

## Don't Forget the Work Opportunity Credit

The text below does not reflect several IRS pronouncements made in December 2020 – including [IRS Notice 2020-78](#), which coordinates the WOC with Empowerment Zone procedures.

The Work Opportunity Tax Credit (WOTC) is not part of the COVID Response matrix, but it is useful to remember it none-the less.

WOTC fulfils many of the same objectives the COVID Response matrix addresses, sustaining and creating employment, defraying employers' wage and salary expense, and injecting liquidity into your company and the economy.

The WOTC was reinstated and extended as part of the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act). WOTC allows employers to claim a credit for wages and salaries paid to all targeted-group employee categories. The credit applies to wages and salaries paid between December 31, 2014 and before January 1, 2021 (not inclusive). Tax-exempt employers may claim the WOTC for Qualified Veterans who begin work for the employer after December 31, 2014 and before January 1, 2021.

The WOTC Credit is 25-40% of first year wages paid to qualified recipients, and 50% of second year wages paid to long-term family assistance recipients.<sup>1</sup> The credit is limited to the amount of the business income tax liability or social security tax owed.

- Taxable businesses may apply the credit against its business income tax liability. Carry-back and carry-forward rules apply.
- For 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.

WOTC is allowed for new hires who belong to one or more targeted populations. WOTC is used most frequently to hire “Qualified Veterans” and/or “Qualified Long-Term Unemployment Recipients but also applies to other targeted groups (disingenuously lumping convicted felons and the long-term unemployed into the same basket)

A “Qualified Veteran” is a veteran who is any of the following:<sup>2</sup>

- A member of a family receiving assistance under the Supplemental Nutrition Assistance Program (SNAP) (food stamps) for at least 3 months during the first 15 months of employment.
- Unemployed for a period totaling at least 4 weeks (whether or not consecutive) but less than 6 months in the 1-year period ending on the hiring date.
- Unemployed for a period totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date.

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<sup>1</sup> See IRS [Form 5884 \(with instructions\)](#) or IRS [Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans](#).

<sup>2</sup> See [IRS Notice 2012-13 \(PDF\)](#) for more detailed information. It is also a good idea to review the candidate's DD214. Determine whether their MOS and experience matches your needs and fits with your company culture. The DD214 often reveals abilities and qualifications (e.g., foreign language proficiency) that you might like to have on your team.

- 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.
- A disabled veteran entitled to compensation for a service-connected disability who is unemployed for a period totaling at least six months (whether or not consecutive) in the one-year period ending on the hiring date.

A Qualified Long-Term Unemployment Recipient is one who has been unemployed for not less than 27 consecutive weeks at the time of hiring and received unemployment compensation during some or all or the unemployment period.

You must obtain certification that an individual is a member of the targeted group, before you may claim the credit. To obtain certification, file [Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit](#), with your state workforce agency within 28 days after the eligible worker begins work.<sup>3</sup>

Taxable employers claim the tax credit as a general business credit on Form 3800 against their income tax by filing: [Form 5884 \(with instructions\)](#), and [Form 3800 \(with instructions\)](#) along with your business's related income tax return and instructions (i.e., Forms 1040 or 1040-SR, 1041, 1120, etc.)

Tax-exempt employers<sup>4</sup> 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](#). File Form 5884-C after filing your employment tax return for the period that the credit is claimed (e.g., your quarterly Form 941). We, and the Service both recommend that you do not reduce your required deposits in anticipation of any credit. The credit does not offset the Social Security tax liability reported on your employment tax return.

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<sup>3</sup> State procedures, and to some extent requirements, differ. contact your state workforce agency with your processing questions for Forms 8850.

<sup>4</sup> Qualified tax-exempt organizations described in IRC Section 501(c) and exempt from taxation under IRC Section 501(a)