

HR COMPLIANCE OVERVIEW



Work Opportunity Tax Credit Available Through Dec. 31, 2020

The Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers that hire individuals from certain “[targeted groups](#)” that have consistently faced significant barriers to employment.

An employer may claim the WOTC for wages paid to these individuals during their first year of employment, as long as they are hired before Dec. 31, 2020, and work at least 120 hours for the employer during that first year. The credit is calculated as:

- 25% of the wages paid to an employee who worked between 120 and 400 hours; or
- 40% for an employee who worked more than 400 hours.

These amounts are subject to maximums that depend on the employee’s targeted-group classification.

Initially enacted in 2007, the WOTC was originally set to expire at the end of 2019. On Dec. 20, 2019, however, the WOTC was extended for another year, allowing employers to claim it for employees hired on or after Dec. 31, 2020. This Compliance Overview contains more information about the WOTC, as provided by the Internal Revenue Service.

LINKS AND RESOURCES

- [Internal Revenue Service webpage](#) on the WOTC
- [U.S. Department of Labor \(DOL\) webpage](#) on the WOTC
- [DOL Fact Sheet](#) on the WOTC
- [Form 8850 instructions](#) (Pre-Screening Notice and Certification Request)
- [Form 5884 instructions](#) (Work Opportunity Credit)
- [Form 3800 instructions](#) (General Business Credit)

Highlights

WOTC Purpose

The Work Opportunity Tax Credit provides an incentive for employers to hire individuals in certain groups that have faced employment barriers.

Certification Requirement

To claim the WOTC, an employer must obtain certification from a state workforce agency that an individual is a member of a targeted group.

28-day Certification Requests

If an employer has not obtained certification prior to an individual’s hire date, it must file a Form 8850 with its state workforce agency within 28 days after the hire date.

120 hours of service

An employee must perform at least 120 of service for an employer before the employer may claim the WOTC for that employee.

Provided to you by **National Insurance Services, Inc.**

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Targeted Groups

The table below lists and describes the types of individuals who fall within the “targeted groups” for purposes of the WOT credit.

| Targeted Group Member | Description |
|---|--|
| <i>Qualified IV-A recipient</i> | An individual who is a member of a family receiving assistance under a state plan approved under Part A of Title IV of the Social Security Act relating to Temporary Assistance for Needy Families. The assistance must be received for any nine-month period during the 18-month period ending on the date of hire. |
| <i>Qualified veteran</i> | A veteran who is any of the following: <ul style="list-style-type: none">• A member of a family receiving assistance under the Supplemental Nutrition Assistance Program (SNAP) (food stamps) for at least three months during the first 15 months of employment;• Unemployed for a period totaling at least four weeks (consecutive or non) but less than six months in the one-year period ending on the date of hire;• Unemployed for a period totaling at least six months (consecutive or non) in the one-year period ending on the date of hire;• A disabled veteran entitled to compensation for a service-connected disability hired not more than one year after being discharged or released from active duty in the U.S. Armed Forces; or• A disabled veteran entitled to compensation for a service-connected disability who is unemployed for a period totaling at least six months (consecutive or non) in the one-year period ending on the date of hire. |
| <i>Qualified ex-felon</i> | An individual hired within one year of being convicted of a felony or being released from prison for a felony. |
| <i>Designated community residents</i> | An individual who, on the date of hire: <ul style="list-style-type: none">• Is at least 18 years old but under 40;• Resides within an Empowerment Zone, an Enterprise Community, or a Renewal Community; and• Continues to reside at the locations after employment. |
| <i>Vocational rehabilitation referrals</i> | An individual who has a physical or mental disability and has been referred to the employer while receiving or upon completion of rehabilitative services pursuant to: <ul style="list-style-type: none">• A state plan approved under the Rehabilitation Act of 1973;• An Employment Network Plan under the Ticket to Work program; or• A program carried out under the U.S. Department of Veterans Affairs. |
| <i>Qualified summer youth employee</i> | An individual who: <ul style="list-style-type: none">• Is at least 16 years old but under 18 on the later of either the date of hire or May 1;• Is only employed between May 1 and September 15; and• Resides in an Empowerment Zone, Enterprise Community or Renewal Community. |

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| Targeted Group Member | Description |
|---|---|
| Recipient of SNAP benefits (food stamps) | An individual who, on the date of hire, is: <ul style="list-style-type: none">• At least 18 years old but under 40; and• A member of a family that received SNAP benefits for either the previous six months or at least three of the previous five months. |
| Supplemental Security Income (SSI) recipient | An individual who has received SSI benefits for a month that is within 60 days of the date he or she is hired. |
| Long-term family assistance recipient | An individual who at the time of hiring is a member of a family that either: <ul style="list-style-type: none">• Received assistance under an IV-A program for a minimum of the prior 18 consecutive months;• Received assistance for 18 months beginning after Aug. 5, 1997, and not more than two years have passed since the end of the earliest such 18-month period; or• Ceased to be eligible for the above assistance because a federal or state law limited the maximum time those payments could be made, and not more than two years have passed since the cessation. |
| Qualified long-term unemployment recipient | An individual who has been unemployed for not less than 27 consecutive weeks at the time of hiring and received unemployment compensation during some or all of the unemployment period. |

Certification Requirement

An employer must obtain certification that an individual is a member of the targeted group before the employer may claim the credit. An eligible employer must file [Form 8850 \(Pre-Screening Notice and Certification Request for the Work Opportunity Credit\)](#), with the appropriate state workforce agency within 28 days after the eligible worker begins work.

Employers should contact their individual state workforce agency with any specific processing questions for Forms 8850.

Limitations on the WOTC

The credit is limited to the amount of the business income tax liability or social security tax owed.

A taxable business may apply the credit against its business income tax liability—the normal carry-back and carry-forward rules apply. The [Instructions for Form 3800](#), General Business Credit, provide more details.

For qualified tax-exempt organizations, the credit is limited to the amount of employer social security tax owed on wages paid to all employees for the period the credit is claimed.

Claiming the Credit

Taxable Employers

After the required certification is secured, taxable employers claim the tax credit as a general business credit on Form 3800 against their income tax by filing the following:

- [Form 5884 \(with instructions\)](#);
- [Form 3800 \(with instructions\)](#); and

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- The business' related income tax return and instructions (such as Forms 1040 or 1040-SR, 1041, 1120).

Tax-exempt Employers

Qualified tax-exempt organizations described in Internal Revenue Code (IRC) Section 501(c) and exempt from taxation under IRC Section 501(a) may claim the credit for qualified veterans who begin work on or after Dec. 31, 2014, and before Jan. 1, 2021.

After the required certification (Form 8850) is secured, tax-exempt employers claim the credit against the employer social security tax by separately filing [Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans](#).

Form 5884-C should be filed after filing the related employment tax return for the period that the credit is claimed. The IRS recommends that qualified tax-exempt employers do not reduce their required deposits in anticipation of any credit. The credit will not affect the employer's Social Security tax liability reported on the organization's employment tax return.

Recordkeeping

Employers must keep copies of the forms it files for the WOTC, along with any related correspondence between them and their state WOTC coordinators, for as long as these documents may be needed for the administration of the credit. Records that support the credit usually must be kept for **three years** from the date any income tax return claiming the credit is due or filed, whichever is later.

Source: Internal Revenue Service