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Client Training HQ

WOTC Frequently Asked Questions

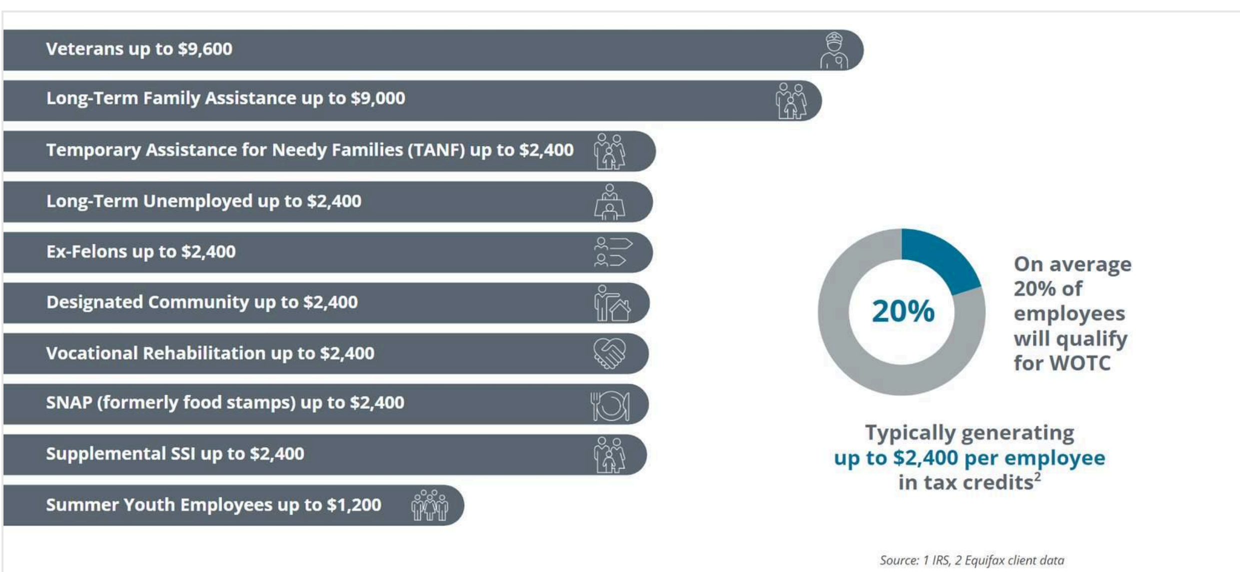
The Work Opportunity Tax Credit, or WOTC, is a federal program designed to encourage businesses to hire economically disadvantaged individuals by providing federal tax credits. Each eligible employee you hire and put to work has the potential to earn your company significant tax credits. To qualify for a credit, companies must screen its applicants on or before their hire date.

Q: Who needs to complete the WOTC screening?
A: Each new hire can complete the WOTC screening, on or before their hire date.

Q: Does a rehire need to complete the WOTC screening?
A: Yes. It is a best practice to have all new employees complete the WOTC screening. Though a rehire will not qualify your company for an additional credit, their wages could still be considered eligible under certain circumstances.

Q: What if someone refuses to complete the WOTC screening?
A: WOTC is a voluntary program, so if someone elects not to complete it, that's okay. However, please let them know that the information they provide will stay confidential and will not affect their job, wages, or benefits in any way.

Q: Who qualifies for WOTC?
A: There are several different ways someone can qualify for WOTC. However, they must be a part of a qualifying group. Below are examples of these target groups:



Images are examples and for information purposes only. They may vary across platforms and are subject to change.

Q: How does our company generate WOTC credits?
A: There are several steps that have to take place before you can generate tax credits:

- Individuals must complete the WOTC screening on or before their hire date.
- Individuals must be certified as eligible by the State WOTC Agency.
- Certified individuals must work at least 120 hours.

Q: How much can each new hire generate in tax credits?
A: The maximum tax credit per employee ranges from $2,400 up to $9,600 depending on the certified targeted group and qualified wages paid to the new employee during the first year of employment:

- 0-119 hours = No credit available.
- 120-399 hours = 25% of WOTC credit for wages on file.
- 400+ = 40% of WOTC credit for wages on file.

Note: There are a couple of target groups that have a higher tax credit (long-term welfare recipients and veteran qualifiers).

Q: What's the difference between "certified" and "pending" credits?
A: Certified credits are for individuals that have been certified as eligible by the State WOTC Agency and have worked enough hours to generate tax credits. You **can** take advantage of the certified tax credits on your federal tax return. Pending credits are for individuals that have worked enough hours to generate tax credits; however, the State WOTC Agency has yet to issue a determination. You **cannot** take advantage of the pending credits on your federal tax return.

Q: Why do we have so many "pending" credits?
A: The State WOTC Agencies do not have a deadline to issue a determination and most states are behind in their processing, so it could take several years before you receive a determination. Due to the backlog at the States, the IRS issued a Joint Directive allowing employers to take advantage of the certified tax credits in the "certified year" rather than the year the wages were paid (see LB&I and SB/SE Joint Directive on the Work Opportunity Tax Credit per Internal Revenue Code Section 51 (IRC § 51) on the IRS website).

Q: How does our company take advantage of the tax credits?
A: Taxable employers claim WOTC as a general business credit against their income taxes using IRS Forms 3800 and 5884.

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