Work Opportunity Tax Credit (WOTC)

Following is information on tax incentives available to help employers offset the cost of accommodations for employees with disabilities and to make their places of business accessible for employees and/or customers with disabilities.

Tax Credits for Employers

You may be able to save money on your federal taxes by hiring someone from one of the following groups who has traditionally faced significant barriers to employment.

NOTE: There have been several changes in this program over the last year. Please read the categories below carefully to make sure your new worker qualifies for federal tax credits.

Who is helped by the WOTC Tax Credit?

WOTC helps both employers and targeted job seekers. Employers save as tax credits help defray payroll expenses. Job seekers qualifying as a member of one of the targeted groups gain an advantage in the job market.

How is the Tax Credit Applied?

The credit is usually applied to the employer's tax liability for the tax year in which the employee is hired. If the credit exceeds the current year's tax liability, the employer may apply the remaining credit to the previous year's tax liability. This may be carried back three years or forward 15 years. For more information on unused credits, employers should contact the IRS or their tax accountant.

How much is the Tax Credit?

For WOTC: Work Opportunity Tax Credits have a two-tiered credit based on the first $6,000 of earnings:

- A 25% credit for workers who worked at least 120 hours but less than 400 hours, and
- A 40% credit for workers who worked at least 400 hours ($2,400 maximum credit)

Qualified Wages for WOTC are the first $6,000 of wages paid within the first year of employment to target group individuals.

* For Long Term Family Assistance-- tax credits can be earned for the first two years of employment:

  - 40% of the first $10,000 of qualified wages* paid in the first year of employment, providing a maximum first year credit of $3,500.
  - 50% of the first $10,000 of qualified wages* paid in the second year of employment, providing a maximum second year credit of $5,000.

Qualified Wages for Long Term Family Assistance include the first $10,000 of wages paid within each of the first two years of employment. For Long Term Family Assistance, "qualified wages" includes amounts paid to employees for accident and health plans, educational assistance programs, and dependent care assistance programs. An employee must work at least 400 hours or 180 days each year before a Long Term Family Assistance tax credit can be claimed.

Two-years of tax savings for long-term welfare recipients

You can save up to $9,000 over two years if you hire someone who is a member of a family that:

- Received Temporary Assistance to Needy Families (TANF) cash benefits for at least the previous 18 consecutive months.*

OR

- Received 18 months of TANF since August 1997 and the 18th month is within the last two years.*

OR

- Stopped being eligible for TANF payments within the last two years because he or she exceeded the maximum time allowed for benefits.

How much you can save?

First year

1-119 hours worked = No credit

120-399 hours worked = 25 percent of the first $10,000 in wages (up to $2,500)

400+ hours worked = 40 percent of the first $10,000 in wages (up to $4,000)

Second year

50 percent of the first $10,000 in wages (up to $5,000)

WOTC Targeted Group Tax Savings

You also can qualify for tax credits if you hire someone from one of the following WOTC target groups:

A person with a disability who:

- Is participating in a vocational rehabilitation program through the Division of Vocational Rehabilitation, Services for the Blind, the U.S. Veteran's Administration or the Social Security Ticket-To-Work program.

OR

- Received Supplemental Security Income (SSI) for any month in the previous 60-days.

A short-term welfare recipient:

- who is a member of a family that has received Temporary Assistance to Needy Families (TANF) cash benefits for at least nine of the last 18 months.*

A veteran who is:

- A member of a family that has received food stamps for at least three consecutive months in the last 15 months.*

OR

- Receiving disability-benefit payments for a service-connected disability and is hired within one year of being discharged from active service.

OR

- Receiving disability-benefit payments for a service-connected disability and has been unemployed for at least six of the previous 12-months.

An ex-felon who:

- Was released within the last year.

OR

- Is participating in a work-release program.

An 18-39 year-old who:

- Lives in a federally designated Enterprise Community or Renewal Community (Tacoma, Yakima, Okanogan and Ferry County).

OR

- Is a member of a family that has received food stamps for the last six months prior to the hire date.*

A 16-17 year-old (summer youth) who:

- live in a federally designated Enterprise Community or Renewal Community (Tacoma, Yakima, Okanogan and Ferry County) AND is hired between May 1 and September 15.

  * The person you hire must have personally received TANF or food stamps for one of the required months.

How much you can save?

Tier 1 – Employee worked 120-399 hours within the first year

For each employee = 25 percent of first $6,000 in wages (up to $1,500).

For disabled veterans = 25 percent up first $12,000 in wages (up to $3,000).

For summer youth = 25 percent of first $3,000 in wages (up to $750).

Tier 2 – Employee worked 400+ hours within the first year

For each employee = 40 percent of first $6,000 in wages (up to $2,400).

For disabled veterans = 40 percent up first $12,000 in wages (up to $4,800).

For summer youth = 40 percent of first $3,000 in wages (up to $1,200).

Who Doesn't Qualify?

- Employers may not claim the credit for former employees, regardless of how long it has been since the employee last worked for them.
- Employers may not claim the credit for family members or relatives.

How does an employer obtain the Tax Credit?

- Employers use IRS Form 5884, "Work Opportunity Credit," to claim their WOTC tax credit. Form 5884 is filed with employer's federal income tax return.
- Employers use IRS Form 8861 "Welfare to Work Credit" to claim their Long-term Family Assistance Tax credit. Form 8861 is filed with the employer's federal income tax return.

Apply right away

Employers must apply and receive certification from the Washington State - Employment Security Department that their newly hired employee belongs to one of the target groups eligible for the Work Opportunity Tax Credit before claiming credit on their federal income tax return. Form 8850 must be **post-marked within 28 days of the date the new employee started the job**. ESD must have original signatures, so they **cannot accept photocopies or faxes**.

Follow these steps to apply.

1. Have the applicant complete and sign the pre-screening form (IRS 8850).
2. If the applicant has checked one of the boxes and you think he or she qualifies, complete and sign page two of the form.
3. Complete the Individual Characteristic form (ETA 9061).
4. **Mail all completed forms to:**
   Employment Security Department
   WOTC Administrative Unit
   P.O. Box 9046
   Olympia, WA 98507-9046

All late and incomplete applications will be denied.

For more information, contact WOTC Unit.

Or log on to ACCESS Washington and search WOTC.

Small Business Tax Credit (IRS Code Section 44, Disabled Access Credit

What is it?

Small businesses may take an annual tax credit for making their businesses accessible to persons with disabilities. This credit provides up to $5000 for certain expenditures targeted towards ADA compliance. In essence, a qualifying small business may claim a tax credit of 50% of the ADA compliance expenditures it incurs ranging from $250 to $10,250. A qualifying small business has been defined as one with gross receipts of less than $1 million during a taxable year and employing fewer than 31 full time employees. Examples of expenditures that may be covered are as follows:

- Removal of architectural, communication, physical or transportation barriers
- Providing qualified interpreters or other accommodations for hearing impaired persons
- Providing accommodations for persons who are visually impaired
- Acquiring or modifying equipment or devices
- Providing services, modifications, materials, or equipment
- Job Coaching/Training accommodation

Who is eligible?

Small businesses that in the previous year earned a maximum of $1 million in revenue or had 30 or fewer full-time employees are eligible.

What is the amount?

The credit is 50 percent of expenditures over $250, not to exceed $10,250, for a maximum benefit of $5,000. The credit amount is subtracted from the total tax liability after calculating taxes.

What expenses are covered?

The credit is available every year and can be used for a variety of costs such as:

- sign language interpreters for employees or customers who have hearing impairments;
- readers for employees or customers who have visual impairments;
- the purchase of adaptive equipment or the modification of equipment;
- the production of print materials in alternate formats (e.g., Braille, audio tape, large print);
- the removal of architectural barriers in buildings or vehicles.

What expenses are not covered?

The tax credit does not apply to the costs of new construction, and a building being modified must have been placed in service before November 5, 1990.

How can this credit be claimed?

Businesses can claim the Disabled Access Credit on IRS Form 8826.

Architectural/Transportation Tax Deduction: IRS Code Section 190, Barrier Removal

What is it?

This provision allows for a tax credit of up to $15,000 to an employer/property owner in order to make physical and/or reasonable accommodations, to assist a person in returning to work. Examples of allowable expenditures are as follows:

Ramp Accessibility
Door Accessibility
Work Station Accessibility

Bathroom Accessibility
Lunch Room Accessibility
General Building Accessibility

Businesses may take an annual deduction for expenses incurred to remove physical, structural, and transportation barriers for persons with disabilities at the workplace.

Who is eligible?

All businesses are eligible.

What is the amount?

Businesses may take a tax deduction of up to $15,000 a year for expenses incurred to remove barriers for persons with disabilities. Amounts in excess of the $15,000 maximum annual deduction may be depreciated.

What expenses are covered?

The deduction is available every year. It can be used for a variety of costs to make a facility or public transportation vehicle, owned or leased for use in the business, more accessible to and usable by persons with disabilities. Examples include the cost of:

- providing accessible parking spaces, ramps, and curb cuts;
- providing telephones, water fountains, and restrooms which are accessible to persons using wheelchairs;
- making walkways at least 48 inches wide.

What expenses are not covered?

The deduction may not be used for expenses incurred for new construction, or for a complete renovation of a facility or public transportation vehicle, or for the normal replacement of depreciable property.

May I use the tax credit and tax deduction together?

Small businesses may use the credit and deduction together, if the expenses incurred qualify under both Sections 44 and 190. For example, if a business spent $12,000 for access adaptations, it would qualify for a $5,000 tax credit and a $7,000 tax deduction.

Are there limits on annual usage?

Although both the tax credit and deduction may be used annually, if a business spends more than what may be claimed in one year, it cannot carry over those expenses and claim a tax benefit in the next year.

How can this credit be deducted?

The amount spent is subtracted from the total income of a business to establish its taxable income. In order for expenses to be deductible, accessibility standards established under the Section 190 regulations must be met.

Where can I obtain additional information?

U.S. Department of Labor - Office of Disability Employment Policy

Tax Incentives for Providing Business Accessibility

OR

Office of Associate Counsel, IRS
Passthrough & Special Industries
1111 Constitution Avenue, NW
Washington, DC 20224
(202)622-3110.