AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

BDO KNOWS:

FEDERAL TAX

SUBJECT

CONGRESS EXTENDS THE WORK OPPORTUNITY CREDIT FOR ANOTHER YEAR AND THE IRS EXTENDS THE RELATED EMPLOYEE APPLICATION DUE DATE

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SUMMARY

Congress recently extended the application of the work opportunity tax credit (the “WOTC”) to an employee who began working after December 31, 2013, and before January 1, 2015. Because the extension was not enacted until December 19, 2014, 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 in 2014 to April 30, 2015.

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, or a long-term family assistance recipient.[1] 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.[2]

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,[3] $14,000 (a $5,600 maximum credit) in the case of a qualified veteran without a service-connected disability having aggregate

[1] Section 51(a), (b)(1), and (d)(1). Each of the specified categories within this targeted group is further defined in section 51(d).
[2] Section 51(a), (b)(1), and (i)(3).
[3] Section 51(b)(3) and (d)(3)(A)(ii)(I).

periods of unemployment during the one-year period ending on the hire date which equal or exceed six months,[4] 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.[5]

Prior to the enactment of the Tax Increase Prevention Act of 2014 on December 19, 2014, the WOTC applied only to wages paid or incurred by an employer with respect to an employee who began work before January 1, 2014. Now, the WOTC retroactively extends to wages paid or incurred with respect to an employee who began working after December 31, 2013, and before January 1, 2015.[6]

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.[7]

Traditional 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, 2013, and before January 1, 2015, was not enacted until December 19, 2014, the Service granted transitional relief with respect to the pre-screening process. Specifically, the Service has given taxpayers until April 30, 2015, to submit a completed Form 8850 to the appropriate DLA for employees hired in 2014.[8]

BDO INSIGHTS

- The Service's transitional relief makes good sense. Without it, a qualifying employee who began work as late as mid-November 2014 could be excluded from the WOTC before the credit extension was even granted and, thus, render Congress's extension of the WOTC for another year virtually worthless.

- 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 2014 hires is fast approaching. BDO can assist with determining which employees are from a targeted group as well as the pre-screening application process.

[4] Section 51(b)(3) and (d)(3)(A)(iv).
[5] Section 51(b)(3) and (d)(3)(A)(ii)(II).
[6] Tax Increase Prevention Act of 2014, Pub. L. No. 113-295, § 119.
[7] Section 51(d)(13)(A).
[8] Notice 2015-13.