



# WOTC AND TICKET TO WORK

## TRAINING NOTICE FOR ENs

February 15, 2005

*The Department of Labor and the Internal Revenue Service have administrative and regulatory responsibility for the Work Opportunity Tax Credit (WOTC) Program. This Training notice was developed for Employment Networks based on Department of Labor Employment and Training Administration materials. Changes or updates from the Department of Labor or Internal Revenue Service take precedence. For a full explanation of the WOTC Program please contact the Department of Labor or Internal Revenue Service.*

### CONTENTS:

What is the Work Opportunity Tax Credit? .....	1
How does Ticket to Work fit in with WOTC? .....	2
What new Hires can qualify employers for WOTC? .....	2
How can Employers Participate in the WOTC? .....	3
What are the requirements for an Employer to claim the credit? ...	4
What is MAXIMUS role? .....	4
What is the impact on Employment Networks? .....	4
Where can ENs get more information on the WOTC Program? .....	5

### WHAT IS THE WORK OPPORTUNITY TAX CREDIT?

The Work Opportunity Tax Credit (WOTC), authorized by the Small Business Job Protection Act of 1996 (P.L. 104-188), is a federal tax credit that encourages employers to hire nine targeted groups of job seekers by reducing employers' annual federal income tax liability by as much as \$2,400 per qualified new worker.

The WOTC is one tool in a diverse toolbox of flexible strategies designed to help people move from federal assistance to work and gain on-the-job experience. It joins other education and job training initiatives and targeted tax credits that help American workers prepare for good jobs; ease the transition from job to job; and create high performance workplaces.

## **HOW DOES TICKET TO WORK FIT IN WITH WOTC?**

On March 2, 2004, President Bush signed into law the Social Security Protection Act of 2004, Public Law 108-203. Section 405 of this Act makes the WOTC available to employers who hire certain participants in the Ticket to Work Program. Employers may claim the WOTC for Eligible SSDI beneficiaries and disabled or blind SSI recipients participating in the Ticket to Work Program who are currently under an Individual Work Plan (IWP).

While current forms and the Department of Labor Employment and Training Administration (ETA) materials have not been updated to include the new target group, Ticket-holders will be included and treated the same as an individual who qualifies under the group who completed or is completing rehabilitative services with a state vocational rehabilitation agency. ETA released a Training and Employment Guidance Letter (TEGL 15-04) to inform state workforce agencies (SWAs) regarding the Ticket to Work Program and its relationship to the WOTC.

The Ticket to Work and Self-Sufficiency Program is established under the Social Security Act for Social Security Disability Insurance (SSDI) beneficiaries and disabled or blind Supplemental Security Income (SSI) recipients. These Social Security beneficiaries, who choose to participate in the Ticket to Work Program, may select an Employment Network (EN) and receive employment and vocational rehabilitation services and other supportive services. As part of the program, the EN works with the Ticket-holder to establish an Individual Work Plan in section 1148(g) of the Social Security Act (42 U.S.C. 1320b-19(g)(1)).

Section 405 of P.L. 108-203 adds the following language after 42 U.S.C. 1320b-19(g)(1)(E):

“An individual work plan established pursuant to this subsection shall be treated, for purposes of section 51(d)(6)(B)(i) of the Internal Revenue Code of 1986, as an individualized written plan for employment under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973.”

The legislation makes the new provision effective as if included in Section 505 of the Ticket to Work and Work Incentives Act of 1999, Public Law 106-170. However, since the new provision was enacted in March 2004 and WOTC certification requires the employers to submit IRS Form 8850 to the SWA within 21 days after the individual begins work, the new provision will not apply prior to March 2004, the enactment date of P.L. 108-203.

## **WHAT NEW HIRES CAN QUALIFY EMPLOYERS FOR WOTC?**

Under the current legislation, WOTC applies only to new employees hired after September 30, 1996, and before January 1, 2006. Again for Ticket-holders WOTC applies only to new employees after March 2, 2004.

The new employee must belong to one of nine target groups. Prior to the March 2, 2004 legislation only the following nine target groups could qualify (Ticket-holders are considered currently under #6):

1. A member of a family that is receiving or recently received Temporary Assistance to Needy Families (TANF) or Aid to Families with Dependent Children (AFDC),
2. An 18-24 year old member of a family that is receiving or recently received Food Stamps,
3. An 18-24 year old resident of one of the Federally designated Empowerment Zones (EZs), or Renewal Communities (RCs),
4. A 16-17 year old EZ/EC or RC resident hired between May 1 and September 15 as a Summer Youth Employee,
5. A veteran who is a member of a family that is receiving or recently received Food Stamps,
6. **A disabled person who completed or is completing rehabilitative services from a State or the U.S. Department of Veterans Affairs (*This section now also includes individuals participating in the Ticket-to Work and Self-Sufficiency Program who are currently under a plan (IWP).*)**
7. An ex-felon who is a member of a low income family,
8. A recipient of Supplemental Security Income (SSI) benefits, and/or
9. The New York Liberty Zone Business Employee (requires no certification).

## HOW CAN EMPLOYERS PARTICIPATE IN THE WOTC?

Before starting the process, employers or consultants preparing the documentation for employers are encouraged to contact their state or regional WOTC Coordinator. Each state may have a slightly different process for the pre-screening and certification based on their state guidelines. When submitting the first request for a Ticket-holder, employers should ask the State or Regional WOTC Coordinator, how they would like to receive the request and how they would like employers to indicate that they are submitting the request for a Ticket-holder. To obtain a directory of State and Regional WOTC Coordinators and guidelines for participating in the WOTC, visit the U.S. Department of Labor Employment and Training Administration (ETA) website at [www.uses.doleta.gov/tax.asp](http://www.uses.doleta.gov/tax.asp).

Generally, to receive certification that a new employee qualifies the employer for this tax credit, the employer must complete the one page IRS Form 8850, the Work Opportunity and Welfare-to-Work Tax Credits Pre-Screening Notice and Certification Request and the appropriate ETA form. Then mail the signed IRS and ETA forms to the employer's State Workforce Agency. The IRS form must be mailed within 21 days of the employee's employment-start date.

According to DOL guidance (TEGL 15-04), Employers hiring Ticket-holders can check the corresponding box, Forms IRS 8850 and ETA 9061, that is related to being referred or receiving services from a state vocational rehabilitation agency. There are no separate boxes on the forms that refer to Ticket-holders.

On the IRS Form 8850 it is also recommended that employers indicate (hand written or stamped) that the employee is a "Ticket-holder." In addition, a cover letter may be used to indicate that this person is under a plan through the Ticket to Work and Self-Sufficiency Program. (This is not

a conditional certification but helps identify to the State WOTC Coordinator that the candidate is part of the Ticket to Work target group).

## **WHAT ARE THE REQUIRMENTS FOR AN EMPLOYER TO CLAIM THE CREDIT FOR A TICKET-HOLDER?**

Employers must meet the Minimum Employment Period to get the tax credit. Before claiming the tax credit, an employer must employ the WOTC eligible individual for a minimum of 400 hours of service in order to qualify for the 40-percent credit or 120-399 hours in order to claim the 25-percent credit. This is also referred as the “retention period.”

The WOTC is figured only on qualified first-year wages paid or incurred to the target group individuals who begin work for the employer after September 30, 1996 and before January 1, 2006. In general, “qualified wages” for WOTC purposes, means “wages” as defined by the Internal Revenue Code (IRC), and also section 3306 (b) of the Federal Unemployment Tax Act (FUTA).

Qualified first-year wages are wages that an employee earns during the one-year period, which begins the day the employee starts work. The maximum amount for wages to which the 25 or 40 percent credit may be applied must not exceed \$6,000 of first-year wages.

Example: A Ticket-holder who has been employed for over 400 hours and has earned \$6,000 or more can claim \$2,400 in credit.

$$\begin{array}{l} \$6,000 \text{ (maximum first year wages that can be credited)} \\ \underline{\times 40\%} \\ \$2,400 \end{array}$$

## **WHAT IS MAXIMUS ROLE IN WOTC?**

MAXIMUS is contracted with the Social Security Administration as the Program Manager for the Ticket to Work Program. As the Program Manager, MAXIMUS keeps and maintains a database of eligible Ticket-holders who qualify as a target group under the WOTC Program. MAXIMUS will provide verification for certification requests from WOTC State Coordinators.

## **WHAT IS THE IMPACT ON EMPLOYMENT NETWORKS?**

The new provision provides Employment Networks with a marketing tool to offer employers an incentive to hire individuals with disabilities who receive employment services, vocational rehabilitation services, and other support services under the Ticket to Work Program. ENs may consider several options:

1. Use the credit for new hires to your organization if you qualify for the tax credit.
2. Coach Ticket-holders to market themselves as eligible for the tax credit when seeking job placement.
3. Consider providing technical assistance to employers in identifying new hires who are part of this target group.
4. Market yourself as an Employment Network who can qualify Ticket-holders so that employers can request the tax credit. By completing an IWP, the EN makes a Ticket-holder eligible as part of the target group.

## **WHERE CAN ENS GET MORE INFORMATION ON THE WOTC PROGRAM?**

To receive comprehensive information about the WOTC and to obtain a directory of State and Regional WOTC Coordinators, visit the U.S. Department of Labor Employment and Training Administration (ETA) website at [www.uses.doleta.gov/tax.asp](http://www.uses.doleta.gov/tax.asp).