



Hiring this summer? You may qualify for a valuable tax credit

Is your business hiring this summer? If the employees come from certain “targeted groups,” you may be eligible for the Work Opportunity Tax Credit (WOTC). This includes youth whom you bring in this summer for two or three months. The maximum credit employers can claim is \$2,400 to \$9,600 for each eligible employee.

10 targeted groups

An employer is generally eligible for the credit only for qualified wages paid to members of 10 targeted groups:

- Qualified members of families receiving assistance under the Temporary Assistance for Needy Families program,
- Qualified veterans,
- Designated community residents who live in Empowerment Zones or rural renewal counties,
- Qualified ex-felons,
- Vocational rehabilitation referrals,
- Qualified summer youth employees,
- Qualified members of families in the Supplemental Nutrition Assistance Program,
- Qualified Supplemental Security Income recipients,
- Long-term family assistance recipients, and
- Qualified individuals who have been unemployed for 27 weeks or longer.

For each employee, there's also a minimum requirement that the employee have completed at least 120 hours of service for the employer, and that employment begin before January 1, 2020.

Also, the credit isn't available for certain employees who are related to the employer or work more than 50% of the time outside of a trade or business of the employer (for example, working as a house cleaner in the employer's home). And it generally isn't available for employees who have previously worked for the employer.

Calculate the savings

For employees other than summer youth employees, the credit amount is calculated under the following rules. The employer can take into account up to \$6,000 of first-year wages per employee (\$10,000 for "long-term family assistance recipients" and/or \$12,000, \$14,000 or \$24,000 for certain veterans). If the employee completed at least 120 hours but less than 400 hours of service for the employer, the wages taken into account are multiplied by 25%. If the employee completed 400 or more hours, all of the wages taken into account are multiplied by 40%.

Therefore, the maximum credit available for the first-year wages is \$2,400 ($\$6,000 \times 40\%$) per employee. It is \$4,000 [$\$10,000 \times 40\%$] for "long-term family assistance recipients"; \$4,800, \$5,600 or \$9,600 [$\$12,000$, $\$14,000$ or $\$24,000 \times 40\%$] for certain veterans. In order to claim a \$9,600 credit, a veteran must be certified as being entitled to compensation for a service-connected disability *and* be unemployed for at least six months during the one-year period ending on the hiring date.

Additionally, for "long-term family assistance recipients," there's a 50% credit for up to \$10,000 of second-year wages, resulting in a total maximum credit, over two years, of \$9,000 [$\$10,000 \times 40\%$ plus $\$10,000 \times 50\%$].

The "first year" described above is the year-long period which begins with the employee's first day of work. The "second year" is the year that immediately follows.

For summer youth employees, the rules described above apply, except that you can only take into account up to \$3,000 of wages, and the wages must be paid for services performed during any 90-day period between May 1 and September 15. That means that, for summer youth employees, the maximum credit available is \$1,200 ($\$3,000 \times 40\%$) per employee. Summer youth employees are defined as those who are at least 16 years old, but under 18 on the hiring date or May 1 (whichever is later), and reside in an Empowerment Zone, enterprise community or renewal community.

We can help

The WOTC can offset the cost of hiring qualified new employees. There are some additional rules that, in limited circumstances, prohibit the credit or require an allocation of the credit. And you must fill out and submit paperwork to the government. Contact us for assistance or more information about your situation.