

Enhance Work Opportunity Tax Credit for Hiring Veterans

On November 21, 2011, President Obama signed the Vow to Hire Heroes Act of 2011 into law. The bill enhances the Work Opportunity Tax Credit (WOTC) and extends the credit through December 31, 2012. The enhancement is meant to encourage the hiring of certain Veterans of current wars as well as certain Veterans of prior wars. The bill provides for a maximum credit of \$9,600 per each qualifying individual hired. Let's examine the law and the requirements needed to qualify for the credit.

Work Opportunity Tax Credit Rules

The WOTC is a 40% tax credit based upon the first-year wages paid (capped to certain amounts) to qualifying veterans if the individual works 400 hours or more during their first year of employment. The credit is reduced to 25% of the first-year wages paid if the new employee works between 120 and 399 hours only during their first year of employment. No credit is allowed if the new employee works less than 120 hours during their first year. The amount of the credit ranges from \$2,400 to \$9,600. Any credit claimed reduces wage expenses on your business tax return dollar-for-dollar.

Who is a "Veteran" for purposes of the credit?

A "Veteran" is someone who is certified as having either served on active duty in the US Armed Forces for more than 180 days, or must have been discharged or released from active duty in the US Armed Forces for a service-connected disability, and not having served on active duty during the 60-day period ending on the hire date.

How do I know a Veteran is certified and thus qualifies for the credit?

There are two ways to be sure your new hire qualifies. First, the Veteran must be certified as a qualified Veteran by a state employment security agency. It is the employer's responsibility to obtain the certification **on or before** the date the new hire begins employment. Second, the employer can complete Form 8850 on or before the date the new hire is offered employment and submit the form to the state employment security agency **within 28 days** of the new hire's start date. If using the second option to determine qualification, the certification must be received by your business prior to claiming the credit.

Categories of Qualified Veterans

As mentioned above, in order to qualify for the credit, the Veteran must be certified by a state employment security agency. The new legislation expands the categories of Veterans that will qualify for the credit. The four categories are as follows:

- A member of a family receiving Supplemental Nutrition Assistance Program payments for at least three months, all or part of which is during the 12 months prior to the hire date. Those individuals who are hired after November 21, 2011 and before January 1, 2013 under this category will qualify for a **maximum credit of \$2,400**.
- A Veteran with a service-connected disability that
 - o Has a hire date that is not more than one year after having been discharged or released from active duty (individuals hired after November 21, 2011 and before January 1, 2013 under this category will qualify for a **maximum credit of \$4,800**); *or*
 - o Has aggregate periods of unemployment of six months or more during the 12 months prior to the hire date (individuals hired after November 21, 2011 and before January 1, 2013 under this category will qualify for a **maximum credit of \$9,600**)
- A Veteran with an aggregate period of unemployment of at least four weeks, but less than six months, during the 12 months prior to the hire date. Individuals hired after November 21, 2011 and before January 1, 2013 under this category will qualify for a **maximum credit of \$2,400**.
- A Veteran with an aggregate period of unemployment of at least six months during the 12 months prior to the hire date. Individuals hired after November 21, 2011 and before January 1, 2013 under this category will qualify for a **maximum credit of \$5,600**.

Tax-exempt Entities now Eligible

The new bill signed into law also includes a provision allowing tax-exempt entities to claim a credit for qualifying Veterans hired. Additional guidance is needed from the IRS as to whether the credit will be claimed on a Form 941 or on Form 990-T. For tax-exempt entities, the credit is only 26% of eligible wages compared to 40% for taxable entities. Also, the wages must be paid to further the tax-exempt entity's exempt function in order to qualify for the credit. The credits available for tax-exempt entities range from \$1,560 to \$6,240.

If you are considering hiring a Veteran and want to discuss the potential for a Work Opportunity Tax Credit, please be sure to contact our office at (952) 979-3100. We would be happy to discuss the rules and regulations to make sure you get the highest possible credit.