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The Work Opportunity Tax Credit

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Summary

The Work Opportunity Tax Credit (WOTC) is a provision of the Internal Revenue Code that allows employers that hire individuals with certain personal characteristics to claim a tax credit equal to a portion of the wages paid to those individuals. WOTC-eligible populations include recipients of certain public benefits (such as the Supplemental Nutrition Assistance Program or Temporary Assistance to Needy Families), qualified veterans, ex-felons, and other specified populations.

The authorization of the WOTC is currently lapsed and, under current law, employers are not able to claim the credit for employees who begin work after December 31, 2014. The credit has lapsed a number of times since its enactment and Congress has routinely reauthorized the credit with retroactive provisions. During lapses, the Department of Labor typically instructs state workforce agencies to continue to accept WOTC applications.

Under its most recent authorization, the amount of the WOTC is calculated as a percentage of qualified wages paid to an eligible worker during the worker's first year of employment, up to a statutory maximum. An employer may claim a credit equal to 40% of an eligible employee's qualified wages if the qualified employee worked at least 400 hours during the first year of employment, up to a statutory maximum. If the employee worked fewer than 400 hours but more than 120 hours, the employer may claim a credit equal to 25% of the employee's qualified wages. If the employee worked fewer than 120 hours, an employer may not claim the WOTC. The WOTC is a nonrefundable tax credit, so an employer must have had tax liability to claim it.

Statute defines the maximum amount of qualified wages that were WOTC-eligible, so the maximum credit is equal to 40% of these statutory limits. The limit of wages that are WOTC-eligible varies by the characteristics of the worker. The most common wage ceiling is $6,000 (for a maximum credit of $2,400), though some subpopulations are eligible for a higher or lower maximum.

To claim the WOTC, an employer must have the employee certified as eligible by the appropriate state workforce agency. To do this, the employer submits a form to the state agency within 28 days of hiring the WOTC-eligible worker. The state agency determines that the individual meets the requirements and certifies the application. The employer may claim the credit as part of the General Business Credit. These credits can be carried back one tax year or carried forward up to 20 tax years.

Definitive data on WOTC usage are not available. Data on the number of individuals certified by state workforce agencies are available, but these data likely include some individuals who were certified for the WOTC but did not work the minimum number of hours necessary for the employer to be eligible for the credit. The Internal Revenue Service publishes data on the dollar amount of credits claimed by corporations, but these data omit when the credit is claimed by sole proprietors or other pass-through entities. Furthermore, since the WOTC may be claimed in a prior or subsequent tax year, the IRS data may not reflect hiring activity during that tax year.

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The Work Opportunity Tax Credit (WOTC) is a provision of the Internal Revenue Code (Title 26 of the U.S. Code) that provides a tax credit to employers that hire workers with certain personal characteristics. The provisions in the authorizing legislation that most recently authorized the WOTC offer the credit to employers that hire veterans, recipients of certain public benefits, or other specified populations. Under these provisions, the credit is calculated as a percent of the eligible employee's wages, up to a statutory maximum. The maximum eligible wages (and corresponding credit) per worker depend on the worker's specific characteristics.

Current Status

The WOTC section of the Internal Revenue Code specifies an expiration date in the definition of WOTC-eligible wages. Under current law, wages earned by eligible workers who begin work after December 31, 2014, are not eligible for the WOTC.[1]

Historically, WOTC has lapsed a number of times and then been retroactively reauthorized. In many cases, it is reauthorized alongside other tax provisions in legislation known as "tax extenders."[2] Due to this trend, the Department of Labor (DOL) has typically instructed states to continue to process WOTC applications.

Since the WOTC can be carried over into subsequent tax years (see the "Mechanics of the WOTC" section later in this report), it is also likely that some employers will be benefiting from the WOTC in the future, even if Congress does not act to reauthorize the credit. In light of these circumstances, this report will refer to WOTC policy in the present tense. However, it is important for readers to note that absent congressional action to reauthorize the credit, employers will not be able to claim the WOTC for employees who begin working after December 31, 2014.

Past Expirations and Reauthorizations

Authorization for the WOTC has lapsed a number of times. The credit has typically been renewed with retroactive provisions.[3] A brief summary of recent legislation that extended WOTC authorization is in **Table 1**. A more detailed legislative history is in the **Appendix** of this report.

The WOTC's duration is limited by language in the law that specifies that wages paid to an eligible worker hired after a certain date are ineligible for the WOTC. Under current law, wages earned by workers hired after December 31, 2014, are not eligible for the WOTC. There is no beginning date in the law regarding eligible hires. This construction means that simply extending the ending date in the law extends the program with retroactivity.

For example, the WOTC lapsed after December 31, 2013. When Congress enacted the Tax Increase Prevention Act of 2014 in December 2014, the new law changed the ending date in the

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1 See 26 U.S.C. 51(c)(4).

2 For a more detailed discussion of tax extenders legislation, see CRS Report R43124, *Expired and Expiring Temporary Tax Provisions ("Tax Extenders")*.

3 While the WOTC itself is typically renewed, some populations covered by the WOTC have been permitted to permanently expire.

definition of WOTC-eligible wages to December 31, 2014. Since there was only an ending date in the newly enacted law, wages paid to WOTC-eligible hires who began work between January 1, 2014, and December 31, 2014 (the expiration date enacted in the new law), met the definition of WOTC-covered wages.

Table 1. Legislation Extending the Work Opportunity Tax Credit

Public Law Number	Date of Enactment	Amended Expiration Date of WOTC
P.L. 104-188	08/20/1996	September 30, 1997
P.L. 105-34	09/03/1997	June 30, 1998
P.L. 105-277	10/21/1998	June 30, 1999
P.L. 106-170	12/17/1999	December 31, 2001
P.L. 107-147	03/09/2002	December 31, 2003
P.L. 108-311	10/04/2004	December 31, 2005
P.L. 109-432	12/20/2006	December 31, 2007
P.L. 110-28	05/25/2007	August 31, 2011
P.L. 111-312	12/17/2010	December 31, 2011
P.L. 112-56	11/21/2011	December 31, 2012[a]
P.L. 112-240	01/02/2013	December 31, 2013
P.L. 113-295	12/19/2014	December 31, 2014

Source: CRS analysis of listed legislation.

Notes: Table does not include legislation that amended WOTC provisions but did not change the expiration date.

a. Extension applied to qualified veterans only.

Rationale for the WOTC

Many tax credits are designed to incentivize individuals or employers to make a specific choice. In the case of the WOTC, the credit is designed to incentivize employers to hire employees with certain characteristics by subsidizing a portion of the qualified worker's wage. If an employer has a choice between hiring two identical applicants, one of whom is eligible for the WOTC and one of whom is not, the employer may opt to hire the WOTC-eligible applicant because employing that worker will have a lower after-tax cost.

The WOTC is designed to provide assistance in the labor market to certain workers. It is not designed to stimulate the creation of new jobs. An eligible hire may be an additional employee of a firm or it may replace a separated employee. Credits that incentivize hiring and initial periods of employment (like the WOTC) may benefit high-turnover employers more than employers with low rates of turnover.

Calculation of Credit and Maximum Credits

Under its most recent authorization, the amount of the WOTC is calculated as percentage of qualified wages paid to an eligible worker during the eligible employee's first year of employment. An employer may claim a credit equal to 40% of the eligible employee's qualified wages if the eligible worker works at least 400 hours during the first year of employment. If the eligible employee works fewer than 400 hours but at least 120 hours, the employer may claim a credit equal to 25% of the eligible employee's wages. If the eligible employee works fewer than 120 hours, an employer may not claim the WOTC.

Statute defines the maximum amount of qualified wages that are WOTC-eligible for each eligible population, so the maximum credit would be equal to 40% of these statutory limits. For example, the maximum eligible wages for a qualified ex-felon is $6,000, so the maximum credit for an employer that hired such an individual would be 40% of $6,000 or $2,400.

The maximum amount of WOTC-eligible wages varies by the workers' characteristics. The qualified amount of wages for each population is described in the subsequent section.

Eligible Worker Populations

This section describes the populations eligible for the WOTC under its most recent (and currently expired) authorization. Since the WOTC was enacted in the 104th Congress, the eligible populations have varied. A discussion of the evolution of the WOTC and covered populations is in the Legislative History in the **Appendix** of this report.

The most recent authorization of the WOTC specifies populations that are eligible for the WOTC. For most target groups, the maximum wages that are eligible for WOTC credit are $6,000. Assuming the eligible employee works at least 400 hours and the employer claims the full 40% credit, the maximum credit would equal $2,400. Some eligible populations have different levels of qualified wages. Populations with maximum wages that are higher or lower than $6,000 are noted in their descriptions.

1. *Temporary Assistance to Needy Families (TANF) recipient* (listed in the law as "qualified IV-A recipient,") which refers to the Title of the Social Security Act that authorizes TANF. A WOTC-eligible TANF recipient is an individual who is a member of a family receiving assistance under a IV-A program for any 9 of the 18 months prior to the worker's hire date.
2. *Qualified veteran* is a worker who served on active duty in the United States armed forces for at least 180 days, has been discharged for at least 60 days, and meets at least one of the additional criteria listed below:
    - A veteran who is a member of a family receiving Supplemental Nutrition Assistance Program (SNAP) assistance for at least 3 of the past 12 months.
    - A veteran with a service-connected disability for which he or she is entitled to compensation and who is within one year of discharge (maximum WOTC-eligible wages of $12,000).

- A veteran with a service-connected disability for which he or she is entitled to compensation and who has been unemployed for at least six months of the prior year (maximum WOTC-eligible wages of $24,000).
- A veteran with an aggregate period of unemployment of at least four weeks but less than six months during the prior one year.
- A veteran with an aggregate period of unemployment of at least six months during the prior year (maximum WOTC-eligible wages of $14,000)

3. *Qualified ex-felon* is an individual who has been convicted of a felony under state or federal law and has a hiring date that is within one year of either the individual's conviction or release from prison.
4. *Designated Community Resident* is an individual between the ages of 18 and 39 that has "a principal place of abode within an empowerment zone, enterprise community, renewal community, or rural renewal county."
5. *Vocational Rehabilitation Referral* is a person with a physical or mental disability who is receiving or has received services under a state vocational rehabilitation program, the Department of Veterans Affairs Vocational Rehabilitation and Employment program, or an employment network through the Social Security Ticket to Work program.
6. *Summer Youth Employee* is an individual age 16 or 17 who has a "principal place of abode within an empowerment zone, enterprise community, or renewal community" and is employed between May 1 and September 15 (maximum WOTC-eligible wages of $3,000).
7. *Qualified SNAP recipient* is between the ages of 18 and 39 and either (1) is a member of a family receiving SNAP benefits for the six-month period ending on the hiring date or (2) received benefits for at least three months of the five-month period ending on the hiring date, in the case of able-bodied adults without dependents (ABAWDs) who cease to be eligible for assistance under the work requirement at Section 6(o) of the Food and Nutrition Act of 2008.[4]
8. *Supplemental Security Income (SSI) recipient* is an individual who has received SSI under Title XVI of the Social Security Act for any month ending within the 60-day period ending on the hiring date.
9. *Long-term TANF Recipient* (listed in the law as "long-term family assistance recipient") is a member of a family that has been receiving TANF benefits for the past 18 months or has exhausted TANF benefits in the past two years. Unlike other populations, an employer may claim the WOTC on behalf of a long-term family assistance recipient for two years. The maximum wages eligible for the WOTC for long-term family assistance recipients is $10,000 per year. During the second year of employment, the WOTC is equal to 50% of the eligible worker's wages.

[4] The SNAP provisions regarding able-bodied adults without dependents only apply to persons between the ages of 18 and 49. As such, persons between the ages of 40 and 49 would meet the ABAWD criteria, but not be eligible for the WOTC.

Table 2. Populations Eligible for the Work Opportunity Tax Credit

Under Tax Increase Prevention Act of 2014 (P.L. 113-295)

Population	Maximum WOTC-Eligible Wages (maximum credit is 40% of eligible wages)
TANF Recipients	$6,000
Veterans	$6,000 to $24,000
Ex-felons	$6,000
Designated Community Residents	$6,000
Vocational Rehabilitation Referrals	$6,000
Summer Youth Employees	$3,000
SNAP Recipients	$6,000
SSI Recipients	$6,000
Long-term TANF Recipients	$10,000 per year for up to two years[a]

Source: CRS analysis of Sections 51 and 52 of the Internal Revenue Code.

Notes: P.L. 113-295 applied WOTC to wages paid to workers hired through December 31, 2014.

a. In the second year of employment, the WOTC equals 50% of eligible second-year wages for long-term TANF recipients.

Eligible Employers

WOTC is a non-refundable credit. As such, an employer must have tax liability to claim the credit. Since the WOTC can be claimed in a tax year subsequent to the year of hire, it is possible that an employer that hires a WOTC-eligible worker, but does not have tax liability in the year in which the eligible worker was hired, would be able to have the WOTC applied to a subsequent tax year in which the employer has tax liability.

Under the most recent (and currently expired) provisions, tax-exempt organizations that employ WOTC-eligible veterans may be eligible to claim a credit against the organization's payroll tax liability. This provision is limited to organizations that employ qualified veterans and does not apply to tax-exempt organizations that employ other WOTC-eligible populations.

Mechanics of the WOTC

Individuals' eligibility for the WOTC is determined by state workforce agencies (SWAs). These state agencies also process WOTC certifications.[5]

[5] Employer-directed guidance from the U.S. Department of Labor, including links to relevant state agencies, is available at http://www.doleta.gov/business/incentives/opptax/PDF/employers_wotc_program_brochure_5_24_12.pdf.

The eligibility determination process can follow one of two paths:

- An eligible group member obtains a conditional certification (ETA Form 9062) from a participating state or local agency. The jobseeker then uses it to market himself or herself to an employer. The employer completes a pre-screening/certification request (IRS Form 8850) by the date a job offer is made and mails both the IRS and ETA forms to the state's WOTC coordinator within 28 days after the new hire starts working.
- An employer completes IRS Form 8850 by the date a job offer is made to an applicant believed to belong to the WOTC population. The employer also completes the individual characteristics information (ETA Form 9061). The IRS and ETA forms must be mailed to the state's WOTC coordinator within 28 days after the new hire starts working.[6]

States then verify that an individual is a member of a covered group and notify the employer that the application has been certified. States receive grants from DOL to support the administrative costs of processing WOTC certifications.

Once a new hire is certified, the employer may claim WOTC as part of the General Business Credit.[7] If an employer does not have tax liability in the tax year that the WOTC-eligible worker was hired, the credit from the WOTC—as part of the General Business Credit—can be carried back up to one year or carried forward up 20 years before expiring.

As noted in each of the two scenarios above, the IRS Form 8850 must be submitted within 28 days after the eligible hire begins work. This requirement continues during periods of lapsed authorization.

Usage and Costs

Definitive data on the usage and costs of the WOTC are not available. However, data from DOL on workers certified for the WOTC and data from the IRS on WOTC claims by certain entities can offer some insight into usage of the credit.

DOL tracks the number of individuals who are certified as eligible for the WOTC, but, since not every certified worker meets the employment retention requirements, it is very likely that the number of individuals on behalf of whom the WOTC is claimed is lower.

The primary costs of WOTC to the government are foregone tax revenue.[8] The IRS annually reports WOTC credits claimed by some employers. However, due to excluded employers and employers' ability to apply the WOTC to prior or subsequent tax years, the IRS data may not fully reflect the level of WOTC-based hiring during the reference year.

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[6] Before January 1, 2007, employers had 21 days to mail IRS Form 8850 to their state's WOTC coordinator.

[7] Employers have three years starting from the due date for filing a tax return to claim the WOTC. For more information on the General Business Credit, including other credits that fall under its purview, see IRS Instructions for Form 3800 at http://www.irs.gov/pub/irs-pdf/i3800.pdf.

[8] As noted previously, Congress appropriates less than $20 million per year for states' WOTC administrative costs.

Data on Individuals Certified for the WOTC

The U.S. Employment Service in the Employment and Training Administration collects figures on the number of certifications issued to employers. *The number of certifications is likely more than the number of employees for whom employers claim credits because not all eligible hires fulfill the retention requirement*. The government does not collect statistics on the number of individuals for whom the credits actually are claimed. It would be difficult to reconcile the number of certifications and the number of credits claimed in a given tax year because companies that receive a certification for an eligible individual hired late in one tax year may not claim a credit for them until a following tax year, when the retention requirement has been met. In addition, credits claimed for persons certified in one year may be applied against income tax liabilities in past or future tax years.

Table 3 presents data on WOTC certifications from FY2009-FY2013. In FY2013, there were about 1.5 million WOTC certifications, with SNAP recipients accounting for approximately three-quarters of the certifications.

Table 3. WOTC Certification by Target Population, FY2009-FY2013

	FY2009	FY2010	FY2011	FY2012	FY2013
TANF Recipients	67,985	51,221	53,455	45,824	72,759
Veterans[a]	9,575	11,496	14,595	33,238	75,859
Ex-Felons	43,703	36,479	34,731	22,063	43,485
Designated Community Residents	22,837	65,495	60,631	50,589	66,746
Vocational Rehabilitation Referrals	17,099	16,862	15,762	13,475	28,764
Summer Youth Employees	2,422	2,957	608	384	505
SNAP Recipients	518,208	499,927	684,612	602,540	1,173,152
SSI Recipients	19,542	12,701	12,458	10,981	16,474
Long-Term TANF Recipients	17,502	65,447	79,365	71,407	102,924
Other[b]	941	151,906	204,306	41,690	10,332
Total	**719,814**	**914,491**	**1,160,523**	**892,191**	**1,591,000**

Source: CRS presentation of data obtained directly from the Department of Labor in September 2014.

a. Includes veterans certified under the most recent eligibility criteria as extended under P.L. 112-240.

b. Includes individuals who were eligible under criteria established under the American Recovery and Reinvestment Act of 2009. These criteria expired after December 31, 2010, but states continue to process certifications received prior to the expiration date.

Data on Employers Claiming the WOTC

Most of the costs to the government from tax credits are in the form of revenue forgone rather than appropriated funds.[9] Data publicly available from the IRS show that for tax year 2011 (the most recent year available), corporations claimed $795 million in current year WOTC as part of

9 Spending for states' administration of the WOTC is typically about $20 million per year.

the general business credit.[10] However, this does not reflect WOTC claimed on individual tax returns by sole-proprietors or pass-thru entities (such as partnerships), or carryover of WOTC from other tax years. The Office of Management and Budget estimated that in FY2013, WOTC claims by corporations were $670 million and claims by individuals totaled $230 million.[11]

Research and Studies of the WOTC

Studies of federal employment tax credits have been limited in purpose or scale. Shortly after the State Employment Security Agencies (SESA) began implementing the WOTC in late 1996, the United States Department of Labor (DOL) contracted for an evaluation of its administrative process. Among other things brought out in the August 1997 study, state WOTC coordinators recommended that the paperwork burden on employers be reduced and Form 8850 be made less confusing so that employers would be more inclined to participate.[12]

In March 2001, the General Accounting Office (GAO; now the Government Accountability Office) surveyed a sample of employers who used the WOTC program in California and Texas, two states with high certification levels. The study's chief goal was to ascertain whether employers fired workers who were not eligible for the WOTC or who were no longer eligible for the WOTC in order to maximize receipt of the credit. The GAO concluded that—while it could not definitely determine the extent of displacement and churning, respectively, across all employers who participate in the program—the sample data suggest that employers do not view the practice of churning employees to maximize WOTC receipt as cost-effective and therefore would not engage in much, if any, churning. GAO's estimate that the WOTC offsets less than one-half of the cost of recruiting, hiring and training credit-eligible workers, on average, supports the employers' belief that churning practices are not cost-effective. Regarding churning, certified workers in the two states were found to be no more frequently terminated when their earnings totaled about $6,000 (the credit-maximizing level).[13]

Another study of employment tax credits that was undertaken for the DOL was released in March 2001. Interviews of 16 establishments that had used the credits were conducted in five states (California, Georgia, Maryland, Missouri, and Wisconsin). As in the case of the GAO study, the authors emphasized that their findings cannot be generalized to all other user firms. Among the report's results are the following:

- "the tax credits play little or no role in [the 16 employers'] recruitment policies," suggesting that employers would have hired members of the target groups even if the programs were not available;
- as credit-eligible hires' job performance, work readiness, attendance and punctuality were like those of ineligible employees in similar positions, most

[10] Internal Revenue Service, *Corporation Complete Report*, Table 21, available at http://www.irs.gov/pub/irs-soi/11coccr.pdf.

[11] Office of Management and Budget, Fiscal Year 2015 Analytical Perspectives: Budget of the U.S. Government, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/spec.pdf, page 207, Table 14-1.

[12] Westat, *Process Evaluation of the WOTC Program* (DOL, Employment and Training Administration, Office of Strategic Planning and Policy Development, August 1997).

[13] GAO, Work Opportunity Tax Credit: Employers Do Not Appear to Dismiss Employees to Increase Tax Credits, March 2001, http://www.gao.gov/new.items/d01329.pdf.

of the interviewed employers thought there was no need for special training or counseling programs;

- the target-group members who were hired exhibited the high rates of turnover typical of low-wage workers,[14] which meant that the interviewed employers were able to claim the maximum credit for relatively few eligible hires; and
- the 16 employers gave the programs a positive assessment, although they offered some suggestions for improvement having to do with program administration (e.g., consolidate and streamline the forms), program design (e.g., broaden target-group eligibility criteria),[15] and promotion of the program (e.g., increase use of conditional certifications).

The report's authors recommended among other things that a study with a larger, representative sample of employers be conducted, as "these observations do raise a question about the extent to which the tax credit is serving the purpose for which it is intended—to serve as an economic incentive to encourage employers to hire individuals from specified target groups whom they would not have hired in the absence of the credit."[16]

In a second GAO report from December 2002, the GAO attempted to examine specifically the few tax incentives available for hiring, retaining, and accommodating workers with disabilities. Persons with disabilities are the focus of two WOTC-eligible groups, namely, vocational rehabilitation referrals and Supplemental Security Income (SSI) recipients. Based upon an analysis of 1999 tax year data from the Internal Revenue Service (IRS), the GAO found that relatively few employers utilize the WOTC to hire workers with disabilities. Data on employer usage by WOTC-eligible group are not available from IRS data. However, according to the agency's interviews with government officials and academic experts, relatively few persons with disabilities may have the credit claimed on their behalf because WOTC eligibility is limited to disabled individuals receiving publicly funded vocational rehabilitation or SSI benefits. Perhaps not surprisingly, then, interviewees supported expanding the WOTC's coverage of disabled persons. The agency also identified two national surveys related to disability employment issues which determined that a very small share of supervisors of employees with disabilities were aware of employment tax incentives and that human resource managers regarded business tax incentives as less effective than any of the following measures in reducing obstacles to the employment of persons with disabilities: top-management commitment, staff training, mentoring, on-site consultation and technical assistance, and short-term outside assistance.[17]

CRS was not able to identify any federally supported research on the WOTC subsequent to 2002.

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[14] WOTC hires generally were paid the same entry-level wages as other hires, which largely ranged between $5.15 and $8.00 an hour.

[15] These two recommendations echo those made in the 1997 process evaluation.

[16] Westat and Decision Information Resources, Inc., *Employers' Use and Assessment of the WOTC and Welfare-to-Work Tax Credits Program* (DOL, Employment and Training Administration, Office of Policy and Research, March 2001).

[17] GAO, Business Tax Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact, GAO-03-39, December 2002, http://www.gao.gov/new.items/d0339.pdf.

Appendix. Legislative History

WOTC is a temporary provision of the Internal Revenue Code. As noted previously, the credit has lapsed a number of times before being retroactively reauthorized. In addition to extending the duration of the credit, reauthorization legislation has changed the eligible populations and maximum credit levels. In other instances, legislation has changed WOTC-eligible populations and credit levels without extending the duration of authorization.

In addition to the WOTC, this legislative history also discusses the Welfare to Work (WtW) Tax Credit, which existed from 1997 to 2006. In 2007, the Welfare to Work Tax Credit was repealed and the credit's eligible population was incorporated into the WOTC population.

104th Congress

The WOTC was created by Section 1201 of the Small Business Job Protection Act of 1996 (P.L. 104-188). It allowed for-profit employers to claim a tax credit against their federal income tax liabilities for hiring members of seven specifically designated groups from October 1, 1996, through September 30, 1997.

105th Congress

The Taxpayer Relief Act of 1997 (P.L. 105-34) substantially revised the program by shortening the minimum employment requirement to 120 hours and creating a two-tier subsidy based on the length of retention. It also extended the credit for nine months from October 1, 1997, through June 30, 1998.

P.L. 105-34 also created the Welfare to Work (WtW) tax credit, which offered incentives to employers that hired long-term recipients of Title IV-A benefits. As noted previously, this credit would eventually be incorporated into the "long-term family assistance recipients" credit under WOTC.

WOTC lapsed for almost four months before being reauthorized for one year (through June 30, 1999) retroactive to its expiration date in the Omnibus Consolidated and Emergency Appropriations Act, 1999 (P.L. 105-277).

106th Congress

The 106th Congress reauthorized WOTC retroactive to its expiration date and extended the credit through December 31, 2001, in the Ticket to Work and Work Incentives Improvement Act of 1999 (P.L. 106-170). This law also extended the WtW credit for the same period.

The 106th Congress later expanded the definition of the "high risk" and "summer youth" groups to include renewal communities (effective January 1, 2002) through passage of the Consolidated Appropriations Act, 2001 (P.L. 106-554).

107th Congress

After about a two-month lapse, the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) reauthorized the WOTC. It extended the credit through December 31, 2003.

New York Liberty Zone Employees

The economic stimulus measure also amended the WOTC's eligible population to add "New York Liberty Zone business employees." Qualified businesses were defined as firms with 200 or fewer employees located in the vicinity of the World Trade Center as well as those that, due to property destruction or damage associated with the September 11 terrorist attack, had to relocate to other sections of New York City. While the other WOTC group members must be new hires in order for firms to claim a credit, New York Liberty Zone business employees were both existing and newly hired employees. The number of workers for whom firms that relocated elsewhere in New York City could claim the credit was limited to those on the employers' payrolls as of September 11, 2001; the cap did not apply to firms that remained in the zone or that moved into the zone. A qualified business could claim the WOTC for an eligible employee in 2002, 2003, or both years. The portion of the WOTC associated with the new target group was allowed against the alternative minimum tax.

108th Congress

The first WOTC-related law enacted by the 108th Congress was P.L. 108-203, the Social Security Protection Act of 2004. Among other provisions, the act modified the definition of the WOTC's vocational rehabilitation referral-eligible group in light of the Ticket to Work and Work Incentives Improvement Act of 1999. It effectively expanded the group to include disabled individuals with individualized work plans who are referred to employers not only by a state vocational rehabilitation agency (as was the case under prior law), but also by "employment networks" that were created by the Ticket to Work legislation. P.L. 108-203 did not extend the authorization for WOTC.

Later in the 108th Congress, President George W. Bush signed P.L. 108-311, the Working Families Tax Relief Act of 2004, which extended unrevised versions of the WOTC and WtW credit through December 31, 2005.

109th Congress

The 109th Congress made two substantial changes to the tax provisions. Some changes were temporary, others were permanent.

Hurricane Disaster Relief

Congress temporarily expanded the WOTC eligible-groups to include "a Hurricane Katrina employee" as part of its emergency response. P.L. 109-73 added to the WOTC-eligible groups persons whose principal place of abode on August 28, 2005, was in the core disaster area and who,

- beginning on such date and to August 28, 2007, is hired for a position principally located in the core disaster area; and
- beginning on such date and to December 31, 2005, is hired for a position regardless of its location.

The WOTC's rule denying its application to wages of employees who had worked for the same employer at any prior time (except for those on the employer's payroll on August 28, 2005) is waived, as is the usual certification process.

Modifying the WOTC and Incorporating the WtW Credit into the WOTC

The WOTC and WtW credit expired after December 31, 2005. The credits remained lapsed for nearly a full year. In December 2006, P.L. 109-432 (the Tax Relief and Health Care Act of 2006) reauthorized the WOTC for two years, extending its expiration date to December 31, 2007. P.L. 109-432 also scheduled the consolidation of the WtW into the WOTC.

Changes to the WOTC credit became effective for persons hired after December 31, 2006. They are as follows:

- WOTC-eligibility for ex-felons was expanded by eliminating the requirement that they are members of economically disadvantaged families;
- WOTC-eligibility of food stamp recipients was expanded from 18- to 24-year-olds to include 25- to 39-year-olds;
- employers can file the required paperwork with their state's WOTC coordinator within 28 (rather than 21) days of an eligible-hire starting to work for them; and
- the WtW credit was repealed as a separate tax provision, with its eligible-group of long-term family assistance recipients uniquely handled under the WOTC effective January 1, 2007.

110th Congress

Expansion of Certain Eligible Groups and Extension to August 2011

In May 2007, the President signed H.R. 2206 (the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Act of 2007, P.L. 110-28) into law. P.L. 110-28 extended the WOTC for three-and-one-half years through August 31, 2011, raises the age limit for "designated community residents" to less than 40 years old, and clarifies the definition of vocational rehabilitation referrals. The act also adds "rural renewal county" to the places of residence for designated community residents. The law also adopts a revised definition of disabled veterans.

"Hurricane Katrina Employees"

In the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (P.L. 110-343), Congress extended the WOTC's expiration from August 28, 2007, to August 28, 2009, for firms who hire "Hurricane Katrina employees" to work in the disaster area.

111th Congress

Temporary Expansion for Unemployed Veterans and Disconnected Youth

The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) temporarily expanded the credit to cover unemployed veterans and disconnected youth who begin working for an employer during 2009 or 2010. Unemployed veterans are persons discharged or released from active duty in the Armed Forces within five years of their hiring date and having received unemployment compensation for not less than four weeks during the one-year period ending on the hiring date. Disconnected youth are 16- to 24-year-olds who are not regularly attending school during the six-month period preceding the hiring date, not regularly employed within the same time frame, and "not readily employable by reason of lacking a sufficient number of basic skills."

The eligibility of disconnected youth expired after December 31, 2010. Veterans' eligibility for the WOTC would be modified and extended through the VOW to Hire Heroes Act (discussed in the next section).

Interaction with Payroll Tax Forgiveness

The Hiring Incentives to Restore Employment Act (HIRE Act; P.L. 111-147) provided payroll tax forgiveness to employers who hired certain unemployed individuals in 2010. Employers claiming the payroll tax forgiveness could not claim the WOTC for those wages associated with payroll tax forgiveness. Individuals hired after December 31, 2010, were not eligible for payroll tax forgiveness under the HIRE Act.

Extension to December 31, 2011

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the WOTC through December 31, 2011.

112th Congress

Expansion and Extension of Qualified Veterans Group

P.L. 112-56, the VOW to Hire Heroes Act, expanded the qualified veterans group covered by WOTC and changed the amount of first-year wages that can be claimed for the credit, such that

- for veterans who are members of a family receiving SNAP benefits for at least three months in the year prior to being hired, the maximum wages for the credit would be $6,000;
- for veterans who have been unemployed for an aggregate of at least four weeks, but less than six months, in the year prior to being hired, the maximum wages for the credit would be $6,000;
- for veterans eligible for disability compensation from the VA and within one year of discharge or release from active military duty when hired, the maximum wages for the credit would be $12,000;

- for veterans who have been unemployed for an aggregate of at least six months in the year prior to being hired, the maximum wages for the credit would be $14,000; and
- for veterans who are eligible for disability compensation from the VA and have been unemployed for an aggregate of six months or more in the year prior to being hired, the maximum wages for the credit would be $24,000.

P.L. 112-56 made the WOTC refundable for certain tax-exempt employers. For these employers, the refundable credit would be the lesser of the calculated WOTC for hiring veterans who qualify for the WOTC based on unemployment or the payroll taxes paid by the tax-exempt employer.

P.L. 112-56 extended the WOTC for qualified veterans to U.S. possessions with a tax system that mirrors the U.S. tax system, with the Secretary of the Treasury paying to the possession the amount lost to the possession in taxes because of the expansion of the WOTC for qualified veterans.[18]

P.L. 112-56 also extended the expiration date of WOTC for veterans to December 31, 2012. This law did not extend authorization of the credit for non-veterans.

Extension to December 31, 2013

The WOTC for non-veterans lapsed after December 31, 2011, and the WOTC for veterans lapsed after December 31, 2012. Enacted on January 2, 2013, the American Taxpayer Relief Act of 2012 (P.L. 112-240) extended the WOTC for all eligible populations through December 31, 2013.

Extension to December 31, 2014

The WOTC lapsed after December 31, 2013, until the enactment of the Tax Increase Prevention Act of 2014 (P.L. 113-295) in December 2014. P.L. 113-295 retroactively extended the WOTC to cover all eligible employees who begin work prior to December 31, 2014.

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[18] Possessions include American Samoa, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, Guam, and the U.S. Virgin Islands.