

# Understanding the Work Opportunity Tax Credit (WOTC): An Available Hiring Tax Credit for Restaurants

June 2021



# Takeaways

June 2021

- 01. WOTC provides up to \$2,400 or more when hiring target groups, including those unemployed 27+ weeks**
- 02. Forms must be submitted to the State Workforce Agency within 28 days of the new hire's start date**
- 03. Each State has a WOTC specialist to help employers**
- 04. There are 3.8 million WOTC-eligible unemployed as of June 2021, 2.6 million more than in February 2020**



# WOTC Is a Long-Standing Program

Restaurants Can Access Resources, Work with State Offices for Assistance

**Is this a new pandemic incentive?**

- No, the Work Opportunity Tax Credit (WOTC) is a well-established federal program that all restaurants should be able to utilize.
- WOTC was created in 1996 and has been extended through 2025.

**Do all States have WOTC support for employers?**

- Yes, each state (plus D.C.) has its own State Workforce Agency with a coordinator who assists with WOTC.
- State Workforce Agency Directory:  
<https://www.dol.gov/agencies/eta/wotc/contact/state-workforce-agencies>

# Incentives for Restaurant Hiring Target Groups

## Helping Restaurants Manage Cash Flow and Reduce Tax Burden

WOTC provides a federal tax credit incentive for businesses hiring from *target population groups*:

**\$2,400+ per employee is a common amount received by employers, with no limit on the number of hires**

- *Targeted population groups* include those unemployed for 27+ consecutive weeks (~7 months), who received some unemployment compensation during that period.
- There are **3.8M “long-term unemployed”** (jobless for 27 weeks or more), as of June 2021; 2.6M higher than in February 2020.

# Credit Amount Varies Based on Population Type

**Most Businesses Will Receive \$2,400 per WOTC Eligible Person (40% of \$6,000)**

<b><u>Populations Eligible for the Work Opportunity Tax Credit by Amount</u></b>	
<b>Group</b>	<b>Maximum WOTC-Eligible Wages (Employers Can Claim a Maximum of 40%)</b>
Long-Term Unemployed of 27+ Weeks	\$6,000
Long-Term TANF Recipients	\$10,000 per year for up to two years
TANF Recipients	\$6,000
SNAP Recipients	\$6,000
SSI Recipients	\$6,000
Veterans	\$6,000 to \$24,000
Summer Youth Employees	\$3,000
Vocational Rehabilitation Referrals	\$6,000
Ex-Felons	\$6,000
Designated Community Residents	\$6,000

Former employees and family members are not eligible.



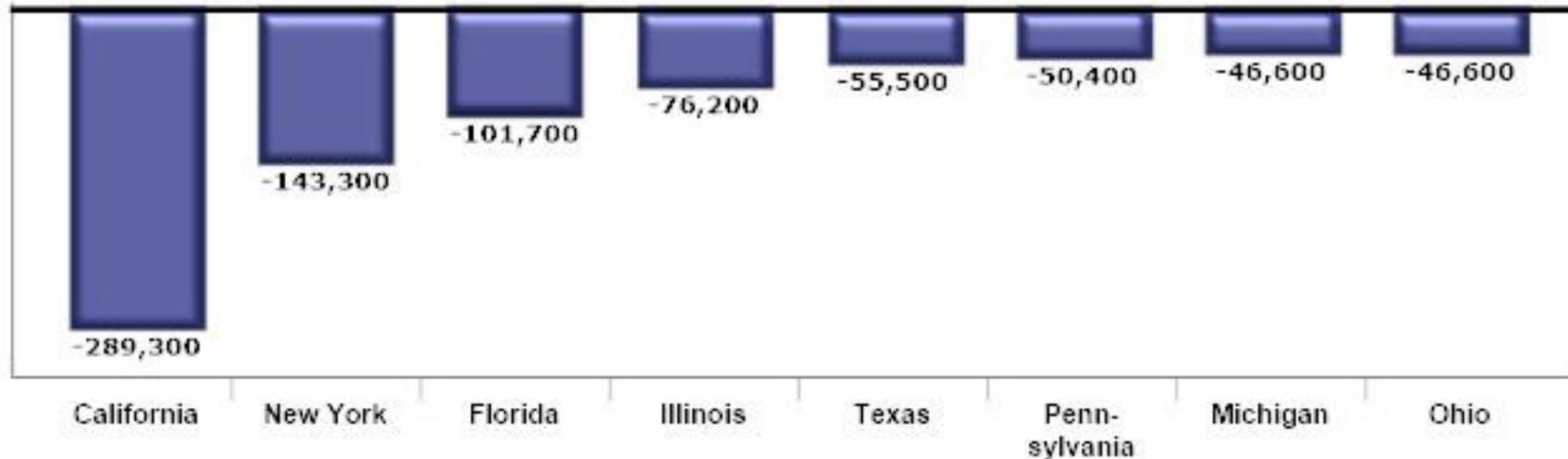
# ... As Restaurants Seek to Increase Hiring

**82% of Operators Have Job Openings That Are Difficult to Fill, per an April Survey**

Eating and drinking places are still 1.5 million jobs – or 12% – below pre-pandemic employment levels.

## States with largest employment gap below pre-COVID level

Net change in eating & drinking place jobs: February 2020 to May 2021



Sources: Bureau of Labor Statistics; National Restaurant Association; figures are not seasonally-adjusted

# Step One: Prepare the Documents Right Now

The Business and the Applicant Must Complete & Submit the Following:

IRS Form 8850: (<https://www.irs.gov/forms-pubs/about-form-8850>)

ETA Form 9061 ([https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/ETA-FORM-9061-\(ENGLISH\).pdf](https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/ETA-FORM-9061-(ENGLISH).pdf)) or ETA Form 9062  
(<https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/ETA-Form-9062.pdf>)

ETA Form 9175 for Long-Term Unemployed  
(<https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/ETA-Form-9175.pdf>)

**NOTE:** The EEOC updated an advisory opinion in April 2020 saying that “proper employer use of Form 8850 would not violate the federal equal employment opportunity (EEO) laws.”

# Step One: Prepare the Documents Right Now

Print and Prepare Forms before Each Job Interview and “Onboarding” Process

**Documents must be submitted to State Workforce Agency within 28 calendar days of new employee’s start date.**

- Forms “pre-screen” for WOTC eligibility and are submitted to the State Workforce Agency where the business is located (where the employee works) to certify the individual is within a targeted population group.
- Forms must be completed by a job applicant and the potential employer, as the job applicant must give this information to the employer on or before the day a job offer is made.

# Step Two: Getting Certified for WOTC

Timing Varies on Certification by State – Online Programs Generally Are Faster

- If the individual applicant meets the criteria, the State Workforce Agency sends the employer a WOTC Certification.
- If the IRS Form 8850 is timely but incomplete, the Agency will request additional information to make a WOTC eligibility determination.

# Step Three: Claim the Credit, Keep the Records

## The Credit Can Offset Quarterly Tax Payments as a General Business Credit

- An employer files IRS Form 5884, Work Opportunity Credit, with the federal tax return:  
<https://www.irs.gov/forms-pubs/about-form-5884>
- Employers should retain WOTC records for seven years from the date of the written certification.

# Planning How Much a Business Will Receive

Important to Track Hours Worked and Qualified Wages Paid

**Maximum:** The WOTC amount rises to 40% of an employee's wages who work over 400 hours during the year.

**Minimum:** WOTC-certified employees must work at least 120 hours during the first year of employment for an employer to claim credits.

# Don't Pass It Up! Small Restaurants Obtain WOTC

2.1M WOTC Certifications Were Issued to Businesses in 2019

- Restaurants and Foodservice Companies claim WOTC at the 2nd highest rate of all industries, with over 361,000 certifications issued in 2019.
- This General Business Credit is accessible, will not run out of funds since it is offset against taxes, and resources are available for the smallest of operators.

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