



UNITED STATES  
DEPARTMENT OF LABOR

# EMPLOYER'S GUIDE TO THE WORK OPPORTUNITY TAX CREDIT



## WHAT IS WOTC?

The Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers who hire individuals from eligible target groups with significant barriers to employment. Each year, employers claim over \$1 billion in tax credits under the WOTC program. The information contained in this guide will assist you in applying for and obtaining the tax credit.



### Potential For Reduced Tax Liability

Employers hiring target group employees may be eligible to reduce their federal income tax liability by as much as \$9,600 per employee hired.

### Employers Make the Hiring Decision

WOTC reduces an employer's cost of doing business and requires little paperwork, while helping those in need to find and retain good jobs.

### The U.S. Economy Benefits

The success and growth of this income tax credit for private sector business is beneficial for all who participate, while increasing America's economic growth and productivity.

## HOW DOES WOTC WORK?

Any private sector business that hires a new employee from an eligible target group may apply for WOTC. In addition, the tax credit is available to certain tax-exempt organizations that hire new employees from the WOTC veterans target group.

To apply, employers complete and submit the required WOTC forms outlined in the simple step-by-step process described in this guide. There is no limit on the number of individuals an employer can hire in order to qualify to claim the tax credit. For additional information and resources on WOTC, visit <https://www.dol.gov/agencies/eta/wotc>.

## WHO IS ELIGIBLE?

WOTC Target Groups	
<p><b>Veteran</b></p>	<p>To be considered a veteran eligible for WOTC, an individual must meet these two standards:</p> <ol style="list-style-type: none"> <li>1. Have served on active duty (not including training) in the U.S. Armed Forces for more than 180 days or have been discharged or released from active duty for a service-connected disability; AND</li> <li>2. Cannot have a period of active duty (not including training) of more than 90 days that ended during the 60-day period ending on the hiring date.</li> </ol> <p>To be eligible for WOTC, a veteran must also be <u>one</u> of the following:</p> <ul style="list-style-type: none"> <li>• A member of a family that received Supplemental Nutrition Assistance Program benefits (food stamps) for at least 3-months during the 15-month period ending on the hiring date; OR</li> <li>• Entitled to compensation for a service-connected disability and was:               <ul style="list-style-type: none"> <li>○ Hired within 1 year of discharge or release from active duty, or</li> <li>○ Unemployed for at least 6 months in the year ending on the hiring date; OR</li> </ul> </li> <li>• Unemployed for:               <ul style="list-style-type: none"> <li>○ At least 4 weeks (but less than 6 months) in the year ending on the hiring date, or</li> <li>○ At least 6 months in the year ending on the hiring date.</li> </ul> </li> </ul>
<p><b>Long-Term or Short-Term Temporary Assistance for Needy Families Recipient</b></p>	<p>Short-term Temporary Assistance for Needy Families (TANF) Recipient – An individual who is a member of a family that:</p> <ul style="list-style-type: none"> <li>• Received TANF benefits for any 9 months during the 18-month period ending on the hiring date.</li> </ul> <p>Long-term TANF Recipient – An individual who is a member of a family that meets one of the following:</p> <ul style="list-style-type: none"> <li>• Received TANF benefits for at least 18 consecutive months ending on the hiring date; OR</li> <li>• Stopped being eligible for TANF payments during the past 2 years because a Federal or state law limited the maximum time those payments could be made, and the individual is hired not more than 2 years after such eligibility ended; OR</li> <li>• Received TANF benefits for any 18 months after August 5, 1997, and has a hiring date that is not more than 2 years after the end of the earliest 18-month period after August 5, 1997.</li> </ul>
<p><b>Supplemental Nutrition Assistance Program Recipient (Food Stamps)</b></p>	<p>A Supplemental Nutrition Assistance Program (SNAP) recipient age 18-39 years who is a member of a family that received SNAP benefits (food stamps) for:</p> <ul style="list-style-type: none"> <li>• The 6-month period ending on the hiring date; OR</li> <li>• At least 3 of the 5 months ending on the hiring date, in the case of a family member who ceased to be eligible for such assistance under Section 6(o) of the Food Stamp Act of 1977.</li> </ul>

<p>Designated Community Resident</p>	<p>An 18-39 year old who lives within one of the federally-designated Rural Renewal Counties or Empowerment Zones.          South Dakota has one Empowerment Zone: Oglala Lakota.          The Rural Renewal Counties in South Dakota:</p> <ul style="list-style-type: none"> <li>• Aurora</li> <li>• Campbell</li> <li>• Clark</li> <li>• Day</li> <li>• Deuel</li> <li>• Douglas</li> <li>• Faulk</li> <li>• Grant</li> <li>• Gregory</li> <li>* Haakon</li> <li>* Hand</li> <li>* Harding</li> <li>* Hutchinson</li> <li>* Jones</li> <li>* Kingsbury</li> <li>* McPherson</li> <li>* Marshall</li> <li>* Miner</li> <li>* Perkins</li> <li>* Potter</li> <li>* Sanborn</li> <li>* Spink</li> <li>* Tripp</li> <li>* Walworth</li> </ul>
<p>Vocational Rehabilitation Referral</p>	<p>An individual with a disability who completed or is completing rehabilitative services from a state-certified agency, an Employment Network under the Ticket to Work program, or the U.S. Department of Veteran Affairs.</p>
<p>Ex-Felon</p>	<p>An individual who:</p> <ul style="list-style-type: none"> <li>• Has been convicted of a felony; AND</li> <li>• Who is hired within 1 year after the conviction or release date from prison.</li> </ul>
<p>Supplemental Security Income Recipient</p>	<p>An individual who received Supplemental Security Income (SSI) benefits for any month that ended during the 60-day period ending on the hire date.</p>
<p>Summer Youth Employee</p>	<p>A 16 or 17 year-old youth who:</p> <ul style="list-style-type: none"> <li>• Works for the employer between May 1<sup>st</sup> and September 15<sup>th</sup>; AND</li> <li>• Lives within one of the federally-designated Empowerment Zones.</li> </ul> <p>South Dakota has one Empowerment Zone: Oglala Lakota.</p>
<p>Long-Term Unemployment Recipient</p>	<p>A qualified long-term unemployment recipient is one who has been unemployed for not less than 27 consecutive weeks at the time of hiring and received unemployment compensation during some or all of the unemployment period.</p>

Some employees do not qualify the employer for the WOTC. They include:

- Relatives and dependents of the employer, including sons, daughters, stepchildren, spouses, fathers, mothers, brothers, sisters, step-brothers or sisters, nephews, nieces, uncles, aunts, cousins, or in-laws.
- Former employees, regardless of how long it has been since he/she last worked for the employer.
- Majority owners of the business.

## HOW TO CALCULATE THE TAX CREDIT

The amount of the tax credit that employers can claim depends on the target group of the individual hired, the wages paid to that individual, and the number of hours that individual worked during the first year of employment. There is also a maximum tax credit that can be earned for each target group.

Employees must work at least 120 hours in the first year of employment for the employer to qualify to claim the tax credit with the Internal Revenue Service (IRS). The tax credit is generally calculated as follows; however, please refer to the chart on the following page for full details.

After Working at Least 120 Hours

The employer may claim a tax credit equal to 25% of the new hire's first year of qualified wages. The maximum tax credit on first year wages is between \$750 and \$6,000, depending on the eligible target group.

After Working at Least 400 Hours

The employer may claim a tax credit equal to 40% of the new hire's first year of wages. The maximum tax credit on first year wages is between \$1,200 and \$9,600, depending on the eligible target group.

For the Long-term Temporary Assistance for Needy Families (TANF) Recipient target group, the credit is also available to employers in the second year of employment. The employer may claim a tax credit equal to 50% of second year wages, up to the maximum tax credit of \$5,000.

## MAXIMUM TAX CREDIT AMOUNTS

Veteran Target Group	Worked at least 120 hours but less than 400 hours	Worked at least 400 hours
Receives SNAP (food stamps) benefits	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Entitled to compensation for service-connected disability:		
Hired 1 year after leaving service	Up to \$3,000 (25% of \$12,000 of first-year wages)	Up to \$4,800 (40% of \$12,000 of first-year wages)
Unemployed at least 6 months	Up to \$6,000 (25% of \$24,000 of first-year wages)	Up to \$9,600 (40% of \$24,000 of first-year wages)
Unemployed:		
At least 4 weeks	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$ 2,400 (40% of \$6,000 of first-year wages)
At least 6 months	Up to \$ 3,500 (25% of \$14,000 of first-year wages)	Up to \$5,600 (40% of \$14,000 of first-year wages)

Other WOTC Target Groups	Worked at least 120 hours but less than 400 hours	Worked at least 400 hours
Short-Term TANF Recipient	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Long-Term TANF Recipient	N/A	Up to \$9,000 (over 2 years) (40% of \$10,000 of first-year wages and 50% of \$10,000 of second-year wages)
SNAP (food stamp) Recipient	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Designated Community Resident	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Vocational Rehabilitation Referral	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Ex-Felon	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
SSI Recipient	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)
Summer Youth Employee	Up to \$750 (25% of \$3,000 of first-year wages)	Up to \$1,200 (40% of \$3,000 of first-year wages)
Long-Term Unemployment Recipient	Up to \$1,500 (25% of \$6,000 of first-year wages)	Up to \$2,400 (40% of \$6,000 of first-year wages)

Please note that the maximum tax credit amounts listed above are applicable to private-sector businesses only. For more information on the calculation of WOTC for tax-exempt organizations, please visit IRS's WOTC webpage at: <https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>

## HOW DO I APPLY?

The application process involves five simple steps with little paperwork. Please note that prior to claiming the tax credit with the IRS, an employer must request and receive certification from its State Workforce Agency (SWA), stating that the new hire is a member of at least one of the WOTC target groups.

Since the required forms change periodically, please ensure that you submit the current approved versions of the forms. For the most up-to-date copies of forms used to apply for certification from the SWA and claim the credit with IRS, please refer to the:

WOTC website at <https://www.dol.gov/agencies/eta/wotc/resources>

IRS website at <https://www.irs.gov/forms-pubs/about-form-8850>

# STEP # 1

## Complete IRS Form 8850

Employers must fill out IRS Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, to pre-screen employees, and make a written request to their SWA to certify the new hire as a member of a WOTC target group.

- Page one of [IRS Form 8850](#) – The job applicant gives information to the employer on or before the day a job offer is made. This information is entered on the form.
- Page two of [IRS Form 8850](#) – Based on the applicant’s information, the employer determines whether or not he or she believes the applicant is a member of one of the WOTC target groups. If so, the employer completes page two of the form.
- Both the job applicant (or a parent/guardian if the applicant is a minor) and the employer, or an authorized employer representative, must sign and date IRS Form 8850 before submitting the form to the SWA.

Visit <https://www.irs.gov/forms-pubs/about-form-8850> for IRS Form 8850 and the instructions for the form.

## STEP # 2

### Complete ETA Form 9061

Next, the employer completes a U.S. Department of Labor WOTC form:

- Employers will typically complete ETA Form 9061, the Individual Characteristics Form.
- Some states will also accept ETA Form 9062, Conditional Certification. This form would be used if a conditional certification is provided to the job applicant by a participating agency, such as a SWA, a Vocational Rehabilitation agency, an American Job Center (also referred to locally as a One-Stop Career Center/Job Service), or an Employment Network for the Ticket to Work program.

If completing ETA Form 9061, employers are encouraged to provide copies of documentation of eligibility for a WOTC target group, if available. Examples of documentation are provided in the instructions to ETA Form 9061.

## STEP # 3

### Submit Completed IRS and ETA Forms to Your State Workforce Agency

IRS Form 8850 must be submitted within 28 calendar days after the employee's start date for it to be considered "timely" filed. WOTC applications that are not submitted within 28 calendar days will be denied by the SWA.

- To expedite the certification process, submit the following forms and documentation together, as a complete application, to your SWA no later than the 28th day after the job applicant begins work:
  - IRS Form 8850
  - ETA Form 9061 (or ETA Form 9062, if applicable)
  - Documentation of target group eligibility as described in the instructions to ETA Form 9061, if available.



- States accept applications through various methods (i.e., via mail, fax, or e-mail). Many states have automated systems and accept electronic submissions. If you are not sure how your state accepts applications, contact the WOTC Coordinator in your state. A directory of state WOTC Coordinators is available at:

<https://www.dol.gov/agencies/eta/wotc/contact/state-workforce-agencies>

When the 28th day falls on a Saturday, Sunday, or legal holiday, then the submission deadline is the next business day after the weekend or legal holiday.

Do NOT submit WOTC applications to the IRS or the U.S. Department of Labor in Washington, DC.

## STEP # 4

### Receive Final Determination

The SWA will issue a final determination for each WOTC application. In some cases before that determination is made, assistance may be requested from the employer to obtain additional information or documentation. The final determination will indicate whether the new employee is certified as meeting the eligibility for one of the WOTC target groups. In those instances where the SWA is not able to verify that the new employee meets the eligibility, the SWA will issue a denial with an explanation. When a certification is received, then the employer can claim the tax credit with the IRS.

## STEP # 5

### File for the Credit with the IRS

After receiving a certification from the SWA, employers may file for the tax credit with the IRS. Generally, an employer elects to take the credit by filing IRS Form 5884, Work Opportunity Credit. However, a tax-exempt organization that hires an employee in the WOTC veteran target group should use IRS Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans.

Employers also must meet requirements for the Minimum Employment Period, which is the number of hours required to be worked by the employee – at least 120 hours in the first year of employment – before they can file and qualify for the tax credit.

## MAINTAINING YOUR RECORDS

Keep copies of IRS Form 8850, any transmittal letters that you submit to the SWA, proof of mailing or other manner of submission, and certifications you receive from the SWA as long as they may be needed for the administration of the provisions relating to WOTC. Records that support the credit usually must be kept for 3 years from the date when any income tax return claiming the credit is due or filed, whichever is later.

## WHO DO I CONTACT WITH QUESTIONS?

You can contact the WOTC Coordinator in your state for any questions you have regarding the tax credit, the application submittal guidelines, or the certification process. The directory of State WOTC Coordinators is located at <https://www.dol.gov/agencies/eta/wotc/contact/state-workforce-agencies>

Please refer to the WOTC website, <https://www.dol.gov/agencies/eta/wotc> for all WOTC program information, periodic updates and program changes.

South Dakota WOTC Coordinator, Taunya Charlton at [WOTC@state.sd.us](mailto:WOTC@state.sd.us), on-line at <https://dlr.sd.gov/WOTC> or write to:

South Dakota Department of Labor and Regulation  
Attn: WOTC Program  
P.O. Box 4730  
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