

The History and Future of the Work Opportunity Tax Credit Program

Introduction

The objective of this white paper is to educate business owners about the history and significance of the Work Opportunity Tax Credit program, the benefits of outsourcing the application and administration of such programs to specialized tax credit vendors, and the necessity of advanced technology in augmenting tax credit captures. The information contained herein is based on the professional experience and knowledge of TC Services USA Inc., garnered via many years in the tax credit industry. In this white paper, we will explore the foundations, history and future of the Work Opportunity Tax Credit (WOTC) program, and will discuss why the implementation of both vendor outsourcing and innovative technology in the application and administration of such programs is integral to their success.

A Brief Summary of WOTC

The WOTC program emerged from the Small Business Act of 1996, as part of a federal endeavor to reward businesses for particular hiring practices that aim to aid the national economic status.

Specifically, the program awards tax credits to businesses whose hiring practices reach individuals belonging to particular categorical target groups; these individuals are typically members of society who would otherwise face moderate to severe challenges in obtaining employment.

Each year, businesses claim over \$1 billion in Work Opportunity Tax Credits by hiring from these select target groups, rendering WOTC a fundamental resource for certified employers. Money earned and retained via this governmental reward program is immediately accessible revenue that would otherwise be sacrificed. Since its creation, over 12 million WOTC certifications have been issued, opening the door for millions of otherwise under- or unemployed citizens to find work and contribute to the economy. American businesses benefit annually from this self-sustaining revenue stream.

WOTC Includes Typical Hiring Practices

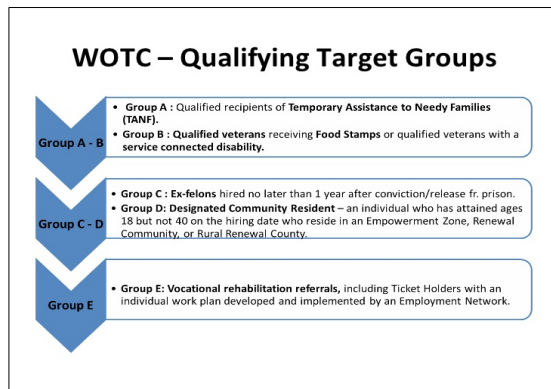


Figure 1

For business owners, it is guaranteed that if they hire from select target groups of individuals, identified in part to help decrease the nation's unemployment levels, they will generate thousands of dollars in tax credits per each eligible new hire. As aforementioned, every year employers claim over one billion dollars in WOTC credits, a sum that results from a generous \$2,400 to \$9,600 per new target employee.

The categorical breakdown identified in *Figure 1* above can be further understood in percentages, as illustrated in *Figure 2* below. WOTC target groups refer to the following subsets: Temporary Assistance for Needy Families (TANF) recipients, both short-term and long-term, Supplemental Security Income (SSI) recipients, SNAP recipients, veterans, ex-felons, Summer and at-risk youth, vocational rehabilitation recipients, zone-specific individuals, and a number of other subcategories outlined in *Figure 2*. The individuals addressed by these target groups comprise a fairly large percentage of the national demographic; therefore, businesses may be surprised to learn that they are already employing these individuals via existing hiring methods, and yet often remain unaware that said employees could entitle them to thousands of dollars of tax liability reduction through the administration of the WOTC program.

How WOTC Augments Workplace Morale

In addition to generating significant revenue, the hiring practices rewarded by WOTC also support heightened morale in the workplace. As society continues to encounter profound social and environmental challenges, there are a plethora of businesses, both in the independent and mainstream markets, that are, or are aiming to become, environmentally and socially conscious operations with great attention to things like carbon neutrality and employee diversity.

The latter is currently an extremely significant area of focus. As most employers know, the government has outlined a series of laws that ensure non-discrimination in the hiring process, and furthermore,

encourage employers to actively hire more diverse groups of employees. Programs like WOTC, however, which actively reward businesses for diverse hiring practices, are lesser known. Again, this means that businesses are essentially sacrificing between \$2,400 and \$9,600 per eligible new hire. When a company enrolls in the WOTC program, they increase both monetary revenue and social consciousness, thereby simultaneously augmenting the financial and social well-being of employers, employees, and the nation's macrocosmic economy.

The Proof is in the Numbers

A 2013 study conducted by Dr. Peter Cappelli (The Wharton School at the University of Pennsylvania) highlights the measurable benefits of the WOTC program for the federal government.

In this study, Cappelli calculates the average federal savings for a few of the primary target groups existing under the WOTC umbrella.

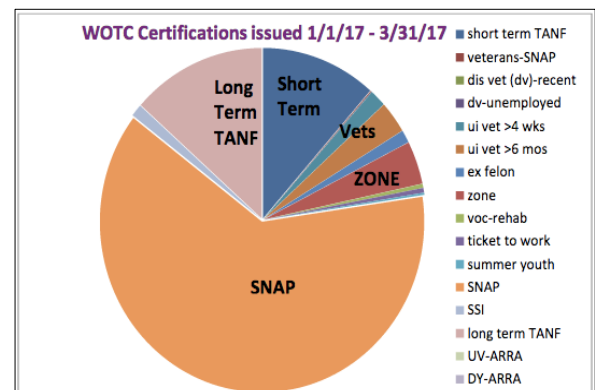


Figure 2

Findings show that for Temporary Assistance for Needy Families (TANF) recipients (individuals receiving welfare, food stamps, and Medicaid), federal savings that result from their subsequent employment amount to \$12,570 annually. Furthermore, because the average rate of tenure among WOTC-hired employees is 2.3 years, and considering, according to Cappelli's analysis, that WOTC is responsible for seventy-five percent of Americans who become newly employed, the total federal TANF savings amounts to \$17,722 per employee.

Between the years 2002 and 2013, according to the Department of Labor, there were roughly 1.8 million certifications awarded under the TANF domain. This accounts for close to twenty percent of all certifications, and based on these figures, rendered a \$130.9 billion federal savings figure across the aforementioned span of time.

Although, as depicted in *Figure 2* aboveⁱ, Supplemental Security Income (SSI) recipients and veterans comprise a smaller percentage of total WOTC-eligible employees, they reap even greater governmental savings due to the numerically higher amount of assistance they typically receive from the federal government, which is retained when these individuals become employed under the WOTC program.

Furthermore, according to Cappelli, a new target group under WOTC, long-term unemployment recipients, generate nearly \$28,000 per new eligible hire in the absence of need for distributed benefits.

Additionally, as outlined in the executive summary of the study, “There are also significant, but harder to quantify savings, in the form of reduced crime, more stable communities, lower healthcare costs due to less social tension, and potentially higher business profits as a result of greater economic activity and taxes paid by workers hired as a result of WOTC.”

Thus, it is clear both conceptually and numerically that the WOTC program generates drastic savings on an individual business and federal level.

A Brief History of WOTC

In 2012, the Congressional Research service amalgamated data from the Department of Labor to provide insight into the number of certifications awarded for each target group over a 5-year period (*Figure 3*). Because so many certifications have been granted since the program's emergence, and

	FY2008	FY2009	FY2010	FY2011	FY2012
Short Term TANF Recipient	93,673	67,985	51,221	53,455	45,824
Long Term TANF Recipient	24,207	17,502	65,447	79,365	71,407
Veteran SNAP Recipient	9,132	9,385	9,044	11,228	15,183
Disabled Veterans	-	190	2,452	3,367	6,642
VOW Act Unemployed Veterans*	-	-	-	-	11,536
SNAP Recipients	405,242	518,208	499,927	684,612	602,540
Ticket Holders	-	719	649	986	584
Designated Community Residents	72,651	22,837	65,495	60,631	50,589
Summer Youth	2,517	2,422	2,957	608	384
Ex-Felons	43,444	43,703	36,479	34,731	22,063
Vocational Rehabilitation Referral	17,242	16,380	16,213	14,776	12,891
SSI Recipients	24,313	19,542	12,701	12,458	10,981
ARRA Unemployed Veterans**	-	55	1,560	3,117	1,154
ARRA Disconnected Youth **	-	886	150,346	201,189	40,536
Total Certifications Issue	692,421	719,814	914,491	1,160,523	892,314

Source: Table prepared by the Congressional Research Service using data from the Department of Labor.
* Added by P.L. 112-56.
** Added by P.L. 111-5. Expired on December 31, 2010.

because it brings such value to so many businesses, it is surprising and less-than-ideal that the WOTC program has undergone expiration and renewal eleven times since its conception twenty-one years ago.

Figure 3

The following is a brief history of the WOTC program:

- The Taxpayer Relief Act of 1997 extended the original 12-month term an additional 9 months.
- The Tax and Trade Relief Act of 1998 reauthorized and extended it 12 months.
- The Ticket to Work and Work Incentives Improvement Act of 1999 extended WOTC for an additional 20 months.
- The Job Creation and Worker Assistance Act of 2002 retroactively reauthorized it to the beginning of the year and extended it for a total of 24 months.
- The Working Families Relief Act of 2004 retroactively extended WOTC to the beginning of the year and through 2005.
- The Tax Relief and Health Care Act of 2006 retroactively extended it again to the beginning of

2006 and through 2007.

- The Small Business and Work Opportunity Tax Act of 2007 extended WOTC for 44 months.
- The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act extended it 4 months through the end of 2011.
- The American Taxpayer Relief Act of 2012 retroactively extended WOTC to the beginning of 2012 and through 2013.
- The Tax Increase Prevention Act of 2014 retroactively extended it to the beginning of the year and through the end of 2014.
- The Protecting Americans from Tax Hikes Act of 2015 retroactively extended WOTC to the beginning of 2015 and through 2019. ⁱⁱ

Now that the WOTC program has been extended through 2019, businesses can feel confident that they will not face any administrative gaps for at least the next two years. This also means that we are moving into the future of WOTC, a future that asks for greater technological innovation and highly specialized tax credit companies to streamline application and administration pathways that can otherwise cause bureaucratic overwhelm within businesses.

The Future of WOTC

The future of the WOTC program is ever evolving. Not only is it dependent upon governmental renewal in 2019, but also legislation regarding the tenets of the program itself. As noted above, there already exist a plethora of target groups identified under WOTC, but the potential for new additions is part of the built-in malleability of the program. Possible new categories include foster youth, National Guard members and student loan recipients. ⁱⁱⁱ

As for the future of WOTC beyond 2019, and with potential major tax reform on the horizon, due diligence with research, applications and deadlines will be paramount. Staying abreast of these opportunities can significantly impact employers in the years to come.

In the past, before the availability of specific tax credit capture technology, application turnaround times for WOTC certification could be quite lengthy, and the administrative tasks hard to handle, especially in the absence of outsourcing to specialized tax consultants. In the contemporary industry, new technologies and the possibility for outsourcing the entire process to specialized tax vendors increase the ease and convenience of reaping the monetary rewards of the WOTC program, and serve as a preventative measure against possible future lapses in certification, especially given the program's

fluctuating history. Also, due to the new administration and potentially profound tax reform, it is especially important for businesses to ensure that their application processes are as streamlined as possible. As with many other fields, outsourcing to experts and keeping up with the most recent and advanced technology are integral to reducing workload and increasing benefits for businesses.

Outsourcing Versus Internal Operations

While WOTC application is clearly a worthwhile endeavor that helps employers, employees, as well as the nation's macrocosmic economy, the process itself can be daunting should business owners attempt to oversee it independently. Businesses that attempt to manage the application process in-house may encounter numerous challenges that can deplete time and even financial resources. Niche tax credit consultants, especially those who keep pace with the latest technological advances, will therefore be integral to the future of the WOTC program. Specialized consultant companies such as ours assume all managerial responsibilities associated with WOTC enrollment, from commencement to completion. Since fees are contingency-based, this means that employers pay a percentage for TC Services' management of WOTC enrollment only once the new tax credits have been earned. All that is required to enroll is to have new hires submit a simple form via an incredibly convenient and secure online portal, and then a team of tax credit experts assume all further responsibility for determining the employees' eligibility. Our team of experienced professionals offers thorough guidance throughout the enrollment process; we field all inquiries and facilitate communication with the IRS, thus saving businesses significant amounts of temporal and monetary expenditures.

Widening the Gap with Technological Evolution

As WOTC progresses and evolves, innovative technology will undoubtedly play a pivotal role in allowing business owners to keep up with changing times. As in any other industry, it is imperative for businesses to stay abreast of the latest technology in order to provide user-friendly and streamlined client experiences; in the tax credit and incentive field especially, because of the high possibility of externally-controlled bureaucratic pitfalls, it is even more important to streamline this process wherever possible.

While the history of the tax credit and incentive industry is steeped in old-fashioned, simplistic, and often bureaucratic processing, the advent of revolutionary software created specifically to aid in the

administration of platforms such as the WOTC program has significantly decreased turn-around times from the point of application to certification, as well as the often overwhelming plethora of administrative details that require management

TC Services USA, Inc. has followed suit by employing evolving technology to provide businesses with a convenient and streamlined application process. Its proprietary WOTC Software, which has been voted the #1 tax credit software, enables us to determine tax credit eligibility for new hires with the ultimate degree of accuracy. New employees can complete their applications via our online client portal, either on home computers or cell phones. HR administrators can also implement the software to oversee submitted WOTC applications and to track the status of pending credits. TC Services USA also closely monitors the entire process, submits applications to the IRS, and communicates regularly with clients to inform them about the process, eliminating superfluous work for employers who might otherwise attempt to manage the process themselves. This patented WOTC software, advanced API integration and convenient online customer portals allow for a streamlined process for businesses submitting applications for new employees, thus ensuring smooth turnaround times and drastic differences in tax credit captures that are technologically secured for the ever-changing future of the program.

About TC Services USA, Inc.

TC Services USA, Inc. delivers industry-leading solutions that help companies realize more benefits from federal, state and local tax incentive programs. Clients nationwide range from small businesses to Fortune 100 companies, covering all industries. Our staff of dedicated tax and accounting professionals is unified in our mission to capture the maximum tax credit dollars for our clients. The amalgamation of our expertise, talent, and proprietary technology has helped solidify our reputation as “The Tax Credit Professionals”.

Our longevity as a company has afforded us superior knowledge of the tax credit recovery industry, and has provided us with a foundation from which to best support our clients. Also, our online software and other technical solutions, create a faster and more simplified process for our clients, ultimately resulting in a higher number of tax credits than other providers can obtain.

ⁱ <http://www.mass.gov/lwd/employment-services/one-stop-career-centers/special-programs/wotc-program-statistics/wotc-jan-mar-17.pdf>

ⁱⁱ “Billions Saved in Brief History of WOTC”. <http://www.hkpayroll.com/billions-saved-in-brief-history-of-wotc/>

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