



## Work Opportunity Tax Credit (WOTC) – Fact Sheet

### What is it?

*The Work Opportunity Tax Credit (WOTC) is a Federal tax credit available to employers for hiring individuals from certain target groups, including Veterans, who have consistently faced significant barriers to employment. In this case, hiring a Veteran will have a lower after-tax cost compared to hiring a non-WOTC eligible employee.*

*To claim the WOTC, an employer must have the employee certified as eligible by the appropriate state workforce agency. To do this, the employer submits a form to the state agency within 28 days of hiring the WOTC-eligible worker. The state agency determines that the individual meets the requirements and certifies the application. The employer may claim the credit as part of the General Business Credit. These credits can be carried back one tax year or carried forward up to 20 tax years.*

### What Veterans Qualify?

**A Qualified Veteran** is a worker who served on active duty in the United States armed forces for at least 180 days, has been discharged for at least 60 days, and meets at least one of the additional criteria listed below:

- A **Veteran** who is a member of a family receiving Supplemental Nutrition Assistance Program (SNAP) assistance for at least 3 of the past 12 months.
- A **Veteran** with a service-connected disability for which he or she is entitled to compensation and who is within one year of discharge (maximum WOTC eligible wages of \$12,000).
- A **Veteran** with a service-connected disability for which he or she is entitled to compensation and who has been unemployed for at least six months of the prior year (maximum WOTC-eligible wages of \$24,000).
- A **Veteran** with an aggregate period of unemployment of at least four weeks but less than six months during the prior one year.
- A **Veteran** with an aggregate period of unemployment of at least six months during the prior year (maximum WOTC-eligible wages of \$14,000)



### **How is WOTC Tax Credit calculated?**

The amount of the WOTC is calculated as percentage of qualified wages paid to an eligible worker during the eligible employee's first year of employment. An employer may claim a credit equal to 40% of the eligible employee's qualified wages if the eligible worker works at least 400 hours during the first year of employment. If the eligible employee works fewer than 400 hours but at least 120 hours, the employer may claim a credit equal to 25% of the eligible employee's wages. If the eligible employee works fewer than 120 hours, an employer may not claim the WOTC.

Statute defines the maximum amount of qualified wages that are WOTC-eligible for each eligible population, so the maximum credit would be equal to 40% of these statutory limits. For example, the maximum eligible wages for a Qualified Veteran that was unemployed for more than four weeks, but less than six months is \$6,000, so the maximum credit for an employer that hired such an individual would be 40% of \$6,000 or \$2,400.

### **How Do I Apply for the WOTC Credit?**

Individuals' eligibility for the WOTC is determined by state workforce agencies (SWAs). These state agencies also process WOTC certifications. The eligibility determination process can follow one of two paths:

- An eligible group member obtains a conditional certification ([ETA Form 9062](#)) from a participating state or local agency. The jobseeker then uses it to market himself or herself to an employer. The employer completes a prescreening/certification request ([IRS Form 8850](#)) by the date a job offer is made and mails both the IRS and ETA forms to the state's WOTC coordinator within 28 days after the new hire starts working.
- An employer completes IRS Form 8850 by the date a job offer is made to an applicant believed to belong to the WOTC population. The employer also completes the individual characteristics information (ETA Form 9061). The IRS and ETA forms must be mailed to the state's WOTC coordinator within 28 days after the new hire starts working.

States then verify that an individual is a member of a covered group and notify the employer that the application has been certified. States receive grants from DOL to support the administrative costs of processing WOTC certifications. Once a new hire is certified, the employer may claim WOTC as part of the General Business Credit.

If an employer does not have tax liability in the tax year that the WOTC-eligible worker was hired, the credit from the WOTC—as part of the General Business Credit—can be carried back up to one year or carried forward up 20 years before expiring. As noted in each of the two scenarios above, the IRS Form 8850 must be submitted within 28 days after the eligible hire begins work.

**\*Always contact your accountant or tax attorney if you have questions specific to your business.**

Source: Congressional Research Service

