



## Reduce Hiring Costs By Using Tax Incentives

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Labor costs continue to be the largest fixed expense for many small and mid-sized businesses. Government-imposed wage hikes in the form of higher minimum wages that have been implemented in some areas and are being discussed on a national level certainly aren't going to help.

In this environment, businesses should be looking for any and every opportunity they can find to lower their hiring and labor costs. One often-overlooked opportunity is the numerous hiring tax incentives offered by both the federal and state governments that are designed to bring more individuals into the workforce. These tax breaks can save your business thousands of dollars when you hire employees from among eligible groups of workers.

### The WOTC: Tax Credits and a Hand Up

One such federal program is the Work Opportunity Tax Credit, or the WOTC. This program was created to encourage businesses to hire qualified individuals from target groups who might be facing barriers to employment, including veterans and welfare and food stamp recipients. Collectively, employers claim about \$1 billion in WOTC tax credits each year. Importantly, the Protecting Americans from Tax Hikes (or PATH) Act that was passed last December extended the WOTC retroactive to January 1, 2015, through December 31, 2019.

According to a recent article published on CFO.com<sup>1</sup>, the WOTC can cover about 47 percent of recruiting, hiring and training expenses for certain employees. A wide range of targeted groups of employees are included among those whose hiring might qualify your business to claim the WOTC, including:

- **Military veterans** — This includes veterans who did not have jobs for a minimum of four weeks before becoming employed or who have recently received food stamps or Supplemental Nutrition Assistance Program (SNAP) benefits. Also eligible are veterans who receive compensation for disabilities related to their service.
- **Ex-felons** — These individuals are required to have been released from prison or convicted within one year prior to a company hiring them.
- **Individuals with disabilities** — Referrals from vocational rehabilitation agencies must have completed or be completing rehabilitation programs from a state-certified agency by way of the Department of Veterans Affairs or the Ticket to Work program. Disabled individuals may also qualify if they receive Social Security Supplemental Security Income (SSI) Benefits in the two months before they're hired.
- **Low-wage workers** — This includes many individuals who have received Temporary Assistance for Needy Families and individuals who've received SNAP benefits within the past six months.

Starting this year, the list of targeted groups has been expanded to include qualified recipients of long-term unemployment benefits. These are defined as individuals who have received these benefits for at least 27 weeks.

For your business to qualify for the WOTC, your employee must work at least 120 hours for you during the first year of employment. The tax credit will equal 25 percent of the employee's qualified wages, up to the applicable limit. But if the employee works more than 400 hours during the first year of employment, the tax credit increases to 40 percent. In general, the WOTC tax credit applies to the first \$6,000 in qualifying employees' wages. In most situations, the maximum credit per employee is \$2,400. However, in the case of veterans, the WOTC credit can rise all the way to \$9,600.

### **WOTC Requirements**

It's important to point out that taking advantage of the WOTC requires companies to deal with additional documentation and eligibility requirements. In addition, the WOTC application process can be complex and time-consuming.

First, you must complete page one of IRS Form 8850 before you offer a job to a qualified candidate. Then you must complete page two of this form after the candidate is hired. Finally, you have to submit the form for certification to the Department of Labor within 28 days of the date the employee begins work. And once the employee is certified by the DOL, you have to track his or her hours to accurately obtain the tax credit.

Therefore, many small and mid-sized firms turn to their payroll service providers or third-party facilitators for help when it comes to hiring WOTC employees and handling all the documentation. Such providers specialize in WOTC screenings by using pre-employment questionnaires and HR consultations.

### **Concluding Thoughts**

Businesses today should be looking for any opportunity to lower their hiring and labor costs. One often-overlooked opportunity is the numerous hiring tax incentives offered by the federal and state governments, such as the Work Opportunity Tax Credit (WOTC). This tax break can save your business thousands of dollars when you hire employees from among eligible groups of workers. An outsourced CFO services provider can help you take advantage of the WOTC and other federal and state hiring tax incentives.

*1 Four Kinds of Hires That Save Money; Benjamin Geyerhahn; CFO.com; June 7, 2016  
[www2.cfo.com/tax/2016/06/four-kinds-hires-save-money](http://www2.cfo.com/tax/2016/06/four-kinds-hires-save-money)*

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