

The Work Opportunity Tax Credit and the California New Employment Credit

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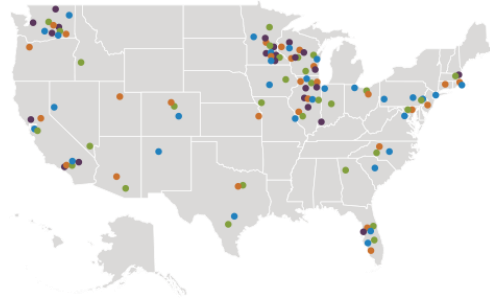
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Speaker Introductions



Jennifer Rohen, JD

Jen is an attorney and a tax manager with CLA and is the leader of CLA's Work Opportunity Tax Credit practice. She has more than 10 years of experience assisting clients by identifying Federal, State, and Local strategies that include tax credits, property and sales tax incentives, employment tax rebates, and various grants.



Learning Objectives

At the end of this session, you will be able to:

- Recognize the purpose and mechanics of WOTC and NEC and how they apply to your organization
- Determine whether either or both credits are a strong fit for your business
- Identify next steps to collect relevant data and begin the process





WORK OPPORTUNITY TAX CREDIT

OVERVIEW

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Work Opportunity Tax Credit (WOTC)

The tax credit allows employers to reduce their federal tax liability by up to \$9,600 per new hire. For-profit businesses of any size qualify. 501(c) nonprofits qualify for the veteran target groups only.

The tax credit applies to temporary, seasonal, part-time and full-time workers. The tax credit is available for new hires with job start dates through December 31, 2019.

WOTC is retained as part of the TCJA and is expected to be included in a tax extender bill to be made permanent.

The WOTC applies only to new employees who have never worked for the hiring employer at any other time.

Any type of job is acceptable.



How WOTC Impacts Tax Liability

- Taxable employers claim the WOTC as a general business credit on Form 3800 against their income tax. The WOTC is calculated using Form 5884.
- For flow-through organizations with members in AMT, WOTC will offset AMT.
- To the extent that WOTC is not fully utilized, carry forward period is up to 20 years and carry back is one year.



Qualifying Groups

For the employer to claim the WOTC for a new hire, the employee must be certified as a member of a targeted group by meeting the criteria described in any of the groups listed below. The employer is not expected to verify eligibility of the employee at time of hire.

- [Short-term Temporary Assistance for Needy Families \(TANF\) Recipient \(Group 1\)](#)
- [Qualified Veteran \(Group 2a\)](#)
- [Disabled Veteran \(Group 2b\)](#)
- [Unemployed Disabled Veteran \(Group 2c\)](#)
- [Unemployed Veteran - 4 Weeks \(Group 2d\)](#)
- [Unemployed Veteran - 6 Months \(Group 2e\)](#)
- [Qualified Ex-felon: \(Group 3\)](#)
- [Designated Community Resident \(Group 4\)](#)
- [Vocational Rehabilitation Referral \(Group 5\)](#)
- [Food Stamp Recipient \(Supplemental Nutrition Assistance Program - SNAP\) \(Group 6\)](#)
- [Supplemental Security Income Recipient \(Group 7\)](#)
- [Long-term Family Assistance Recipient \(Group 8\)](#)
- [Qualified Long-term Unemployment Recipient \(Group 9\)](#)



Eligibility

WOTC TARGET GROUPS DEFINED

<p>Veteran</p>	<p>To be considered a veteran eligible for WOTC, an individual must meet these two standards:</p> <ol style="list-style-type: none"> 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 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. <p>To be eligible for WOTC, a veteran must also be one of the following:</p> <ul style="list-style-type: none"> • 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; <p>OR</p> <ul style="list-style-type: none"> • Entitled to compensation for a service-connected disability and was: <ul style="list-style-type: none"> • Hired within 1 year of discharge or release from active duty, or • Unemployed for at least 6 months in the year ending on the hiring date; OR • Unemployed for: <ul style="list-style-type: none"> • At least 4 weeks (but less than 6 months) in the year ending on the hiring date, or • At least 6 months in the year ending on the hiring date.
<p>Long-Term or Short-Term Temporary Assistance for Needy Families Recipient</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"> • Received TANF benefits for any 9 months during the 18-month period ending on the hiring date. <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"> • Received TANF benefits for at least 18 consecutive months ending on the hiring date; OR • 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 • 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.



Eligibility

WOTC TARGET GROUPS DEFINED

Supplemental Nutrition Assistance Program Recipient (Food Stamps)	<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"> • The 6-month period ending on the hiring date; OR • At least three of the five 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.
Designated Community Resident	An 18-39 year old who lives within one of the federally-designated Rural Renewal Counties or Empowerment Zones.
Vocational Rehabilitation Referral	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.
Ex-Felon	<p>An individual who:</p> <ul style="list-style-type: none"> • Has been convicted of a felony; AND • Who is hired within 1 year after the conviction or release date from prison.
Supplemental Security Income Recipient	An individual who received Supplemental Security Income (SSI) benefits for any month that ended during the 60-day period ending on the hire date.
Qualified Long-term Unemployment Recipient	<p>Any individual who is certified by the designated local agency as being in a period of unemployment which:</p> <ul style="list-style-type: none"> • Is not less than 27 consecutive weeks; AND • Includes a period in which the individual was receiving unemployment compensation under State or Federal law.



Credit Amount

TARGET GROUP	MAXIMUM TAX CREDIT
VETERANS	
Receives SNAP benefits	\$2,400
VETERANS ENTITLED TO COMPENSATION FOR SERVICE CONNECTED DISABILITY	
Hired one year from leaving service	\$4,800
Unemployed at least 6 months	\$9,600
UNEMPLOYED VETERANS	
At least 4 weeks	\$2,400
At least 6 months	\$5,600
OTHER WOTC TARGET GROUPS	
Short Term TANF Recipient	\$2,400
Long-Term TANF Recipient	\$9,000 (over two years)
SNAP (Food Stamp) Recipient	\$2,400
Designated Community Resident	\$2,400
Vocational Rehabilitation Referral	\$2,400
Ex-Felon	\$2,400
SSI Recipient	\$2,400
Qualified Long-term Unemployment Recipient	\$2,400



Our Process

STEP 1

- Identify eligible employees
 - Either take the electronic survey; or
 - Provide forms and instructions to include in the application package

STEP 2

- Request any supporting data to submit along with applications (forms 8850 and 9061) and submit to the state for verification of eligibility within 28 days of the start date for any eligible employee.

STEP 3

- Manage reporting and compliance process with the state – including accepted applications, appeals and denials

STEP 4

- Collect data on eligible employees at year end to compute tax credit;

STEP 5

- Compute and report tax credit on form 5884.

STEP 6

- Identify any eligible candidates for related state tax credits and process as needed to submit to the state(s).



State Job Tax Credits

The job creation tax credits (JCTCs) enacted in 22 states allow companies to claim financial assistance when they hire a number of new workers and issue new benefit packages, such as health insurance above designated thresholds. Each state typically issues credits and incentives in different ways.



The amount of credit issued can be a percentage of the total annual wages paid to newly hired workers, a percentage of the state income tax withholdings associated with new jobs, or simply a fixed dollar amount.

Some states also offer multiple credit rates that compensate companies at incremental, successive levels of job creation.



California New Employment Credit



- The New Employment Credit (NEC) is available for each taxable year beginning on or after January 1, 2014, and before January 1, 2026, to a qualified taxpayer that hires a qualified full-time employee on or after January 1, 2014, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or economic development area and that receives a tentative credit reservation for that qualified full-time employee.
- In addition, an annual certification of employment is required with respect to each qualified full-time employee hired in a previous taxable year.
- In order to be allowed a credit, the qualified taxpayer must have a net increase in the total number of full-time employees in California.
- Over a five year period, the credit can be as much as \$55,000 for each eligible employee who meets all the criteria.



California New Employment Credit

Employer Requirements

- A qualified taxpayer:
- Is an employer engaged in a trade or business within a designated within a [DGA](#).
- Is not engaged in any [excluded businesses](#) which are temporary help services or retail trades, and those primarily in food services, alcoholic beverage places, theater companies and dinner theater or casinos and casino hotels unless it is considered a [small business](#).
- Is not engaged in a sexually-oriented business.
- Hires an individual that is a qualified full-time employee that works at least an average of 35 hours per week and meets all of the following:
 - Is hired on or after January 1, 2014.
 - Performs at least 50% of his/her services for the employer in the DGA.
 - Receives starting wages that exceed 150% of the State minimum wage.
 - Is paid hourly wages for an average of at least 35 hours per week, or is salaried, and paid for full-time employment.
 - Meets one of five conditions upon commencement of employment (see next slide).

Published on CA Franchise Tax Board Site: www.ftb.ca.gov/online/New_Employment_Credit_Reservation/Quick_Facts.shtml



California New Employment Credit

Employee Conditions

- At the time of hire an individual meets any of the following [conditions](#):
- Unemployed for 6 months or more, not having completed a degree or course of study.
 - Unemployed means: not receiving wages, not self-employed, and not a full-time student.
- Unemployed for 6 months or more, and completed a degree or course of study more than 12 months prior to hire.
 - Unemployed means: not receiving wages, not self-employed, and not a full-time student.
- Veteran, separated from the armed forces within 12 months.
- Recipient of the federal Earned Income Credit in the previous taxable year.
- Ex-offender convicted of a felony.
- Current recipient of CalWORKS or county general assistance.

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Questions?

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