PKF North America
Niche Notes
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Tax Strategies

Federal & State Tax Credits Can Add Up for Qualified Companies

Task Force

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Tax Strategies Task Force

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Are the acronyms "WOTC," "EZ" and "RC" meaningful to you? If not, read on because they may be very meaningful to your clients.

These acronyms represent federal tax credit programs that reward qualified taxpayers for certain activities that the government promotes. The Work Opportunity Tax Credit (WOTC), Federal Empowerment Zone (EZ) and Renewal Community (RC) programs can all significantly reduce the amount of taxes owed, rewarding taxpayers for job creation.

The Work Opportunity Tax Credit (WOTC)

WOTC is available to any private-sector business of any size that hires new employees belonging to 12 target groups that the government believes have faced significant barriers to employment (see sidebar). These groups include veterans, food stamp recipients and others who live in certain geographic zones that need revitalization.

According to the Department of Labor, the objective of the program is to "enable the targeted employees to gradually move from economic dependency into self-sufficiency as they earn a steady income and become contributing taxpayers." Employers are motivated to participate in the program because, by hiring these new employees, they can reduce their federal income tax liability.

WOTC builds incrementally. For example, employers are eligible to receive up to:

- $2,400 for each new adult hire
- $1,200 for each new summer youth hire
- $4,800 for each new disabled veteran hire
- $9,000 for each new long-term family assistance recipient hired over a two-year period

WOTC requires minimum employment and retention periods, and the WOTC amount an employer can claim depends on the hours the employee works. The credit is 25% of qualified first-year wages for those employed 120 to 400 hours per year, and 40% for those employed 400 hours or more.

"WOTC can really add up for clients who regularly hire from the unskilled workforce, where target groups are usually found," said Lauren Lee, who heads Hutchinson and Bloodgood's Tax Incentive Specialty Group. "There are certainly many mainstream employers that hire from these targeted groups and don't realize what they're leaving on the

WOTC Target Groups

Hires from the following 12 target groups may qualify private-sector employers for WOTC:

1. Long-term Temporary Assistance to Needy Families (TANF) recipients.
2. Other TANF recipients
3. Qualified Food Stamp recipients.
4. Designated residents of Empowerment Zones (EZ), Enterprise Communities (EC) or Renewal Communities (RCs).
5. Summer youth employees who are EZ, EC or RC residents.
6. Qualified veterans.
7. Vocational rehabilitation referrals.
8. Qualified ex-felons.
9. Supplemental Security Income (SSI) recipients.
10. Hurricane Katrina employees. (ended 8/28/09)
11. Unemployed veterans.
12. Disconnected youths.

For details, visit www.doleta.gov.

table. WOTC can be applicable to more than just blue-collar industry. For instance, call centers, hospitality, grocery or supermarket chains are some examples of businesses that hire from the unskilled workforce."

To participate, employers must receive certification that new employees qualify the employer for the credit. To receive certification, employers must file IRS Form 8850, complete Employment & Training Administration Form 9061 or Form 9062 as appropriate, and mail the forms to the state workforce agency within 28 days of the employee's start date.

Note that the WOTC is set to expire on August 31, 2011, but it will likely be extended again. In fact, it may be expanded as well. Congressman Phil Roe (R-TN) has introduced the Economic Stimulus for Rural Communities Act that would expand WOTC by adding an incentive for companies to locate in rural areas and hire rural residents. In addition, Representatives Tom Rooney (R-FL) and John Boccieri (D-OH) have introduced two bills, the HIRE America ACT and the Back to Work Tax Credit Act, and Representative Deborah Halvorson (R-IL) has introduced the Families of Disabled Veterans Work Opportunity Act. If passed, all three would expand WOTC to a larger pool of employees.

Empowerment Zone (EZ) & Renewal Community (RC) Programs

The Federal Empowerment Zone (EZ) and Renewal Community (RC) programs reward taxpayers for job creation in certain economically distressed geographical areas. Businesses located in an EZ or RC can earn tax credits by hiring employees from the same federally designated zone. According to the U.S. Department of Housing and Urban Development, EZ/RC residents generated over $2 billion in employment credits for eligible employers in 2007-2008.

Incentives include employment credits, a 0% tax on capital gains, increased Section 179 deductions on equipment, and investment incentives. Businesses can take an annual tax credit of 20% of up to $15,000 in wages ($3,000) for each employee who lives and works for the employer in an EZ, or 20% of up to $10,000 ($1,500) for businesses operating in an RC.

Past tax returns can be amended for up to three years for EZ/RC credits. To see if they are located in an EZ or RC, employers can visit the address locator at www.hud.gov/crlocator or call (800) 998-9999.

Note that all states do not have EZs or RCs, but the list is periodically updated through tax legislature. "It's important to check the EZ/RC list at least annually to see where it's been modified," said Lee. "Also, tax advisors should keep in mind that the client's company headquarters doesn't have to be located in an EZ/RC — a satellite office or branch can qualify as well."

EZ/RC programs are set to expire at the end of 2009, but President Obama has requested in his FY 2010 budget that the EZ/RC programs be extended through December 31, 2010.

State Tax Credits, Too

Don't forget that each state also has a range of different tax credits available. According to Porter Keadle Moore's Pat Tuley, Georgia, for example, has 32 credits available. "The key is to get familiar with the broad categories of credits available in the states where your clients operate," Tuley said. "These may include credits for increasing their employment base, for investing in or expanding facilities, for state-designated empowerment zones (which may or may not overlap with federal EZs) or for research and experimentation.

"While it's a lot of information to process, these credits can be significant," Tuley added.

Making It Work

Both Lee and Tuley say it's crucial to assign staff to become familiar with and track available federal and state credits. "You need to be aware of what's out there and how each program works," said Lee. "It's never too late to start."

Indeed, since Lee began her niche practice, she's generated $5 million in federal and state tax credits for clients. As a tax credit specialist, she also partners with other PKF firms to help with their clients' WOTC, EZ and RC work.

She cautions that CPAs should not be afraid of clients blaming them for not finding the credits sooner. "Saving your client $10,000 in taxes is always good news," she said. "But remember, there is cost involved in implementing tax incentive programs. It takes time for CPAs to get up to speed on the credits available, and it takes time to prepare everything employers need to be certified for the credits. Consider the cost-benefit ratio before moving forward."

Tuley agrees. "The key is to get an effective process in place to keep up with requirements and deadlines," he said. "I suggest that you assign people at the firm to handle the research and the paperwork and develop relationships with the various state departments such as labor and housing, that offer many of the credits."

Tuley also advises firms to discuss various billing arrangements. "Look at the feasibility of doing it as part of your regular tax work," he said, "or see if there's a set fee that would be practical."

Some specialty firms charge for tax credit work on a contingency basis, taking a percentage of the credits earned. "A contingency arrangement is appealing to some firms," Tuley said, "while others are uncomfortable with it. It all depends on the nature of the firm and the rules of the state."

The first step, of course, is to make a commitment to pursue federal and state tax credit opportunities on behalf of clients. Most business owners are not aware of these programs and both Lee and Tuley suggest a proactive approach to educating clients about the tax credit opportunities they may have.

If you are interested in talking further with Lauren Lee or Pat Tuley about state and federal tax credits, they welcome your inquiries. Lauren Lee can be contacted at llee@hbllp.com or (818) 637-5000 x 7595. Pat Tuley can be contacted at ptuley@pkm.com or (404) 588-4200.

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