

Tax & Business Alert

Abstract: Businesses that are seeking to hire should be aware of a valuable tax credit for hiring individuals from one or more targeted groups. Employers can qualify for the Work Opportunity Tax Credit (WOTC), which is worth as much as \$2,400 for most eligible employees (\$4,800, \$5,600 and \$9,600 for certain veterans and \$9,000 for long-term family assistance recipients). The credit is generally limited to eligible employees who begin work for the employer before January 1, 2026.

Hiring? How to benefit from the Work Opportunity Tax Credit

If you're a business owner or manager who is seeking to hire, you should be aware of the details of a valuable tax credit for hiring individuals from one or more targeted groups. Employers can qualify for the Work Opportunity Tax Credit (WOTC), which is worth as much as \$2,400 for most eligible employees (higher or lower for certain employees). The credit is limited to eligible employees who begin work for an employer before January 1, 2026.

Generally, an employer is eligible for the credit only for qualified wages paid to members of a targeted group. These groups are:

1. Qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program,
2. Qualified veterans,
3. Qualified ex-felons,
4. Designated community residents,
5. Vocational rehabilitation referrals,
6. Qualified summer youth employees,
7. Qualified members of families in the Supplemental Nutritional Assistance Program (SNAP),
8. Qualified Supplemental Security Income recipients,
9. Long-term family assistance recipients, and
10. Long-term unemployed individuals.

To claim the WOTC, an employer must first get certification that the person hired is a member of one of the targeted groups above. They do so by submitting Form 8850, Pre-Screening Notice and Certification Request for the WOTC to their state agency, within 28 days after the eligible worker begins work.

You must meet certain requirements

There are several requirements to qualify for the credit. For example, each employee must have completed a specific number of hours of service for the employer. Also, the credit isn't available for employees who are related to, or who previously worked for, the employer.

There are different rules and credit amounts for certain employees. The maximum credit available for first-year wages is \$2,400 for each employee, \$4,000 for long-term family

assistance recipients, and \$4,800, \$5,600 or \$9,600 for certain veterans. Additionally, for long-term family assistance recipients, there's a 50% credit for up to \$10,000 of second-year wages, resulting in a total maximum credit, over two years, of \$9,000.

For summer youth employees, the wages must be paid for services performed during any 90-day period between May 1 and September 15. The maximum WOTC credit available for summer youth employees is \$1,200 per employee.

An eligible employer claims the WOTC on its federal income tax return. The credit value is limited to the business's income tax liability.

A valuable credit

There are additional rules and requirements. In some cases, employers may elect not to claim the WOTC. And in limited circumstances, the rules may prohibit the credit or require an allocation of it. However, for most employers hiring from targeted groups, the credit can be worthwhile. Contact us with questions or for more information about your situation.

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