

AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

# BDO KNOWS:

## FEDERAL TAX



### SUBJECT

## WOTC ADDITIONAL EXTENSION 2016

### SUMMARY

Congress recently extended the application of the work opportunity tax credit (the "WOTC") to an employee who began working after December 31, 2014, and before January 1, 2020. Because the extension was not enacted until December 15, 2015, and the application for pre-screening an employee must be filed within 28 days after an employee begins work, the Service granted transitional relief extending the application due date for an employee hired on or after January 1, 2015 through August 31, 2016. Other than extending the time frames of transition relief, the recent notice does not otherwise modify the terms of the original IRS Notice 2016-22<sup>1</sup>.

### DETAILS

#### *Background*

The WOTC is a credit available to a taxpayer that employs an individual from a targeted group, such as, very generally, a qualified IV-A recipient, a qualified veteran, a qualified ex-felon, a designated community resident, a vocational rehabilitation referral, a qualified summer youth employee, a qualified food stamp recipient, a qualified SSI recipient, a long-term family assistance recipient, or a long-term unemployment recipient hired on or after January 1, 2016.<sup>2</sup> The amount of the WOTC is 40% (25% in the case of an employee who does not meet certain minimum employment requirements) of the first-year wages paid or incurred by an employer during the taxable year to employees who are members of a targeted group.<sup>3</sup>

### CONTACT:

JANET BERNIER  
STS-SALT Principal  
212-515-5405 / jbernier@bdo.com

TANYA ERBE  
STS-SALT Senior Director  
310-203-1259 / terbe@bdo.com

TOM ALBERTE  
STS-SALT Senior Director  
414-615-6775 / talberte@bdo.com

<sup>1</sup> Notice 2016-40 - this notice expands and extends by three months the transition relief originally provided in Notice 2016-22

<sup>2</sup> Section 51(a), (b)(1), and (d)(1). Each of the specified categories within this targeted group is further defined in section 51(d); 'Protecting Americans from Tax Hikes Act of 2015, Sec. 142(b).

<sup>3</sup> Section 51(a), (b)(1), and (i)(3).

While the number of employees who may qualify for the WOTC is not limited, the amount of qualified first-year wages that may be taken into account with respect to any individual during a taxable year is generally limited to \$6,000 (a \$2,400 maximum credit). However, the wage limitation is \$12,000 (a \$4,800 maximum credit) in the case of a qualified veteran with a service-connected disability who has a hiring date not more than one year after having been discharged from active duty in the armed forces,<sup>4</sup> \$14,000 (a \$5,600 maximum credit) in the case of a qualified veteran without a service-connected disability having aggregate

periods of unemployment during the one-year period ending on the hire date which equal or exceed six months,<sup>5</sup> and \$24,000 (a \$9,600 maximum credit) in the case of a qualified veteran with a service-connected disability having aggregate periods of unemployment during the one-year period ending on the hire date which equal or exceed six months.<sup>6</sup>

### ***Pre-Screening Process***

An employee may not be treated as a member of a targeted group unless the employee goes through a pre-screening process. That is, the employer must either: (1) on or before the day the individual begins work, obtain certification from a designated local agency ("DLA") that the individual is a member of a targeted group; or (2) complete Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, on or before the day the individual is offered employment and submit the form to the appropriate DLA within 28 days after the individual began work.<sup>7</sup>

### ***Transitional Relief***

In light of the fact that the extension of the WOTC to wages paid or incurred by an employer with respect to an employee who began work after December 31, 2014, and before January 1, 2020, was not enacted until December 15, 2015, the Service granted transitional relief with respect to the pre-screening process. Specifically, the Service has given taxpayers until September 28, 2016, to submit a completed Form 8850 to the appropriate DLA for employees hired 2015 on or after January 1, 2015 through August 31, 2016.<sup>8</sup>

## **BDO INSIGHTS**

- ▶ The WOTC can be a valuable credit that ranges between \$2,400 and \$9,600 per qualifying employee who began work during the taxable year. However, as noted above, each employee is subject to a pre-screening application process and the application deadline for 2015/2016 hires is fast approaching. BDO can assist with determining which employees are from a targeted group as well as the pre-screening application process.

<sup>4</sup> Section 51(b)(3) and (d)(3)(A)(ii)(I).

<sup>5</sup> Section 51(b)(3) and (d)(3)(A)(iv).

<sup>6</sup> Section 51(b)(3) and (d)(3)(A)(ii)(II).

<sup>7</sup> Tax Increase Prevention Act of 2014, Pub. L. No. 113-295, § 119.

<sup>8</sup> Notice 2016-22.

The Tax Practice at BDO is among the largest tax advisory practices in the United States. With 63 offices and more than 450 independent alliance firm locations in the United States, BDO has the bench strength and coverage to serve you.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and over 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,408 offices in 154 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit [www.bdo.com](http://www.bdo.com).

*Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.*