

FREE MONEY FOR HIRING

Job applicant: Fill in the lines below and check any boxes that apply. Complete a

Taking Advantage of Income Tax Credits for Targeted Hiring

Notice to Employer: Answering the following questions will have no effect on your answers, your employer may qualify for certain incentives and contents, is strictly confidential and will be used only for review of federal tax returns.

1. What is your Social Security Number? _____
2. Are you a Native American Indian registered under a tribe of Native Americans? Is it listed below? _____

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Millions of dollars in tax credits go unclaimed each year by companies that qualify to claim credits but do not file the appropriate paperwork. One commonly missed tax credit is the Work Opportunity Tax Credit (WOTC), a credit for employers that hire qualified employees.

The employees that qualify are generally lower income, but the categories of qualification are broad. Many companies in the parking industry hire qualifying individuals on a regular basis without knowing they are doing so. In effect, they lose \$2,400 every time a qualified person is hired, assuming the new hire stays long enough to work 400 hours and gets paid at least \$6,000 in wages. The amount they lose is even higher for some other federal targeted hiring credits.

Work opportunity

To claim the credit, the new hire must sign a completed IRS form 8850 on the first day of work indicating that they qualify. (See accompanying list.) Then, the taxpayer must get the new hire certified by the state WOTC office.

The amount of credit is based on wages paid. In general, it equals 40 percent of the first \$6,000 in wages (\$2,400). To qualify at all, the employee must work 120 hours. If the employee works less than 400 hours, but more than 120 hours, the credit is based on 25 percent rather than 40 percent.

Welfare to Work

The Welfare-to-Work Credit applies to new hires that are recipients of AFDC (Aid to Families with Dependent Children) or TANF (Temporary Assistance to Needy Families). The process of claiming the credit is similar to the WOTC — however, the amount of credit is larger. The credit is based on the first two years' wages. In the first year, the credit equals 35 percent of the first \$10,000 in wages (\$3,500). In the second year, the credit equals 50 percent of the first \$10,000 in wages (\$5,000). Combining both years, the credit can equal \$8,500 for a qualifying new hire.

Empowerment Zones

To claim the Empowerment Zone Credit, a taxpayer must employ an individual that both lives and works

in the zone. Thus, this credit is only available to companies with locations in empowerment zones. For companies that have locations in these zones, it is necessary to screen the employee's addresses for location in the zone to claim the credit.

The amount of credit is 20 percent of the first \$15,000 in wages paid in a year to a qualifying employee (up to \$3,000).

There are two major differences between the Empowerment Zone Credit on one hand, and the WOTC on the other hand. First, the Empowerment Zone Credit is available retroactively. There is no requirement that individual employees be screened as of their first day of work, so it is possible to claim the Empowerment Zone Credit for the past three years if it has been missed.

Second, the Empowerment Zone Credit is available each year that a qualifying employee is employed. A 20-year employee can qualify for the credit, and the credit can be taken each year as long as the employee remains qualified and employed.

Renewal Community

The new Renewal Community Credit (first available in 2002), is similar to the Empowerment Zone Credit. Like the Empowerment Zone Credit, it applies to wages paid to employees that live and work in a particular area (a renewal community). Also, it will be available retroactively (although not before 2002) and applies each year to qualifying employees.

Claiming WOTC

To claim the Work Opportunity Tax Credit, a taxpayer must hire an individual that falls into one or more of the following categories:

- Member of a family receiving welfare.
- Qualifying ex-felons.
- Member of a family receiving food stamps.
- Qualified veterans.
- Qualifying SSI recipients.
- Individuals who have received vocation rehabilitation.
- Qualifying individuals ages 18-24 living in an Empowerment Zone or Enterprise Community.
- Qualified summer youths.

By Ed Outlaw

Consulting firms

Obviously, there is a lot of opportunity for employers to claim tax credits for targeted hiring. The difficulty is in the paperwork and compliance required to claim the credits. Claiming the WOTC and Welfare-to-Work credits require screening employees as they are hired. The other credits discussed above require screening of the employee's residence. In addition to these credits, most states offer credits against state income tax for a variety of activities including targeted hiring, capital investment and job creation. Trying to

track state tax credits can increase the complexity of the tax credit compliance function tremendously.

Tax credit consulting firms can provide a valuable service in assisting with identifying and securing tax credits for employers. Some firms provide an online screening program to screen new hires that makes it far easier to comply with the "first day of work" screening requirement. Other firms provide the same service using a phone bank to interview new hires. Many work on a contingency.

In conclusion, a lot of money is left on the table by companies that do

not pursue tax credits. While the process of going after these credits can seem overwhelming, using a consultant can help. Additionally, the process is essentially no risk because the fees paid to most tax credit consultants are based on the credits earned.

For more information or assistance
with tax credits, please contact:

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