



Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

Tax Incentives for Employers Lesson 6



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Agenda

- **Work Opportunity Credit**
- **Welfare-to-Work Credit**



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Objectives

- Name the target groups and dates of eligibility for the Work Opportunity Credit
- Name the group and dates of eligibility for the Welfare-to-Work Credit
- Prepare the IRS and Department of Labor forms for pre-screening and certification of these credits



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Work Opportunity Credit





Background

- Incentive for all employers to hire from groups that have:
 - high unemployment ratio or
 - other special needs
- Qualifications to claim the credit:
 - pay or incur “qualified first-year wages”
 - to a “targeted group employee”
 - who began work for you after September 1997
- Can be as high as \$2400/employee



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Targeted Group Employee

- **Receives assistance under Temporary Assistance for Needy Families (TANF)**
- **Veteran**
- **Ex-felon**
- **High-risk youth**
- **Vocational rehabilitation referral**
- **Summer youth employee**
- **Food stamp recipient**
- **Supplemental security income (SSI) recipient or**
- **NY Liberty Zone employee (See Form 8884, NY Liberty Zone Business Employee Credit)**



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State Certification Required

- **Submit Form 8850, Pre-Screening Notice and Certification Request to your state employment security agency (SESA) on time**
- **File Department of Labor (DOL) forms with your SESA:**
 - **U.S. DOL ETA-9061 if employee not conditionally certified by your SESA or participating agency**
 - **U.S. DOL ETA-9062 if given to applicant by a participating agency**



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Qualified First Year Wages

- **Qualified wages for work performed**
 - **by a targeted group employee**
 - **during the 1-year period beginning on the date the work begins**
- **Generally subject to FUTA tax**
- **The one-year period can span two tax years**



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Non-Qualified Wages

- **Has worked for you more than 1 year**
- **Is your relative or dependent**
- **Worked for you previously or**
- **Does not work for you at least 120 hours**

See Form 5884, WORK OPPORTUNITY CREDIT, for a complete list of wages that do not qualify for the credit.



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Claiming the Credit

- **Attach Form 5884 to your tax return**
- **Use Form 3800 for credit limits if also claiming Welfare-to-Work Credit**
- **Reduce salaries/wages deduction by the amount of the Work Opportunity Credit**
- **Do not claim Work Opportunity AND Welfare-to-Work Credit for same employee**



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Welfare to Work Credit





Background

- Incentive for all employers to hire long-term family assistance recipients
- Qualifications to claim the credit:
 - Pay or incur “qualified wages”
 - during the first 2 years of employment
 - to a “long-term family assistance recipient”
 - who started work for you after Dec. 1997



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Long-term Family Assistance Recipient

- **Certified by your SESA as a member of a family that:**
 - **Received Temporary Assistance for Needy Families (TANF) payments**
 - **For the required amount of time**
 - **Within the required timeframes**
 - **Stopped receiving TANF payments after August 5, 1997 because:**
 - **Federal/state limits on the maximum period that TANF is payable AND**
 - **Hired within the required timeframe**



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State Certification Required

- **Submit Form 8850, Pre-Screening Notice and Certification Request to your state employment security agency (SESA) on time**
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Qualified Wages

- **Subject to FUTA**
- **Up to \$10,000 can qualify**
- **Amounts received for medical care under accident and health plans**
- **Employer-provided coverage for these plans**
- **Certain amounts excludable under educational assistance program**
- **Amounts excludable under dependent care assistance programs**



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Non-qualified Wages

- **Has worked for you more than 2 years**
- **Is your relative or dependent**
- **Worked for you previously**
- **Does not either**
 - **Work for you at least 180 days or**
 - **Complete at least 400 hours of service**



Amount of Credit

- **Qualified First-Year Wages**
 - Rate = 35%
 - Maximum Qualified Wages = \$10,000
 - Maximum Credit = \$3,500

- **Qualified Second-Year Wages**
 - Rate = 50%
 - Maximum Qualified Wages = \$10,000
 - Maximum Credit = \$5,000



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Claiming the Credit

- **Attach Form 8661 to your tax return**
- **Use Form 3800 for credit limits if also claiming Work Opportunity Credit**
- **Reduce salaries/wages deduction by the amount of the Welfare-to-Work Credit**
- **Do not claim Work Opportunity AND Welfare-to-Work Credit for same employee**



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Need More Information?

- **Pub. 954 – *Tax Incentives for Empowerment Zones and Other Distressed Communities***
- **Website: www.irs.gov**
- ***Visit a local office***
- **1-800-829-4933 Business and Specialty Tax Line**