



Indian Employment Tax Credit – Tax Incentive

Summary:

- The Indian employment tax credit provides businesses with an incentive to hire enrolled tribal members and their spouses who live on or near an Indian reservation.
- A permanent extension of this provision and an expansion of the wage limits are needed to reduce the extremely high rates of unemployment on Indian reservations.

Background Information:

The Indian employment tax credit provides a 20 percent income tax credit for the first \$20,000 of qualified wages and qualified employee health insurance costs for any Indian tribal member or spouse employed by a private business operating on an Indian reservation. The tax credit incentivizes businesses to hire tribal members and contributes to diversifying the workforce and improving business operations. Employees who make more than \$45,000 per year are nonqualified for this credit and employers only qualify for the credit based on the first \$20,000 of qualified wages and health insurance costs that are paid to employees. The credit can reach up to \$4,000 per employee, which could potentially contribute a significant sum towards reducing a business' overall tax liability.

Over 20 years have passed since the base year of 1993, resulting in the current incremental credit formulation which is unnecessarily complex and impacts employers in disparate ways. The Indian employment tax credit was extended each year near the expiration date or had been retroactive if extended thereafter. However, it expired for tax years beginning after December 31, 2016. The provision is not applicable to tribal governments or nonprofits who employ tribal members, which limits its value. The lack of certainty in the future of this tax provision undermines the ability to attract larger, long-term investments.

Recommendation:

Congress should permanently extend the Indian employment tax credit, modify the tax credit formula to the average of qualified wages and health insurance costs from the last two tax years, and allow tribal governments and other nonprofits to take a credit against the social security taxes payable by the employer. Updating the formula will reduce the administrative burden of businesses having to maintain tax records long beyond normal requirements. In addition, Congress should consider expanding the wage amount to include up to \$30,000 in qualifying wages and health insurance costs per eligible employee and raise the “high wage jobs” from \$45,000 to \$60,000. As current law, the credits will not apply to employees who perform services involving certain gaming activities.