Are Minimum Wage Increases Cutting into Your Profits? Work Opportunity Tax Credit (WOTC) Can Help

2019

Struggling to Adjust to Increased Operating Expenses?
A Look at the Work Opportunity Tax Credit (WOTC)

From picketing fast food workers holding signs with slogans like "Fight for $15" to major corporations, such as Walmart, Starbucks, and McDonald's, implementing pay increases for their low-wage workers, the movement for higher minimum wages is rapidly gaining momentum across the country. Sixteen states, including California, will raise their minimum wage rates by up to a dollar in 2016, with many more cities and counties likely following suit. An additional eight states, including Arizona and Washington, have committed to slightly increasing their rates each year to align with the rising cost of living. The current federal minimum wage is $7.25 per hour, and President Obama has expressed support for the Raise the Wage Act, which would increase this amount to $12 by 2020.

While higher minimum wages represent a victory in the battle for the lowest paid workers to attain economic self-sufficiency, they also impose a burden on the businesses that must struggle to adapt to increased operating expenses. Businesses with large numbers of minimum wage employees will undoubtedly suffer a dent in their profit margins as laws change, often forcing them to either reduce the size of their workforces or pass on the cost to consumers by raising prices. Fortunately, the federal government and several state governments provide businesses with tax incentives as a mechanism to offset these escalating costs.

The Work Opportunity Tax Credit (WOTC) was created in 1996 with the goal of remedying a persistently high unemployment rate among particular groups of job-seekers. WOTC and minimum wage laws share the basic objective of helping certain workers earn a living that will elevate them from poverty. However, workers tend to be the sole beneficiaries of higher minimum wages, while both workers and their employers reap the benefits of WOTC. This valuable incentive represents approximately $1 billion in savings for businesses each year.

Get Paid for New Hires by the Feds

WOTC rewards employers by offering them up to $9,600 in tax credits for each new qualifying employee hired.

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WOTC

To fulfill its goal of paving a path to employment for individuals facing certain types of circumstances, WOTC defines a number of target groups. In order to claim the credit, employers must hire at least one individual belonging to these target groups and have the hire certified by a state workforce agency (SWA). The credit ranges from $1,200 to $9,600, with the specific amount depending upon the target group from which the individual was hired, how much he or she earns, and the number of hours worked. WOTC is available to businesses of any size, and there is no limit to the number of eligible employees that the business may hire.

Despite the tremendous savings that it offers businesses each year, WOTC has never been a permanent part of the tax code. It belongs to a group of provisions collectively known as tax extenders, which historically have expired at the end of each year, only to be renewed by Congress. This pattern has caused a great deal of frustration for taxpayers and tax professionals. In December 2015, Congress fortified WOTC when it passed the Protecting Americans from Tax Hikes (PATH) Act. This Act retroactively renewed WOTC for the 2015 tax year and extended it through December 31, 2019. The PATH Act also added long-term recipients of unemployment assistance who were hired after December 31, 2015 as a target group. A designated local agency must certify the individual as having been unemployed for at least 27 consecutive weeks and having received federal or state unemployment assistance for at least part of that time.

Employers may qualify for WOTC by hiring certain applicants from a number of other target groups. These groups include:

- Veterans
- Recipients of Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), or Supplemental Security Income (SSI)
- Individuals between 18 and 39 years old who live in either a federally designated Empowerment Zone or Rural Renewal County
- Individuals who have completed or are undergoing vocational rehabilitation
- Ex-felons
- Youths who live in Empowerment Zones and work for the employer over the summer

Individuals hired from each of these groups must meet additional qualifications.

WOTC

Since WOTC's target groups are designed to encompass individuals who have historically faced significant barriers to employment, many of these workers will likely be hired to fill low-wage positions as the first step in their paths to economic self-sufficiency. Therefore, the businesses that are most affected by increases in the minimum wage may also be the most likely to qualify for substantial tax savings with WOTC. The trend towards higher minimum wages seems unstoppable, but as businesses across the country adjust to greater operating costs, the Work Opportunity Tax Credit promises relief in the form of a reduced tax burden.

(Sources: http://qz.com/479639/walmart-and-other-us-companies-are-starting-to-feel-the-full-effect-of-minimum-wage-increases/, http://www.cnbc.com/2015/12/24/13-states-to-raise-minimum-wage-in-2016.html, https://www.whitehouse.gov/raise-the-wage, http://www.doleta.gov/business/incentives/opptax/wotcEmployers.cfm).

From screening prospective hires to filing the required government forms, Capital Review Group (CRG) ensures that clients are maximizing their tax savings through WOTC as they grow their workforces. The experts at CRG understand that the process of selecting new employees involves decisions that only the employer can make, so CRG handles the entire administrative burden of claiming WOTC without interfering with the company's hiring procedures.

Contact CRG for more information on WOTC at:

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