b>Up to \$9,600</b> (40% of \$24,000 of first-year wages)
<b>Unemployed:</b>		
At least 4 weeks	<b>Up to \$1,500</b> (25% of \$6,000 of first-year wages)	<b>Up to \$2,400</b> (40% of \$6,000 of first-year wages)
At least 6 months	<b>Up to \$3,500</b> (25% of \$14,000 of first-year wages)	<b>Up to \$5,600</b> (40% of \$14,000 of first-year wages)

# IRS TAX FORM 5884 CREATED

When a credit is ready to be issued to a client we will prepare tax form 5884. We will forward this form to the client's CPA or accounting department to be processed filed along with the tax return.

Many times complex questions will arise. Our team of accounting professionals will guide your CPA on how to claim these credits.

<b>Form 5884</b> (Rev. December 2016) Department of the Treasury Internal Revenue Service		<b>Work Opportunity Credit</b> ▶ Attach to your tax return. ▶ Information about Form 5884 and its separate instructions is at <a href="http://www.irs.gov/form5884">www.irs.gov/form5884</a> .		OMB No. 1545-0219  Attachment Sequence No. <b>77</b>
Name(s) shown on return <b>Test Company 123</b>			Identifying number <b>96-3852741</b>	
<b>1</b>	Enter on the applicable line below the total qualified first- or second-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who are certified as members of a targeted group.			
<b>a</b>	Qualified first-year wages of employees who worked for you at least 120 hours but fewer than 400 hours . . . . . \$ <u>0.00</u> × 25% (0.25)	<b>1a</b>	<u>0</u>	<u>0</u>
<b>b</b>	Qualified first-year wages of employees who worked for you at least 400 hours . . . . . \$ <u>14,000.00</u> × 40% (0.40)	<b>1b</b>	<u>5,600</u>	<u>0</u>
<b>c</b>	Qualified second-year wages of employees certified as long-term family assistance recipients . . . . . \$ <u>0.00</u> × 50% (0.50)	<b>1c</b>	<u>0</u>	<u>0</u>
<b>2</b>	Add lines 1a, 1b, and 1c. See instructions for the adjustment you must make to salaries and wages . . . . .	<b>2</b>	<u>5,600</u>	<u>0</u>
<b>3</b>	Work opportunity credit from partnerships, S corporations, cooperatives, estates, and trusts (see instructions) . . . . .	<b>3</b>		
<b>4</b>	Add lines 2 and 3. Cooperatives, estates, and trusts, go to line 5. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 4b . . . . .	<b>4</b>		
<b>5</b>	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions) . . . . .	<b>5</b>		
<b>6</b>	Cooperatives, estates, and trusts, subtract line 5 from line 4. Report this amount on Form 3800, Part III, line 4b . . . . .	<b>6</b>		
For Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 13570D		Form <b>5884</b> (Rev. 12-2016)



**WOTC.com**

Work Opportunity Tax Credit

**THANK YOU**



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