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# Navigating Credits and Incentive: ERC, WOTC, and More

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- You need to attend 50 minutes to receive the full 1 CPE credit.
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**\*\*Both requirements must be met to receive CPE credit\*\***



# Introductions



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# Learning Objectives

1

Identify the purpose of the credits

2

Describe the opportunities and limitations of each credit

3

Explain the process to claim the credits and the impact of each on the tax return

4

Discuss the updates, guidance, and warnings from the IRS related to eligibility for the ERC

5

Discuss common questions related to the listed credits



# Employee Retention Credit



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# Qualifying for ERC

## Two ways for employer qualify for ERC

- Significant decline in gross receipts
- Full or partial suspension due to governmental order

Aggregate related employers

Large employer - credit only for non-service wages



\*FTE measured by number of FTE in 2019 according to ACA definition of fulltime employee

# Employee Retention Credit Overview

	2020	2021
<b>Covered Dates (payroll paid during period)</b>	3/13/20 – 12/31/20	1/1/21 – 9/30/21
<b>Employer size-based restrictions*</b>	Over 100 fulltime employees can only include paid but not working	Over 500 fulltime employees can only include paid but not working
<b>Quarterly Revenue Decline vs. same quarter 2019 OR</b>	>50%	>20%
<b>Partial or full government shut-down</b>	Actual dates organization was shut-down by government order	
<b>Maximum eligible wages + healthcare cost per employee</b>	\$10,000/year	\$10,000/quarter
<b>% wages + healthcare eligible for credit</b>	50%	70%
<b>Maximum annual credit/employee</b>	\$5,000	\$21,000





# Significant Decline in Gross Receipts

## Significant decline in quarterly GR

- >50% for 2020
- >20% for 2021

## GR measured on tax basis

- Cash versus accrual method



# Full or Partial Suspension

## Governmental COVID order

- Limiting commerce, travel, or group meetings

## More than nominal effect

- Safe harbor: closure of  $\geq 10\%$  of business or  $\geq 10\%$  reduction in ability to provide goods and services
- Opportunities outside of safe harbor



# Full or Partial Suspension

## Non-qualifying examples:

- Reduction in demand
- Complying with recommendations, not orders
- Difficulty attracting and retaining employees
- Nominal reductions in ability to provide goods and services
- Additional costs incurred to provide PPE



# Full or Partial Suspension

## Qualifying examples:

- Reduction in capacity of workers allowed onsite
- Closure of work sites
- Operations deemed nonessential and prohibited
- Supplier shutdown



# “Supply Chain” Qualification

## IRS finally responds – GLAM 2023-005

### **Not** sufficient for qualification:

Vague confirmations from suppliers about “COVID delays”

Generic statements about bottlenecks at ports or truck driver shortages

Incurring higher costs for critical goods/materials

Not being able to stock/produce a few or limited number of products and/or having to increase prices

### What is required for qualification:

Governmental COVID order suspended supplier’s operations

Lack of goods/materials caused employer’s operations to be suspended


Employer not able to find alternative source for goods/materials

### Qualification only lasts for duration of order

Residual issues after order ends do not qualify the employer



# IRS Considerations

 Ability to prove that the employer experienced a significant decline in gross receipts or that they were subject to a full or partial suspension of operations.



If under a full or partial suspension of operations, the IRS may also request:

- a) Copy of the governmental order which caused the full or partial suspension of operations defined by Notice 2021-20 and others; and
- b) Records used to determine whether the order had a more than nominal effect on the employer's operations.



Computation of the average number of full-time employees in 2019. This will show whether the employer was a large employer subject to limitations of available wages.



Credit computations including wage amounts, and how qualified health plan expenses were computed.



If a member of an aggregated group, computations and calculations that determined there was an aggregated group and how aggregation affected the determination and allocation of the ERC.



If a PPP loan was received, calculations allocating wages to the PPP loan forgiveness and ERC.



# Options When a Portion of the Credit is Misstated

01

File a 941X if credit is misstated on original 941;

02

File a corrected amended 941X if credit is misstated on amended 941X;

03

Return the additional funds with a letter explaining the overstatement.

04

Participate in new Voluntary Disclosure Program if applicable



# What To Do If You Determine You Are Not an Eligible Employer?



Voluntary Disclosure Program – through March 22, 2024



Requires the employer repay 80% of the refund



Employer is not required to reduce income tax expense with respect to any of the previously claimed ERC nor repay any interest received





# IRS Disallowance under Examination

Employer must pay back full amount disallowed

May be subject to significant penalties and interest

May lose the opportunity to claim a wage deduction if the period to amend the income tax return has passed



# Poll Question 1

Would you like for someone to contact you regarding the Voluntary Disclosure Program?

- Yes, please contact me
- No, not at this time



# Work Opportunity Tax Credit

WOTC



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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) non-profits 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, 2025.

WOTC is a prospective benefit that must be addressed at the start date for new employees. The employer has 28 days to submit paperwork related to qualifying employees to the state agency for verification.

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



# 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.



# WOTC Eligible Groups: 10-15% of new hires qualify

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Long-term unemployment recipients (27 consecutive weeks or more)

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Short-term Temporary Assistance for Needy Families (TANF)

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Qualified veteran (discharged from active duty within one year of hire date)

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Disabled veteran

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Unemployed disabled veteran

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Unemployed veteran (four weeks)

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Unemployed veteran (six months)

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Qualified ex-felon

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Designated resident of a Rural Renewal County or Empowerment Zone (EZ)

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Vocational rehabilitation referral

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Food stamp recipient (Supplemental Nutrition Assistant Program or SNAP)

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Supplemental Security Income (SSI) recipient

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Long-term family assistance recipient



# Credit Amounts

TARGET GROUP	MAXIMUM TAX CREDIT
<b>VETERANS</b>	
Receives SNAP benefits	\$2,400
<b>VETERANS ENTITLED TO COMPENSATION FOR SERVICE-CONNECTED DISABILITY</b>	
Hired one year from leaving service	\$4,800
Unemployed at least 6 months	\$9,600
<b>UNEMPLOYED VETERANS</b>	
At least 4 weeks	\$2,400
At least 6 months	\$5,600
<b>OTHER WOTC TARGET GROUPS</b>	
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





# Work Opportunity Tax Credit (WOTC)

## Hiring qualifications

Temporary, seasonal, part-time, and full-time workers who put in a minimum of 120 hours in their first 12 months of employment

New employees who have not worked for the hiring employer at any other time

Any job type is acceptable

## Entity requirements

For-profit businesses of any size qualify

Tax-exempt organizations qualify for the veteran target groups only and can get a refund of payments made on Form 941

## Work Opportunity Tax Credit services

Taking advantage of tax credits can be a full-time job. CLA works with employers to identify eligible employees, collect supporting information, submit the required tax forms, and compute the dollar amount of the credit.

We integrate technological solutions into your hiring process to minimize the time spent collecting the data. Our innovative, automated process will help you maximize your efficiencies.



# Poll Question 2

Would you like for us to send you a WOTC welcome kit to help you get started with participation in this credit program?

- Yes, please send it to me
- No, not at this time



# Federal Empowerment Zones

FEZ



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Provides businesses with an incentive to hire individuals who both live and work in an Empowerment Zone (EZ)

EZ = designated areas of high poverty and unemployment

Calculated on Form 8844 – Flows through to Form 3800 – General Business Credit

Credit is 20% of employer's qualified zone wages (up to \$15,000) paid or incurred during the calendar year for services performed

**Credit is eligible every year for each employee**

**15,000 X 20% = \$3,000**

Any employer who pays "qualified zone wages" to a "qualified zone employee" for at least 90 days can claim the credit.

Location of the worksite is controlling rather than the company headquarters.



# Reach Out For Potential Tax Savings!

- CLA works with employers to identify eligible employees, collect supporting information, submit the required tax forms, and compute the dollar amount of the credit.

Information Required for Credit Calculation	EE Name	Wages *calendar year	Start Dates	Termination Dates (if applicable)	Full Address of Employee

Including:  
Education &  
Training Costs



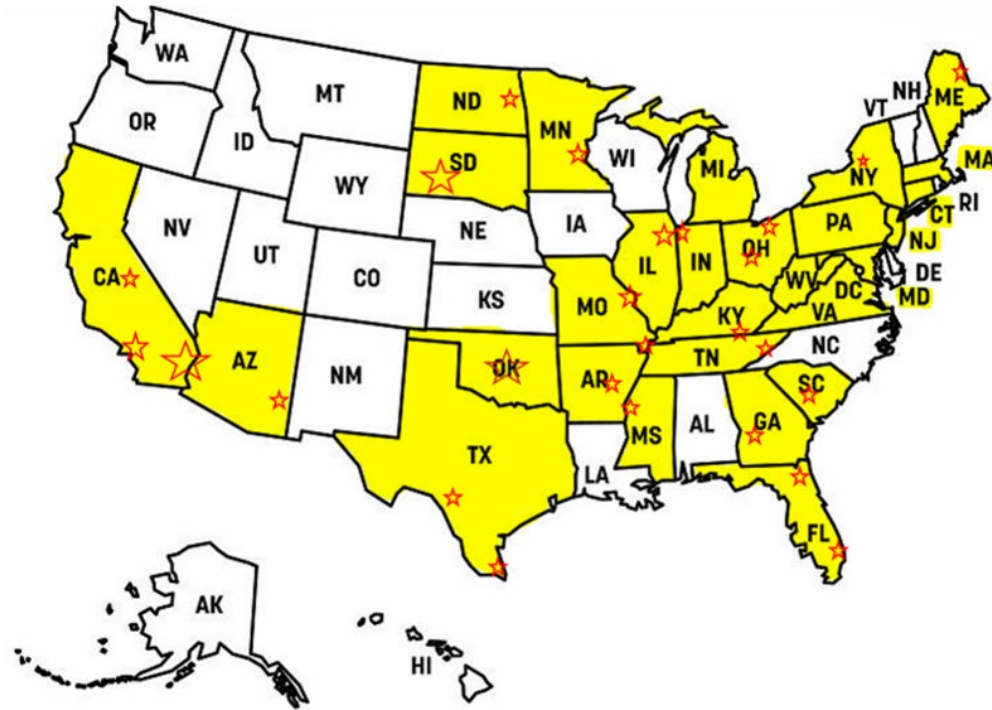
# Where Are the Empowerment Zones?

## Parts of the following urban areas:

- Pulaski County, AR
- Tucson, AZ
- Fresno, CA
- Los Angeles, CA (city and county)
- Santa Ana, CA
- New Haven, CT
- Jacksonville, FL
- Miami/Dade County, FL
- Chicago, IL
- Gary/Hammond/East Chicago, IN
- Boston, MA
- Baltimore, MD
- Detroit, MI
- Minneapolis, MN
- St. Louis, MO/East St. Louis, IL
- Cumberland County, NJ
- New York, NY
- Syracuse, NY
- Yonkers, NY
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Philadelphia, PA/Camden, NJ
- Columbia/Sumter, SC
- Knoxville, TN
- El Paso, TX
- San Antonio, TX
- Norfolk/Portsmouth, VA

## Parts of the following rural areas:

- Desert Communities, CA (part of Riverside County)
- Southwest Georgia United, GA (part of Crisp County and all of Dooly County)
- Southernmost Illinois Delta, IL (parts of Alexander and Johnson Counties and all of Pulaski County)
- Kentucky Highlands, KY (part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County, ME (part of Aroostook County)
- Mid-Delta, MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, and Washington Counties)
- Griggs-Steele, ND (part of Griggs County and all of Steele County)
- Oglala Sioux Tribe, SD (parts of Jackson and Bennett Counties and all of Shannon County)
- Middle Rio Grande FUTURO Communities, TX (parts of Dimmit, Maverick, Uvalde, and Zavala Counties)
- Rio Grande Valley, TX (parts of Cameron, Hidalgo, Starr, and Willacy Counties)



# Next Steps and Resources

To request a WOTC Welcome Kit with the necessary documentation and steps to get started:

[WOTC Welcome Kit Request](#)

Empowerment Zone/Designated Rural Community Map:

[WOTC & FEZ Address Locator](#)

CLA's WOTC Services:

[Work Opportunity Tax Credit Services](#)

CLA's FEZ Services:

[Federal Empowerment Zone Credit Overview](#)



# Poll Question 3

Would you like for us to contact you regarding any planned or future investment in your workforce?

- Yes, please reach out to me
  - No, not at this time





# QUESTIONS?

Contact Us:

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