



## Abstract

The purpose of this white paper is to help businesses obtain a better understanding of the Work Opportunity Tax Credit (WOTC) Program. The information covered in this document is based on Walton Management's the knowledge, experience, and expertise of the WOTC Program as a processor and administrator of the Program since its inception in the 1990s and as a niche tax credit vendor for over 35 years. The information contained in this white paper is intended for businesses that are hiring and desire to reduce their tax liability. In the following document, we discuss the intent and purpose of the WOTC Program, why businesses participate in the WOTC Program, and the degree to which businesses have implemented and benefited from the WOTC Program.

## Intent versus Practice: The True Benefits of the Work Opportunity Tax Credit Program

The Work Opportunity Tax Credit (WOTC) Program is a federal tax credit incentive that has been providing benefits to companies, employees, and government alike for the past 20 years. This federal corporate income tax credit encourages employers to hire traditionally difficult to employ workers while minimizing the cost involved by reducing the employer's federal income tax liability.<sup>1</sup>

Designed to encourage private sector companies to hire difficult to employ individuals over other similarly qualified individuals, the WOTC Program has evolved into a successful tool to encourage job creation and retention. With businesses claiming over one billion dollars every year in WOTC Program credits, the WOTC Program defrays the costs associated with hiring and training these hard to employ targeted individuals, particularly important to businesses in competitive situations and confronted with a difficult economic climate.<sup>2</sup>

### *How Does the WOTC Program Work?*

Businesses earn a tax credit of a maximum of \$1,200 to \$9,600 per qualified individual when hiring from 10 target groups.<sup>3</sup> These target groups include:

- Veterans
- TANF Recipients
- SNAP (Food Stamp) Recipients
- Designated Community Residents (living in Empowerment Zones or Rural Renewal Counties)
- Vocational Rehabilitation Referral
- Ex-felons

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<sup>1</sup> The Work Opportunity Tax Credit was established by the Small Business Job Protection Act of 1996 (P.L. 104-188). WOTC promotes hiring of individuals who are considered disadvantaged such as long-term recipients of public assistance, disabled veterans, and ex-felons who start work on or before December 31, 2019.

<sup>2</sup> U.S. Department of Labor, Employment Training Administration (<https://www.doleta.gov/business/incentives/opptax/wotcEmployers.cfm>).

<sup>3</sup> Actual tax credit value depends on the targeted group to which the individual belongs, hours worked, and wages earned. The Summer Youth target group has a maximum value of \$1,200. All other target groups have tax credit maximum values of \$2,400 to \$9,600, which is often cited by WOTC Program vendors as the range of tax credit values.



- Supplemental Security Income Recipients
- Summer Youth Employee (living in Empowerment Zones)
- Long-Term Unemployed

In addition to hiring from certain target groups, these qualified employees must work a minimum of 120 hours. By tying the credit value to the hours worked, businesses are encouraged to invest in basic entry-level skills training, long-term employment, and retention of traditionally difficult-to-employ individuals such as those without skills, at a minimal skill level, disabled, un-employed for extended periods of time, and ex-felons.

Additionally, the WOTC Program helps reduce hiring and training costs not only for those new hires from the WOTC target groups, but also across the entire workforce. By providing valuable savings, companies are encouraged to create more jobs and/or re-invest across their operations.

#### *Does it Work?*

As originally intended, the WOTC Program was conceived to target the hiring of otherwise unemployed or unemployable individuals and those receiving government assistance. Yet, adding new employees in the best of times is expensive, in a fluctuating economy it is risky, particularly if those employees require additional training or accommodations. The WOTC Program is intended to remove some of that risk to businesses by reducing the cost that they incur by hiring.

Has the WOTC Program worked as intended? Increasing participation in the WOTC Program, a reflection of increasing hiring of these targeted individuals, is a clear indicator that WOTC is having this intended effect. For example, the growing concern that those who have been on unemployment for a significant period of time face additional barriers to employment due to both a negative perception in the hiring process associated with individuals currently unemployed as well as out-dated skills from being out of the workforce. The WOTC Program targets these individuals, providing a cost reduction associated with hiring these long term unemployed that can be reinvested in the training of these individuals as well as others in an effort to employ and retain them.

Furthermore, the participation and success of the Program in terms of hiring these difficult to employ individuals is evident in the sheer volume of certifications for the WOTC Program. During the WOTC Program's first year, approximately 100,000 WOTC Program certifications were issued.<sup>4</sup> This limited participation was partially the result of a lack of awareness of the Program. The result was that the amount of WOTC taken on corporate income tax returns by businesses in 1996 totalled only seven million dollars.<sup>5</sup> However, as awareness of the benefits of the WOTC Program spread, participation increased.

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<sup>4</sup> State Workforce Agencies (SWA) are tasked with administering the WOTC Program on a state level. These SWA must issue a "certification" that the individual is in a targeted group and, therefore, the company may take the tax credit on that certified individual.

<sup>5</sup> Certification numbers include 123,407 WOTC certifications in FY1997, 331,902 for WOTC and WTW in FY1998, 440,705 in FY1999, 525,443 in FY2000, 480,429 in FY2001, 423,962 in FY2002, and 436,311 in FY2003. Linda Levine, The Work Opportunity



Since the WOTC Program's inception, businesses participating in WOTC has increased significantly over the years as has the value companies have received from such participation. For example, certifications awards increased from 633,000 in FY2007 and 691,421 in FY2008.<sup>6</sup> Program participation has continued to increase year over year. From 2002 to 2013, 8.7 million individuals were certified for the WOTC Program.<sup>7</sup>

Additionally, the value of these certifications increased from \$15.8M for only WOTC in 1996 to \$395.2M in 2001.<sup>8</sup> Awareness of this value has led businesses to participate in greater numbers and to a greater extent, reaping the rewards. Each one of these certifications affects the bottom line of businesses.

Consequently, this effect on the bottom line of business operations has led the benefits of the WOTC Program to extend beyond the original intent of the Program. Beyond encouraging hiring of targeted groups, participation in the WOTC Program has provided an incentive for businesses to reinvest in other operations and services from other businesses.

Since 2002, the hiring of these targeted individuals have resulted in approximately one billion dollars in savings to participating companies, which were then able to put those dollars to work through additional hiring, training, and investment in research and development, equipment, and facilities. Some companies use the savings from the WOTC Program to offset the costs of paying for additional services such as I-9 verification processing, background screenings, employee verifications, applicant tracking services, or payroll.

#### *Who Else Benefits?*

The WOTC Program promotes the hiring of individuals receiving government assistance with the consequent effect of reducing government costs, a benefit to tax payers and the economy as a whole.

The reduction in cost to the government and taxpayers is reflected in the type of individuals hired. Of those targeted individuals hired, 55% of them were recipients of food stamps and 20% of them were receiving welfare for a period of time.<sup>9</sup> In FY2014, as the economy struggled to climb out of the Great Recession, those targeted individuals on food stamps rose to 922,820, resulting in 71% of the targeted

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Tax Credit (WOTC) and the Welfare-to-Work (WtW) Tax Credit", Congressional Research Service, Workplace Documents, Federal Publications (27 April 2005): CRS-7-CRS-8.

<sup>6</sup> U.S. Department of Labor, Employment and Training Administration, "Work Opportunity Tax Credit", <http://www.doleta.gov/business/Incentives/opptax/> (visited on 10 February 2010).

<sup>7</sup> ETA: Enterprise Business Support System – Fiscal Year State Quarterly Reports, "Summary of Work Opportunity Tax Credit Data FYs 2002 2013: Certifications Issued by Target Group".

<sup>8</sup> Linda Levine, The Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work (WtW) Tax Credit", Congressional Research Service, Workplace Documents, Federal Publications (27 April 2005): CRS-9.

<sup>9</sup> ETA: Enterprise Business Support System – Fiscal Year State Quarterly Reports, "Summary of Work Opportunity Tax Credit Data FYs 2002 2013: Certifications Issued by Target Group".



individuals being hiring were food stamp recipients.<sup>10</sup> Removing these individuals from the government rolls is a benefit to the tax burden carried by businesses, individuals, and the economy as a whole.

Furthermore, as designed, WOTC Program encourages businesses to maintain those employment investments in order to maximize their tax credit potential and, thereby, provide the opportunity to improve the skills of the workers without negatively affecting the company's bottom line.<sup>11</sup> Employee retention ensures these difficult to hire individuals stay off government disbursement programs and remain as contributing, taxpaying citizens.

#### *How to Participate in the WOTC Program*

The WOTC Program has specific hiring and processing requirements. The hiring requirements to determine qualified employees, discussed previously, require a screening method to be in place at the applicant or hire stage. There are regulatory requirements for the screenings in terms of deadlines for completion and submission of the paperwork. Further processing requirements revolve around submitting appropriate paperwork to State Workforce Agencies (SWA) which oversee the WOTC Program, tracking these submissions, and addressing documentation and denial issues. Additionally, this paperwork must be submitted through approved procedures; for most states it is an electronic process requiring an account with the state, for a select group of states, paper submissions are still required. Lastly, determining the tax credit award requires tracking of eligible employees, hours and wages, dependent upon target group.

These hiring and processing requirements can be daunting and time consuming. Consequently, many businesses choose to outsource their WOTC Program. There are a range of WOTC Program vendors in the marketplace from small operations to those integrated with other services such as payroll, accounting, and applicant tracking.

The benefits and fit of a WOTC Program vendor depend on the needs of the business, staffing availability, and level of hiring. As it is a hiring based program, firms with only a few to under 100 hires per year need to evaluate the degree to which they need or desire the breadth of services from tracking to detailed reporting provided by a larger WOTC Program vendor. Businesses with significant hiring of thousands to tens of thousands per year will require a WOTC Program process that enables them to accurately identify, capture, track, and secure the large number of eligible tax credit qualifiers being hired. Such a process typically requires a tax credit firm that has a targeted practice covering the WOTC Program.

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<sup>10</sup> ETA: Enterprise Business Support System – Fiscal Year State Quarterly Reports, “WOTC Certifications and Denials for New Hires by Target Group: National Summary for Fiscal Year 2014”

<sup>11</sup> “Minimum employment or retention period. All new adult employees must work a minimum of 120 or 400 hours. Individuals hired as Summer Youth employees must work at least 90 days, between May 1 and September 15, before an employer is eligible to claim the tax credit. The WOTC amount an employer may claim depends on the hours the employee works. The credit is 25% of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours and 40% for those employed 400 hours or more.” (U.S. Department of Labor, Employment Training Administration, “Work Opportunity Tax Credit”, (<http://www.doleta.gov/business/Incentives/opptax/>).



Walton Management Services, Inc. is one such BPO firm with standalone WOTC Program servicing to fully integrated services with other niche providers of applicant tracking; I-9 screening; recruiting, applicant tracking, and onboarding services; payroll; UI services; and payroll. However, unlike other firms, Walton Management has a Software as a Solution (SaaS) option available to clients, which significantly reduces the complexity and cost for businesses to either outsource their WOTC Program to Walton Management or maintain it in-house with all the reporting and controls of an outsourced solution. Walton Management's solution is also the only one to take advantage of business intelligence capabilities to provide clients with the most advanced, innovative tracking and reporting available in the WOTC Program industry, an important component for capturing the maximum WOTC Program value possible.

### *Choose to Participate Today*

However a business chooses to participate in the Work Opportunity Tax Credit Program, one thing is clear: Participation in the WOTC Program is a simple, easy way to save critical dollars that can be used for additional hiring, training, and investment. It is beneficial to the business, the new hire, and the government and economy as a whole.

For More Information Contact WMS at (800) 221-0832 or visit Walton Management Services, Inc. at [www.waltonmgt.com](http://www.waltonmgt.com).

### *About Walton Management Services, Inc.*

*As a trusted advisor, Walton Management Services, Inc. (WMS) delivers specialized tax credit screening solutions using state-of-the-art technology. With a rich legacy and solid reputation in the last 35 years, WMS has developed seamless, innovative, proven best practices, delivering millions of federal, state, and local tax savings. As an integrated extension to our client's finance departments, WMS consults, identifies, and realizes their full savings potential. From Fortune 50 to small and mid-sized companies, WMS works with all industries to generate tax savings through business activities such as hiring new employees, expanding and downsizing facility locations, making capital investments, and training new and incumbent workers.*

*About the Author: Dr. Vignola has worked with WMS in various capacities for over 13 years. As a senior analyst, Dr. Vignola secured and administered over \$1M in grants and tax credits on behalf of clients. She has since advanced within WMS, providing regulatory compliance with tax credit programs on behalf of clients, serving as a liaison between clients and governmental agencies, overseeing the WOTC Program lobbying efforts of the firm, performing division oversight of the incentive consulting division, which has secured millions of dollars in non-WOTC benefits for clients, and providing the firm's blog and marketing content.*