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CLIENT ALERT

WORK OPPORTUNITY TAX CREDIT (WOTC)

The WOTC credit is generally 40 percent of the first \$6,000 of qualified wages (\$3,000 for qualified summer youth employees) paid to each member of a targeted group during the first year of employment and 25 percent in the case of wages attributable to individuals meeting only minimum employment levels. (See list of target groups below.)

On Monday, March 31, 2016, the Internal Revenue Service announced it is extending the time for employers to file the paperwork to claim the WOTC for employees (other than those qualifying under the credit as long-term unemployed) hired from January 1, 2015 to May 31, 2016, and for employees hired from January 1, 2016 to May 31, 2016, under the new category for the long-term unemployed.

Employers qualify for the credit by filing Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, which is usually due no later than 28 days after an employee begins work. Timely filing of the form by the employer is a prerequisite to claiming the WOTC for hiring the employee. The credit was extended retroactively to the beginning of 2015 by the Protecting Americans From Tax Hikes Act of 2015 (PATH).

Under the notice, employers who hire a member of a targeted group (not including the long-term unemployed) on or after January 1, 2015 and before May 31, 2016, will be considered to have timely filed Form 8850 if its filed with the designated local agency (DLA, a state employment security agency established under 29 U.S.C. §§49-49n) by June 29, 2016.

The notice also provides an extension of time to obtain the certification for qualified long-term unemployment recipients, which is a category of recipients newly added by PATH. A qualified long-term unemployment recipient is defined as any individual who is certified by a DLA as being in a period of unemployment that is not less than 27 consecutive weeks and includes a period in which the individual was receiving unemployment compensation under state or federal law.

The long-term unemployed employees only qualify under the credit if they are hired beginning January 1, 2016 through December 31, 2019. For the long-term unemployed who began or begin work for an employer on or after January 1, 2016 and on or before May 31, 2016, the employer has until June 29, 2016, to submit the completed Form 8850 to the DLA to request certification.

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The following are employees potentially eligible for the employer to obtain the WOTC:

1. Qualified long-term (27 weeks or more) unemployment recipients who begin work for the employer after December 31, 2015;
2. Qualified IV-A recipients of federal temporary assistance for needy families;
3. Qualified veterans (see §13,805.10a);
4. Qualified ex-felons;
5. Designated community residents;
6. Vocational rehabilitation referrals;
7. Summer youth employees;
8. Supplemental nutrition assistance (formerly food stamps) recipients;
9. Recipients of supplemental security income (SSI);
10. Long-term family assistance recipients (see §13,805.10b).

March 11, 2016

Disclaimer: *This e-mail represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.*