White Paper

Dual value of the Work Opportunity Tax Credit

Reduce turnover while increasing income

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Research indicates WOTC-eligible employees perform better or equal to peers

The primary benefits of the Work Opportunity Tax Credit (WOTC) are clear. The program, which debuted in 1996 as the successor to the Targeted Jobs Tax Credit, offers tax breaks to businesses hiring workers that the Department of Labor has determined to have specific barriers to employment. Workers who can benefit from the program include veterans, those on temporary financial assistance, and residents of certain geographic zones. Through the WOTC program, the government incentivizes employers to help move people from public assistance to employment rolls. Companies benefit from the program through reduced tax liabilities and an offset to the cost of hiring, in exchange for helping to lower unemployment and boost the economy.

But there's another advantage for employers who hire WOTC-eligible applicants; those employees are just as reliable and career-focused as non-WOTC peers, according to research from Equifax. Data gleaned from The Work Number® database shows that workers hired through WOTC:

- Stay in their jobs for the same amount of time or longer as non-WOTC hires
- Are less likely to leave their job in the first year than their cohorts
- Progress through the ranks at the same pace as traditionally hired co-workers
- Earn as much over time as their peers[1]

Workers hired through WOTC *earn* as much over time as their peers.

These findings, bolstered by previous economic research, demonstrate WOTC's deeper value to workers, government, and businesses, and justify the government's extension of the program. They offer rationale for why the government should continue to provide these tax incentives to companies that hire WOTC-eligible employees. The research also confirms the benefits for participating companies, which extend beyond short-term tax breaks to the long-term advantages of a high-quality workforce, reduction in turnover, and a strengthened economy.

Businesses, particularly in sectors with high hiring rates such as restaurants, retail, and staffing, can ensure they're maximizing their participation in tax-credit programs by adopting a few straightforward best practices. These practices are aimed at simplicity and efficiency. Among them:

- Adopting integrated employment screening
- Outsourcing the collection of WOTC-eligibility documentation
- Screening for all available federal, state, and local tax credits
- Using eSignature to ensure proper, expedited filing of WOTC paperwork
- Enabling proactive "screen-in" methodologies to identify WOTC-eligible
- Job candidates
- Using real-time tracking of program participation and results

By employing the right strategies, companies can maximize their ability to reap all the benefits WOTC has to offer.

Overview of the Work Opportunity Tax Credit program

The federal Work Opportunity Tax Credit reduces the federal income tax liability of companies that employ people considered to face certain barriers to employment. The program was designed to promote hiring of targeted groups, among them veterans, people with disabilities and people who receive food stamps or other specific forms of government assistance. The federal program is available to all tax-paying employers in all 50 states, Puerto Rico and the U.S. Virgin Islands; meaning employers have equal access to tax credits, regardless of location. WOTC offers federal tax credits ranging from$2,400 to $9,600 per eligible employee.

Who qualifies for WOTC?

- Veterans
- People with disabilities
- Recipients of short-term temporary assistance for needy families
- Recipients of long-term temporary assistance
- For needy families (2-year credit)
- Food stamp recipients
- Supplemental Security Income (SSI) recipients
- Residents of federal Rural Renewal Counties or Empowerment Zones
- Ex-felons
- Teenagers seeking summer jobs
- Qualified long-term unemployment recipients

Hiatus history

The federal Work Opportunity Tax Credit requires congressional action to extend its legislative authority. Thus, WOTC and other tax credits such as those associated with Empowerment Zones, will enter hiatus periods wherein the potential for credit realization is uncertain pending legislative action. In the past, these incentives have been renewed — usually retroactively — as part of a broad tax extension package.

The WOTC program entered a hiatus period during 2015 and was then retroactively extended by the PATH Act of 2015 for hires from January 1, 2015 through December 31, 2019. Then in December 2017, the Tax Cuts and Jobs Act preserved the WOTC program through 2019. The Taxpayer Certainty and Disaster Tax Relief Act of 2019 extended WOTC through December 31, 2020. Most recently the Consolidated Appropriations Act, 2021 extended the WOTC program through December 31, 2025.

It is a recommended best practice that employers continue to screen during a hiatus period as there is no guarantee that the government will waive the 28-day submission deadline as they have in the past. Additionally, employers that continue to screen when the program is out of legislation do not then face the pressure of having to go back and screen individuals hired during the hiatus in order to maximize their WOTC opportunities.

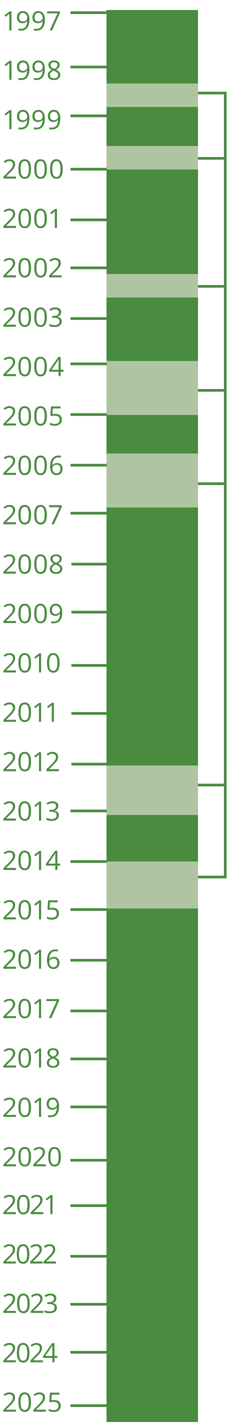
Target group: Long-term unemployed

The Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) among other things added a new targeted group category to include qualified long-term unemployment recipients.

“A qualified long-term unemployment recipient is any individual who on the day before the individual begins work for the employer, or, if earlier, the day the individual completes Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Tax Credit, is in a period of unemployment that is (i) not less than 27 weeks and (ii)includes a period (which may be less than 27 weeks) in which the individual received unemployment compensation under State or Federal law.” [2]

New hires must complete Form 9175, the Self-Attestation Form (SAF) to declare that they meet those requirements. The SAF is then submitted to the State Workforce Agency. [3]

The federal Work Opportunity Tax Credit reduces the federal income tax liability of companies that employ people considered to face certain barriers to employment.



The Work Opportunity Tax Credit requires legislative authority granted by a Congressional vote.

Since its inception in 1997, WOTC has gone through periods of hiatus pending legislative renewal. The program, however, has always been renewed, and the benefits have extended retroactively to continue the legislative authority of the program without interruption.

Leveraging WOTC screening for state tax credits

Many states offer their own tax credits based on hiring employees in specific target groups, similar to WOTC. In fact, some states use some of the same target groups as the WOTC program allowing employers to capture both the federal WOTC credit and the state credit simultaneously to increase their tax savings. These piggyback credits reduce state income tax liabilities for companies that hire WOTC-eligible workers.

WOTC's dual value for employers

An employer considering hiring a WOTC-eligible job candidate often does a risk-benefit analysis. It's clear that the hire will reduce the company's tax bill, but are the savings worth the potential need for additional training? New research from Equifax offers an answer to that question — one that goes against conventional wisdom. According to analysis of proprietary data from The Work Number database, WOTC employees have proven to be just as stable and career-focused as their non-WOTC peers. The research from Equifax Workforce Solutions shows WOTC-eligible employees:

- Stay in their jobs for the same amount of time or longer as non-WOTC hires
- Are less likely to leave their job in the first year than their cohorts
- Progress through the ranks at the same pace as traditionally hired co-workers
- Earn as much over time as their peers[1]

WOTC's benefits to employers are two-fold; employers lower their federal tax liabilities by hiring workers from targeted groups and they gain workers who are just as likely to be motivated performers in the workplace as their non-WOTC eligible peers.

This has potentially significant implications for WOTC. Research indicates that many companies that participate in WOTC would not have hired these workers without the program.[5] But with evidence showing that WOTC-eligible employees' performance is on par or better than their non-WOTC peers, more employers may focus on hiring from groups the Department of Labor considers to have barriers to hire.[1]

WOTC's positive impact on turnover

By hiring employees who are less likely to leave their job in their first year, organizations could reduce their turnover rate. A lower turnover rate has a significant impact on a company's bottom line, both from the actual cost of replacing an employee to the even harder to quantify costs to the organization, such as losing the knowledge and experience of a trained employee to the effects on overall employee morale.

Industry research shows that employers will need to spend the equivalent of six to nine months of an employee's salary in order to find and train their replacement. And some studies show this cost could actually be even higher.[4] But in addition to the replacement costs there are potentially other impacts to an organization including:

- Lost productivity
- Lower engagement
- Less effective service
- Impact on morale
- Training and onboarding costs
- Advertising costs
- Interview expenses

WOTC’s effect on the workforce

Research from Equifax shows WOTC is good for participating companies, but does the federal program actually achieve its primary goal of putting unemployed people in jobs? Here, too, the news is positive.

Additional research by the Wharton School professor and economic researcher Peter Cappelli indicates that targeted “wage subsidies” like WOTC appear to be among the most effective labor market policy strategies for addressing unemployment among the disadvantaged. His study, “Assessing the Effect of the Work Opportunity Tax Credit”, and follow-up study, “A Detailed Assessment of the Value of WOTC” reasons that such incentives work because they tap private funds and because — unlike broader education and training programs — they address the heart of the problem of getting people into jobs.

Additionally, Cappelli notes that WOTC also has the ability to truly curtail unemployment. Here’s how: Most applicants for jobs, even in a recession, are already employed. When employers hire applicants who already have jobs, overall unemployment isn’t reduced. But when an unemployed person is hired, unemployment goes down, even though no net new job was created.[5]

What’s more, the opportunity given to WOTC-eligible workers has a positive effect that lingers even after the initial job ends. Equifax research shows workers who leave the company that hired them through WOTC are just as likely to move to another job — and not to unemployment — as their non-WOTC peers.[1]

How WOTC benefits taxpayers

Even with conservative estimates, the WOTC program offers a good return on the taxpayers’ investment. The cost effectiveness of the program is quite high because subsidies are only paid when targeted individuals are placed in jobs.

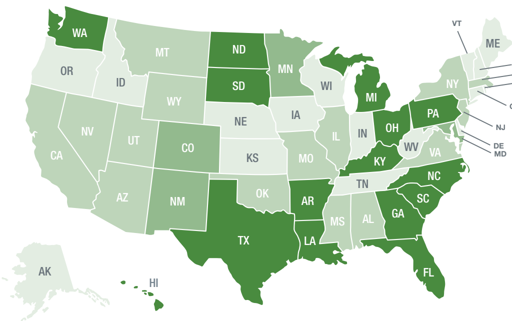
The WOTC program costs significantly less than other so called “tax extenders”, or direct tax credit programs, and Cappelli’s research indicates that every dollar spent on WOTC yields over $10 in social services savings.[7] This conclusion is supported by the findings of economists Timothy Bartik of the Upjohn Institute and John Bishop of Cornell University. In “The Job Creation Tax Credit: Dismal Projections for Employment Call for a Quick, Efficient, and Effective Response,” published by the Economic Policy Institute, researchers note that the safety net costs per year of supporting an unemployed worker are roughly $5,000 — more than double the cost of an average WOTC tax incentive.

Understanding WOTC trends

By comparing WOTC pending, denials, and requests from 2014 and 2015, Equifax can better understand the trends that affect filing for credits.

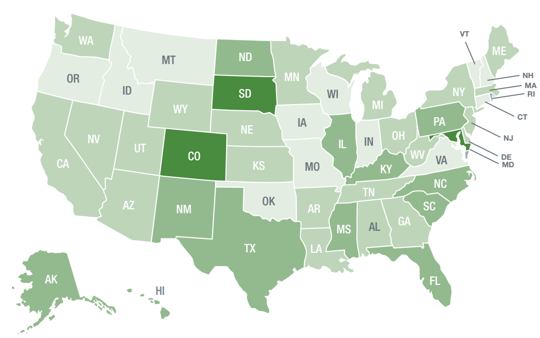
Increase >100% | Increase 50-100% | Increase 0-50%

WOTC certifications — 2015 vs. 2014[8]



Certifications are issued by the State Workforce Agency (SWA) in each state. Certification means the SWA has determined that the individual was indeed eligible to be certified as belonging to a WOTC target group. Certification totals include only those records certified by the SWA in the calendar year.

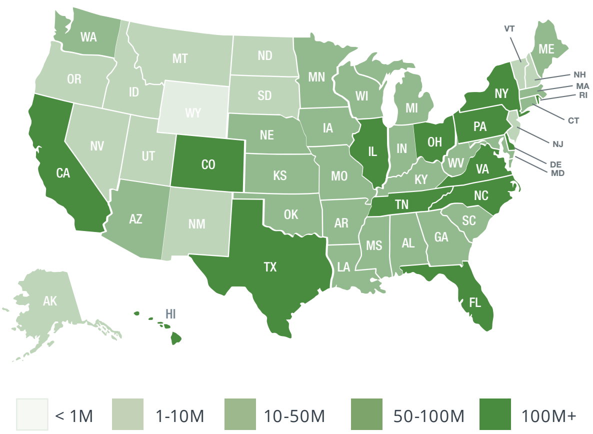
WOTC total workload — 2015 vs. 2014[8]



Total workload means the sum of all certification requests received by the SWA. This total includes records that have been certified as belonging to a WOTC target group, those that have been denied, and those that have yet to be processed.

Every dollar spent on WOTC yields over $10 in social services savings.[5]

WOTC savings[9]



While it is clear that WOTC generates very real savings to the federal government in the form of reduced utilization of social service programs, the same is true for the states. This chart details the state by state savings captured and realized due to the WOTC program's process of moving individuals from assistance to work. Notice that all states but one save at least $1 million per year, while some save significantly more than that.

Research indicates that WOTC is a cost-saving program for the government, although a true dollars-and-cents evaluation is difficult to obtain. One reason is that only the first year of employment is counted in assessing WOTC, but the positive effects of that hire are likely to extend beyond the initial 12 months of employment. One of the criticisms of WOTC is that by extending the tax credit for only one year for most eligible employees (the credit extends two years for recipients of longterm Temporary Assistance for Needy Families), the program encourages employers to churn their workforce annually to exploit the subsidies. However, Cappelli finds no evidence that this is really a problem, and Equifax data also shows that WOTC hires stay on the job even after the tax credit ends; they're as stable and successful as their non-WOTC peers. Bartik and Bishop also conclude that WOTC's benefits extend well beyond the period of tax credits.

Unlike other government expenditure bases, the Joint Committee on Taxation, which analyzes tax policy for Congress, doesn't use dynamic scoring to forecast the value of WOTC over time. That is to say, only the cost of the program and note its benefit as described by Dr. Cappelli, is taken into account. Additionally, it's impossible to measure the program's tangential benefits for workers, taxpayers, and society — among them reduced crime and poverty and lower health care costs — but those benefits exist.[5, 7]

Conclusion

The federal Work Opportunity Tax Credit offers companies an opportunity to reduce their tax liabilities in exchange for helping people in certain disadvantaged groups gain access to employment. But there's a secondary reward for employers who hire WOTC participants: those employees are just as stable and career-focused as non-WOTC peers, according to new, proprietary research from Equifax.[1]

This offers an even greater impetus for employers to participate in the WOTC program. Employers can simplify the process by outsourcing to a company that specializes in automating the process of screening for credits and by instituting a few best practices to ease the bureaucratic burden and help them receive all the tax credits for which they qualify.

References

1. Equifax research study on hires (WOTC and non-WOTC) over the period of 2008-2013, sourced from The Work Number and Equifax clients' WOTC certifications.

2. "Internal Revenue Bulletin - WOTC Guidance and Transition Relief - 2016-13" IRS, March 28, 2016 - https://www.irs.gov/irb/2016-13_IRB/ar10.html

3. "Long-Term Unemployment Recipient Self-attestation Form" - U.S. Dept of Labor, May 2016 - https://www.doleta.gov/business/incentives/opptax/PDF/ETA_Form_9175.pdf

4. Kantor. Julie "High Turnover Costs Way More Than You Think," http://www.huffingtonpost.com/julie-kantor/high-turnover-costs-way-more-than-you-think_b_9197238.html

5. Cappelli, Peter. "A Detailed Assessment of the Value of WOTC." (2013). Print.

6. Calculation based on estimated reduction in Federal assistance paid by using the WOTC program to transition an individual into a job of $19,282, as reported in Cappelli, Peter "WOTC State Savings, Peter Cappelli (2014)"." Assuming an average WOTC tax credit paid of $1,560, the ratio of savings to cost is approximately $12.36 to $1.

7. Bartik, Timothy J., and John H. Bishop. 2009. "The Job Creation Tax Credit: Dismal Projections for Employment Call for A Quick, Efficient, and Effective Response." Washington, DC: Economic Policy Institute, Brief Paper #248.

8. Based on data from Department of Labor.

9. Cappelli, Peter. "WOTC State Savings,"2014. http://neon.aristotle.com/Shared%20Documents/WOTC%20State%20Savings%20Table%20and%20Explanation.pdf.

About Workforce Solutions

Workforce Solutions, a business unit of Equifax Inc., is a trusted leader in meeting the evolving HR, talent acquisition, tax management, and compliance needs of employers. For decades Workforce Solutions has helped HR work smarter. From I-9 challenges, to complex unemployment processes, we leverage unique data assets and technology with market-leading innovation to make your job easier.

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