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National Employment Opportunity Network (NEON)

SUBMISSION OF THE NATIONAL EMPLOYMENT OPPORTUNITY NETWORK (NEON) TO THE SENATE FINANCE COMMITTEE TASK FORCE ON EMPLOYMENT AND COMMUNITY DEVELOPMENT JUNE 17, 2019

The National Employment Opportunities Network (NEON) is pleased to submit this statement to the Senate Finance Committee Task Force on Employment and Community Development. The members of NEON specialize in assisting employers to secure federal and state employment credits. These comments relate to the Work Opportunity Tax Credit (WOTC), Indian Employment Credit (EIC), and Empowerment Zone (EZ) tax incentives.

WORK OPPORTUNITY TAX CREDIT (WOTC)

WOTC was enacted in 1996 to encourage employers to hire stigmatized individuals who face barriers to entering the workforce, including recipients of specified federal social support programs, ex-felons, disabled and unemployed veterans, and the long-term unemployed. WOTC is an incentive to encourage employers to take the risk of hiring individuals in these categories by providing a modest economic incentive (employees who remain on the job for more than 400 hours generate an average net credit of $1,300). As discussed more extensively in the attached analysis of WOTC by Wharton Professor Peter Cappelli, over the past twenty-three years since its enactment, WOTC has met its original legislative purpose by refocusing employers' hiring practices toward those who are on public assistance programs or are otherwise disadvantaged. In so doing, WOTC has expanded the workforce to include individuals who might otherwise not have been considered for employment absent this modest economic incentive.

The program works well, does what it is intended to do, and has become widely accepted by employers. To date, the program has helped over 28.5 million people on public assistance programs get

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jobs. Its success and employer acceptance can be seen in the history of the certifications issued. According to the Department of Labor, in WOTC's first year, FY 1997, 120,000 certifications were issued. By FY 2010, that number had risen to 900,000 and with the certainty of the five-year PATH Act extension in December 2015, the number has remained over 2,000,000 per year.

The policy underlying WOTC continues to be needed even in periods of relative low unemployment because the individuals targeted by WOTC remain stigmatized and have high levels of unemployment. Dr. Cappelli indicates the corporate tax rate would have to be as low as 15% for these groups to be more readily absorbed in the job market without a hiring incentive. Dr. Cappelli's research goes on to highlight that the net maximum tax incentive for WOTC costs the government considerably less - $1,560 (the wage deduction is not allowed for wages against which the credit is taken) than maintaining those individuals on public assistance programs.

Specifically, Dr. Cappelli's economic analysis has helped to quantify the savings to the federal and state governments as a result of moving WOTC qualified individuals from a dependence on public assistance to gainful long-term employment. Using data for only four social programs – TANF, SNAP, Medicaid, and federal low-income housing subsidies – it can be conservatively demonstrated that the net savings to the federal government (after subtracting the cost of the WOTC) for FY 2018 was $16.7 billion, with an additional savings of $3.5 billion to the states in TANF, SNAP and Medicaid, for a combined total net savings of $202 billion over ten years. These savings are well in excess of the static cost of renewing WOTC. This quantitative analysis was not available in 1996 when WOTC was enacted, but it makes the case for WOTC even stronger today as we face an increasing national debt burden.

Because an efficient and effective infrastructure has been created to facilitate WOTC, the program has become a platform upon which new needs can be addressed. Over the years, Congress has added additional targeted groups to WOTC to meet new challenges in the economy including a category for the long term unemployed who were stigmatized by virtue of being left out of the job market for long periods of time, disconnected youth who have dropped out of the high school, and businesses that were rendered inoperable as a result of Hurricane Katrina. This provision has been used following other weather disasters.

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NEON appreciates Senators Rob Portman and Ben Cardin for their leadership in proposing S. 978 which would make WOTC permanent. We have seen over the recent five-year extension that a longer extension encourages more employers, especially small and medium businesses, to participate in the program. The longer extension has also made the program more efficient because regulators at IRS and U.S. Department of Labor are more willing to spend the time on regulatory improvements. The state workforce agencies who issue the certifications have also invested in improvements to better handle the increased certification workload.

WOTC has proven to be an effective platform to help stigmatized individuals who have more limited opportunity for employment. Uninterrupted continuity of the program is the primary and paramount concern of employers participating in the WOTC. In particular, small employers may lack the resources, tools, and staff to participate in a program with uncertainty. Therefore, we highly recommend that the program be seamlessly and permanently extended so that all employers will be encouraged to invest the time and resources necessary to hire and train those eligible for WOTC

Employers believe the program is working well as is, and their highest priority is a seamless permanent extension. NEON would support adding some new categories designed to address specific groups that face barriers to entering the workforce. Accordingly, NEON supports the following proposals that would leverage the WOTC infrastructure.

Remove the Age Ceiling on SNAP eligibility – NEON believes one important program enhancement would be to eliminate the age ceiling on food stamp eligibility. While the number of individuals on SNAP has decreased from its peak of 47.6 million in FY 2016, there were still 40 million people on SNAP in FY 2018. Increasingly, those on food stamps the longest are over 40 years old and have lost their jobs because of changes in the economy. Many of these seniors need to re-enter the workforce to make ends meet. The cost of making them eligible for WOTC is a third of the cost of maintaining them on SNAP. Lifting the age ceiling on SNAP eligibility would dramatically improve their financial circumstances and mental outlook on life.

NEON also supports legislative proposals that been introduced which would include eligibility for:

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Transitional Foster Care Youth (S.1651, H.R. 2964) – Nearly, 50% of young people who have transitioned out of foster care are unemployed by age 24, and those who do manage to get a job are woefully underemployed earning an average wage of $7,500 per year. Expanding WOTC to include these young people would help employers to focus on this problem.

Social Security Disability Insurance recipients SSDI (S. 255) – The number of people on SSDI has risen rapidly in recent years and the Disability Fund is fast running out. While those on SSI or who go through vocational rehabilitation are currently eligible for WOTC, those on SSDI are not. Extending WOTC eligibility to this group would help them to reconnect with society, become productive again while at the same time improve their finances. Many employers overlook the disabled as potential employees and a tax incentive can help to insure that they take a second look at those on SSDI.

Quantifying WOTC's impact on public assistance spending the past several years, NEON, working with professor Cappelli, has been able to develop a formula to quantify the savings to the federal and state governments as a result of moving WOTC qualified individuals from a dependence on public assistance to gainful long-term employment. Using data for only four social programs, TANF, SNAP, Medicaid, and federal low-income housing subsidies, it can be conservatively demonstrated that the net WOTC savings to the federal government after subtracting the cost of the credit for FY 2018 to the Federal Government was $16.7 billion, with an additional savings of $3.5 billion to the states in TANF, SNAP, and Medicaid for a combined total savings of $202 billion over ten years. We would further note that the industry standard is that for every application for certification filed, slightly less than 50% are granted by the states (largely because the applicant does not know for certain if they meet the eligibility period criteria). Yet, since the state certification decisions are only made after employees begin work, the number of certifications reflects only about half of the individuals hired under the program. Accordingly, public assistance spending decreases significantly more than we have estimated since we have only included certified employees in the calculations. Yet, the vast majority of those hired as potentially being WOTC eligible come off of public assistance programs.

In summary, WOTC not only fulfills its original legislative purpose and is working as originally intended but has also proven flexible enough to accommodate new categories to assist other stigmatized individuals find gainful work, and to help employers in disaster ravaged communities keep employees on their payrolls when business has been interrupted due to natural disasters. The program is as vital today as it was when it first was enacted. As such, NEON respectfully urges the Task Force to support making WOTC permanent.

INDIAN EMPLOYMENT CREDIT (IEC)

Enacted in 1993, the IEC provides a tax credit against wages and qualified health insurance costs for individual employees who are enrolled members of an Indian tribe or the spouse of a member of an Indian tribe for work performed substantially on an Indian reservation, where the principal place of abode of the employee is on or near the Indian reservation in which the services are performed. The IEC, which comes to a maximum credit of $4,000 per employee, was enacted in response to high unemployment rates in this population.

Statistics compiled by various private organization and the Bureau of Indian Affairs demonstrate that the employment rate among Native Americans remains approximately 14% lower than among the white population in the United States. The actual gap in some western states can be as high as thirty percent. See EPI Briefing Paper, Native Americans and Jobs, by Algernon Austin, 2013.

The IEC has not been changed substantively since its original enactment and remains an important tool to keep the gap in unemployment between Native Americans and other populations as low as possible. We urge the Task Force to make the IEC a permanent part of US tax and labor policy.

EMPOWERMENT ZONE TAX INCENTIVES

Also enacted in 1993, the Empowerment Zone program was designed to encourage investment and economic activity in certain designated distressed communities by providing a number of tax incentives, including a tax credit for employers that hire certain designated employees who work and live in the designated zones. In recognition of the need for those who reside in these designated communities to benefit from the economic development that is generated, this credit is 20% of the first $15,000 in wages. There is also a traditional WOTC target group for designated community residents between the ages of 18 and 40 who live in these communities but work outside of them of 40% of $6,000. Both credits may not be taken on the same wages.

NEON urges the Task Force to extend this important part of the federal government's program to reduce poverty and repair blighted communities. We suggest that the Task Force consider updating the designated community resident WOTC category to include individuals who reside and work in the new "opportunity zones" with a credit of 20% of the first $15,000. This would be similar to the higher incentive provided in the Empowerment Zones which is designed to provide an enhanced incentive for those who live in these economically blighted communities.

In so doing, the Task Force will not only be renewing a highly effective program that promotes the renewal of economically depressed communities but will also encourage employers to maximize hiring in the facilities they bring to these communities.

If the Task Force has any questions or needs additional information, please contact:

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