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Hiring? You may be eligible for a valuable tax credit, the WOTC

If you need to hire, be aware of a valuable tax credit for employers hiring individuals from one or more targeted groups. The Work Opportunity Tax Credit (WOTC) is generally worth \$2,400 for each eligible employee but can be worth more — in some cases much more.

Targeted groups

Generally, an employer is eligible for the credit only for qualified wages paid to members of a targeted group. These groups are:

1. Qualified members of families that receive assistance under the Temporary Assistance for Needy Families program,
2. Qualified veterans,
3. Qualified ex-felons,
4. Designated community residents,
5. Vocational rehabilitation referrals,
6. Qualified summer youth employees,
7. Qualified members of families in the Supplemental Nutritional Assistance Program (SNAP),
8. Qualified Supplemental Security Income recipients,
9. Long-term family assistance recipients, and
10. Long-term unemployed individuals.

Employer eligibility and requirements

Employers of all sizes are eligible to claim the WOTC. This includes both taxable and certain tax-exempt employers located in the United States and in some U.S. territories. Taxable employers can claim the WOTC against income taxes. However, eligible tax-exempt employers can claim the WOTC only against payroll taxes and only for wages paid to members of the qualified veteran targeted group.

Many additional conditions must be fulfilled before employers can qualify for the credit. Each employee must have completed a minimum of 120 hours of service for the employer. Also, the credit isn't available for employees who are related to the employer or who previously worked for the employer.

Credit amounts

WOTC amounts differ for specific employees. The maximum credit available for the first year's wages generally is \$2,400 for each employee, or \$4,000 for a recipient of long-term family assistance. In addition, for those receiving long-term family assistance, there's a 50% credit for up to \$10,000 of second-year wages. The maximum credit available over two years for these employees is \$9,000 (\$4,000 for Year 1 and \$5,000 for Year 2).

For some veterans, the maximum WOTC is higher: \$4,800 for certain disabled veterans, \$5,600 for certain unemployed veterans, and \$9,600 for certain veterans who are both disabled and unemployed.

For summer youth employees, the wages must be paid for services performed during any 90-day period between May 1 and September 15. The maximum WOTC credit available for summer youth is \$1,200 per employee.

Worth pursuing

Additional rules and requirements apply. For example, you must obtain certification that an employee is a target group member from the appropriate State Workforce Agency before you can claim the credit. The certification generally must be requested within 28 days after the employee begins work. And in limited circumstances, the rules may prohibit the credit or require an allocation of it.

Nevertheless, for most employers that hire from targeted groups, the credit can be valuable. Contact your tax advisor with questions or for more information about your situation.