



New Federal Tax Hiring Incentives for Employers

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AGENDA

- The HIRE Act
- Work Opportunity Tax Credit (WOTC)

THE HIRE ACT

- Signed into law by President Obama on March 18, 2010
- Two hiring and retention incentives
 - Payroll Tax Exemption
 - Retained Worker Tax Credit

QUALIFIED EMPLOYER

- Any employer, except
 - U.S. government
 - State government (not including public institutions of higher education)
 - Any political sub-divisions thereof

QUALIFIED EMPLOYEE

- Hired after February 3, 2010 and before January 1, 2011
- Has not worked more than 40 hours in 60 days immediately prior to employment
 - Requires signed affidavit, under penalties of perjury
- Does not replace another employee, unless the other employee quit voluntarily or was terminated for cause
- Must not be a related party (as defined in IRC 51(i)(1))

PAYROLL TAX EXEMPTION

- Exempts qualified employer from their portion of qualified employee Social Security taxes (6.2% of wages)
 - Maximum potential benefit per employee is \$6,622 (FICA wage cap of \$106,800 x 6.2%)
- Applies to wages paid after March 18 through the end of 2010
- Does not apply to employer's portion of Medicare tax
- Eliminates ability to claim Work Opportunity Tax Credit on related wages

RETAINED WORKER TAX CREDIT

- A tax credit for each employee that:
 - Is a qualified employee for the Payroll Tax Exemption,
 - Was employed by the taxpayer on any date in the tax year,
 - Was employed for not less than 52 consecutive weeks, and
 - Whose wages paid for the last 26 weeks was at least 80% of the first 26 weeks
- The tax credit is the lesser of:
 - \$1,000, or
 - 6.2% of wages paid during the 52 week period

An employee with qualifying wages over \$16,129 would result in a \$1,000 tax credit

RETAINED WORKER TAX CREDIT (CONT'D)

- The credit applies to any tax year ending after the day of enactment
- Due to 52 week employment requirement, the first year to claim the credit would be 2011
- Both the Retained Worker Tax Credit and the WOTC can be claimed on the same employee
- No portion of this tax credit may be carried back to a prior year

Benefits

Increased cash flow

Proposed incentives offer immediate cash savings for eligible employers.

Potential large 2011 tax credit

WOTC opportunity

Employers not currently claiming WOTC could bundle the two programs by screening for both programs simultaneously:

- Both require screening of new applicants/hires for various criteria
- Employers are allowed either the payroll tax exemption or the WOTC.

Challenges

Increased administrative burden

An infrastructure must exist to self-screen, track, follow up with employees, and coordinate with the payroll tax department on filings.

Time is of the essence

Employers must screen and capture the documentation before the employee departs.

Increased compliance burden

Employers need to ensure that they (1) capture the first quarter of the benefit correctly via manual calculation and filing of the 941/941-X, and (2) accommodate any changes made to federal employment tax returns (e.g., Form 941, and 941-X).

WORK OPPORTUNITY TAX CREDIT (WOTC)

- WOTC was created to encourage employers to hire individuals that have barriers to employment. Those barriers were specified as targeted categories or groups

WHO QUALIFIES FOR WOTC?

- WOTC applies only to new hires.
- The new employee may not have worked for the hiring employer anytime in the past and may not be a relative or dependent of the employer.
- A new employee may be certified as a member of a targeted group by meeting the criteria described in any of several targeted groups.

WORK OPPORTUNITY TAX CREDIT

WOTC was designed to help move people from welfare or other barriers into gainful employment and create high performance workplaces

The targeted groups include:

- A member of a family that recently received Temporary Assistance to Needy Families (TANF);
- A member of a family that is receiving or recently received Food Stamps;
- An 18-40 year old resident of one of the federally designated Empowerment Zone;
- A summer youth employee;
- A qualified veteran;
- A Supplemental Security Income (SSI) recipient;
- Someone convicted of a felony or recently released from prison.

CALCULATING THE CREDIT

- **NEW:** The consolidated WOTC for hiring target group members can be as much as:
- \$2,400 for each new adult hire;
- \$1,200 for each new summer youth hire,
- \$4,800 for each new disabled veteran hire, and
- \$9,000 for each new long-term family assistance recipient hired (taken over a two-year period).

CALCULATIONS

- **The credit is based on the hours worked and the wages earned.**
- Once the new adult WOTC hire has worked 120 hours (3 weeks) the calculation is 25% of the wages earned up to a maximum of \$6,000 in wages or \$1,500 in federal income tax credits. When each qualified employee reaches 400 hours worked (10 weeks), the calculation is 40% of the wages earned up to a maximum of \$6,000 in wages or \$2,400 in federal income tax credits.
- For each New Summer Youth the maximum wage for the calculation is \$3,000. So the credits available are one half of the general WOTC employee or \$750 and \$1,200 respectively.

CALCULATIONS

- For each Disabled Veteran the maximum wage is \$12,000 So the credits available are twice that of the new adult WOTC hire or \$2,400 and \$4,800 respectively.
- For each Long-Term Family Assistance Recipient the maximum wage for the calculation is based on first \$10,000 of wages per year over two years. The employee must work 180 days and work at least 400 hours. The calculation for first year wages is 40% of the wages earned or \$4,000 in federal income tax credits. The calculation for second year wages is 50% of the wages earned or \$5,000 in federal income tax credits for a possible total of \$9,000.

WOTC PROGRAM CHALLENGES

Process and rules are complicated and cumbersome.

Drop Dead 28 day filing requirement for most categories.

Discovery of qualified personnel is difficult & intrusive.

Unaware of the available tax credits.

Lack of in-house resources.

Some WOTC coordinators have slow turn around.

FEDERAL FORM 8850

Form **8850** Pre-Screening Notice and Certification Request for the Work Opportunity Credit
 (Rev. May 2009) Department of the Treasury Internal Revenue Service
 CMB No. 1545-1500
 ▶ See separate instructions.

Job applicant: Fill in the lines below and check any boxes that apply. Complete only this side.

Your name _____ Social security number ▶ _____

Street address where you live _____

City or town, state, and ZIP code _____

County _____ Telephone number () - _____

If you are under age 40, enter your date of birth (month, day, year) ____ / ____ / ____

- Check here if you are completing this form **before** August 28, 2009, and you lived in the area impacted by Hurricane Katrina on August 28, 2005. If so, please enter the address, including county or parish and state where you lived at that time.
- Check here if you received a conditional certification from the state workforce agency (SWA) or a participating local agency for the work opportunity credit.
- Check here if **any** of the following statements apply to you.
 - I am a member of a family that has received assistance from Temporary Assistance for Needy Families (TANF) for any 9 months during the past 18 months.
 - I am a veteran and a member of a family that received Supplemental Nutrition Assistance Program (SNAP) benefits (food stamps) for at least a 3-month period during the past 15 months.
 - I was referred here by a rehabilitation agency approved by the state, an employment network under the Ticket to Work program, or the Department of Veterans Affairs.
 - I am at least age 18 but **not** age 40 or older and I am a member of a family that:
 - a Received SNAP benefits (food stamps) for the past 6 months, **or**
 - b Received SNAP benefits (food stamps) for at least 3 of the past 5 months, **but** is no longer eligible to receive them.
 - During the past year, I was convicted of a felony or released from prison for a felony.
 - I received supplemental security income (SSI) benefits for any month ending during the past 60 days.
 - I am a veteran and I was discharged or released from active duty in the U.S. Armed Forces during the past 5 years **and**, for at least 4 weeks during the past year, I received unemployment compensation.
 - I am at least age 18 but **not** age 25 or older, **and**:
 - a During the past 6 months, I have not attended a secondary, technical, or post-secondary school for more than an average of 10 hours per week, not counting periods during which the school was closed for scheduled vacations, **and**
 - b During the past 6 months, if I was employed, during each consecutive 3-month period within the past 6 months, I earned less than I would have earned if I had worked for the applicable minimum wage 30 hours every week during the 3-month period, **and**
 - c I do not have a certificate of graduation from a secondary school or a General Education Development (GED) certificate **or** I have a certificate that was awarded at least 6 months ago and I have not held a job or been admitted to a technical or post-secondary school since I received the certificate.
- Check here if you are a veteran entitled to compensation for a service-connected disability **and**, during the past year, you were:
 - Discharged or released from active duty in the U.S. Armed Forces, **or**
 - Unemployed for a period or periods totaling at least 6 months.
- Check here if you are a member of a family that:
 - Received TANF payments for at least the past 18 months, **or**
 - Received TANF payments for any 18 months beginning after August 5, 1997, **and** the earliest 18-month period beginning after August 5, 1997, ended during the past 2 years, **or**
 - Stopped being eligible for TANF payments during the past 2 years because federal or state law limited the maximum time those payments could be made.

Signature—All Applicants Must Sign

Under penalties of perjury, I declare that I gave the above information to the employer on or before the day I was offered a job, and it is, to the best of my knowledge, true, correct, and complete.

Job applicant's signature ▶ _____ **Date** ____ / ____ / ____

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 22851L Form **8850** (Rev. 5-2009)

Form 8850 (Rev. 5-2009) Page **2**

For Employer's Use Only

Employer's name _____ Telephone no. () - _____ EIN ▶ _____

Street address _____

City or town, state, and ZIP code _____

Person to contact, if different from above _____ Telephone no. () - _____

Street address _____

City or town, state, and ZIP code _____

If, based on the individual's age and home address, he or she is a member of group 4 or 6 (as described under Members of Targeted Groups in the separate instructions), enter that group number (4 or 6) _____ ▶ _____

Date applicant: Gave information ____ / ____ / ____ Was offered job ____ / ____ / ____ Was hired ____ / ____ / ____ Started job ____ / ____ / ____

Complete Only If Box 1 on Page 1 is Checked

State and county or parish of job _____ Check if the individual was not your employee on August 28, 2005, and this is the first time the employee has been hired by you since August 28, 2005.

Under penalties of perjury, I declare that the applicant provided the information on this form on or before the day a job was offered to the applicant and that the information I have furnished is, to the best of my knowledge, true, correct, and complete. Based on the information the job applicant furnished on page 1, I believe the individual is a member of a targeted group. I hereby request a certification that the individual is a member of a targeted group.

Employer's signature ▶ _____ **Title** _____ **Date** ____ / ____ / ____

Privacy Act and Paperwork Reduction Act Notice

Section references are to the Internal Revenue Code.

Section 51(d)(13) permits a prospective employer to request the applicant to complete this form and give it to the prospective employer. The information will be used by the employer to complete the employer's federal tax return. Completion of this form is voluntary and may assist members of targeted groups in securing employment. Routine uses of this form include giving it to the state workforce agency (SWA), which will contact appropriate sources to confirm that the applicant is a member of a targeted group. This form may also be given to the Internal Revenue Service for administration of the Internal Revenue laws, to the Department of Justice for civil and

criminal litigation, to the Department of Labor for oversight of the certifications performed by the SWA, and to cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping3 hrs., 16 min.
- Learning about the law or the form46 min.
- Preparing and sending this form to the SWA42 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W-CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Do not send this form to this address. Instead, see *When and Where To File* in the separate instructions.



FEDERAL FORM 9061

Individual Characteristics Form (ICF) Work Opportunity Tax Credit

U.S. Department of Labor
Employment and Training Administration

1. Control No. (For Agency use only)		APPLICANT INFORMATION (See instructions on reverse)	OMB No. 1205-0371 Expiration Date: November 30, 2011
			2. Date Received (For Agency Use only)
EMPLOYER INFORMATION			
3. Employer Name		4. Employer Address and Telephone	5. Employer Federal ID Number (EIN)
APPLICANT INFORMATION			
6. Applicant Name (Last, First, MI)		7. Social Security Number	8. Have you worked for this employer before? Yes ___ No ___ If YES, enter last date of employment: _____
APPLICANT CHARACTERISTICS FOR WOTC TARGET GROUP CERTIFICATION			
9. Employment Start Date	10. Starting Wage	11. Position	
12. Are you at least age 16, but under age 40? If YES, enter your date of birth _____		Yes ___ No ___	
13. Are you a Veteran of the U.S. Armed Forces? If NO, go to Box 14. If YES, are you a member of a family that received SNAP (Food Stamps) benefits the 15 months for at least 3 months during before you were hired? If YES, enter name of primary recipient _____ and city and state where benefits were received _____ OR, are you a veteran entitled to compensation for a service-connected disability? If YES, were you discharged or released from active duty within the year before you were hired? OR, were you unemployed for a combined period of at least 6 months during the year before you were hired?		Yes ___ No ___ Yes ___ No ___ Yes ___ No ___ Yes ___ No ___	
14. Are you a member of a family that received Supplemental Nutritional Assistance Program (SNAP) (Food Stamps) benefits for the 6 months before you were hired? OR, received SNAP benefits for at least a 3-month period within the last 5 months But you are no longer receiving them? If YES to either question, enter name of primary recipient _____ and city and state where benefits were received _____		Yes ___ No ___ Yes ___ No ___	

15. Were you referred to an employer by a Vocational Rehabilitation Agency approved by a State? OR, by an Employment Network under the Ticket to Work Program? OR, by the Department of Veterans Affairs?		Yes ___ No ___ Yes ___ No ___ Yes ___ No ___
16. Are you a member of a family that received TANF assistance for at least the last 18 months before you were hired? OR, are you a member of a family that received TANF benefits for any 18 months beginning after August 5, 1997, and the earliest 18-month period beginning after August 5, 1997, ended within 2 years before you were hired? OR, did your family stop being eligible for TANF assistance within 2 years before you were hired because a Federal or state law limited the maximum time those payments could be made? Yes ___ No ___ If NO, are you a member of a family that received TANF assistance for any 9 months during the 18 month period before you were hired? If YES, to any question, enter name of primary recipient _____ and the city and state where benefits were received _____		Yes ___ No ___ Yes ___ No ___ Yes ___ No ___
17. Were you convicted of a felony or released from prison after a felony conviction during the year before you were hired? If YES, enter date of conviction _____ and date of release _____ Was this a Federal _____ or a State conviction _____? (Check one)		Yes ___ No ___
18. Do you live, and plan to continue living, in an Empowerment Zone or Renewal Community? OR, in a Rural Renewal County (RRC)? If YES, enter name of the RRC: _____		Yes ___ No ___ Yes ___ No ___
19. Did you receive Supplemental Security Income (SSI) benefits for any month ending within 60 days before you were hired?		Yes ___ No ___
20. Are you an unemployed veteran who served on active duty (other than active duty for training) in the Armed Forces of the United States for a period of more than 180 days? OR were you discharged or released from active duty in the Armed Forces for a service-connected disability? If YES, where you discharged or released from active duty in the Armed forces at any time during the 5-year period ending on the hiring date? If YES, did you receive unemployment compensation for not less than four weeks during the one-year period ending on your hiring date?		Yes ___ No ___ Yes ___ No ___ Yes ___ No ___ Yes ___ No ___
21. Are you at least age 16 but under age 25? If YES, did you not regularly attend any secondary, technical, or post-secondary school during the 6-month period before your hiring date? If YES were you not regularly employed during that 6-month period? If YES, were you not employable because you lacked basic skills?		Yes ___ No ___ Yes ___ No ___ Yes ___ No ___ Yes ___ No ___
22. Sources used to document eligibility: (Employers/Consultants: List all documentation provided or forthcoming. SWAs: List all documentation used in determining target group eligibility and enter your initials and date when determination was made.)		
I certify that this information is true and correct to the best of my knowledge. I understand that the information above may be subject to verification.		
23(a). Signature: (See instructions in Box 23b for who signs this signature block)	23. (b) Indicate with a ✓ who signed the form: <input type="checkbox"/> Employer, <input type="checkbox"/> Consultant, <input type="checkbox"/> SWA, <input type="checkbox"/> Participating Agency, <input type="checkbox"/> Applicant, or <input type="checkbox"/> Parent/Guardian (if applicant is a minor)	24. Date:

TARGETED GROUP VERIFICATION FORM

Location ID# _____	
VERIFICATION OF INFORMATION PROVIDED ON Form 8850	
Your employer is a participant in the Work Opportunity and Welfare-to Work Tax Credit Program. Providing this information could benefit your employer in obtaining these Credits. I attest that the following is true and correct.	
Name: _____	Social Security No. _____
Starting Position: _____	Date Started Job: _____
Date of Birth: _____	Hourly Wage: _____
It is my understanding that this information will be held in strictest confidence. I authorize release of this information only to those agencies necessary for my employer to qualify for the Work Opportunity Tax Credit.	
Employee Signature: _____	Date: _____
FOOD STAMPS	
1. Have you or any member of your family that lives with you received food stamps in the last 15 months? <input type="checkbox"/> Yes <input type="checkbox"/> No	Name of Recipient: _____ Relationship to Recipient: _____ City, State & County received in: _____ How many months received: _____
VOCATIONAL REHABILITATION	
2. Have you received or are you receiving Rehabilitation Services through State Agency: <input type="checkbox"/> Yes <input type="checkbox"/> No V.A. Administration: <input type="checkbox"/> Yes <input type="checkbox"/> No	Agency Contact Name: _____ City & State Received in: _____ Attach Signed Statement with Specific Description of Months Benefited Attach V.A. Administration Records
UNEMPLOYMENT HISTORY	
3. Have you been employed for less than 40 hours, in total, during the last 60 days? <input type="checkbox"/> Yes <input type="checkbox"/> No	
UNEMPLOYMENT COMPENSATION	
4. Have you received any Unemployment Compensation within one year of your date of hire? <input type="checkbox"/> Yes <input type="checkbox"/> No	
VETERAN AND 1., 2. or 4. ABOVE	
5. Are you a Veteran AND did you answer Yes to questions 1, 2 or 4? <input type="checkbox"/> Yes <input type="checkbox"/> No	Branch of Service: _____ Period Served: _____ Attach DD-214 (Discharge papers)
FELONY	
6. In the past 12 month have you been convicted of a felony or released from prison after a felony conviction? <input type="checkbox"/> Yes <input type="checkbox"/> No	Date of Conviction: _____ Date of Parole: _____ Parole Officer's Name: _____ Phone: _____ City & State paroled in: _____
AFDC / TANF / WELFARE	
7. Have you or any member of your family that lives with you received Temporary Assistance to Needy Families (Welfare): <input type="checkbox"/> Yes <input type="checkbox"/> No	Name of Recipient: _____ Relationship to Recipient: _____ City, State & County received in: _____
SSI	
8. Did you <u>individually</u> receive Supplemental Security Income (SSI) for any month ending within the last 60 days? <input type="checkbox"/> Yes <input type="checkbox"/> No	City, State & County received in: _____
EMPLOYMENT/EDUCATION BACKGROUND	
9. Have you regularly attended school OR been regularly employed during the last 6 months? <input type="checkbox"/> Yes <input type="checkbox"/> No	Educational Institution: _____ Employer: _____

IMPLEMENTATION CONSIDERATIONS

- Each hiring location and hiring managers must be educated and trained on new program and distribution of procedures/forms/supplies.
- Each new hire must be timely surveyed to determine eligibility.
- Each qualified hire must complete a self-attestation “*under penalties of perjury.*”
- Self attestations require tracking, follow-up and scanning.
- 941 and 941-X FICA tax credit must be correctly computed.
- If WOTC is identified, then both have to be tracked to determine optimal benefit.
- Retention has to be documented and assessed including the second 6-month period rule for each person.
- Need for location and forms compliance analysis and reports.

CONTACT US FOR QUESTIONS



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