



IRS updates Information on tax credit helping businesses to hire certain categories of workers

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WASHINGTON – The IRS today updated information on the Work Opportunity Tax Credit (WOTC), available to employers that hire designated categories of workers who face significant barriers to employment. For employers facing a tight job market, the WOTC may be able to help.

Today's updates include information on the pre-screening and certification process. To satisfy the requirement to pre-screen a job applicant, *on or before the day a job offer is made*, a pre-screening notice (Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit) must be completed by the job applicant and the employer.

The Targeted Jobs Tax Credit (TJTC), which preceded WOTC, did not contain a pre-screening requirement. In enacting WOTC to replace the TJTC in 1996, Congress included the requirement that employers pre-screen job applicants before or on the same day the job offer is made. In doing so, Congress emphasized that the WOTC is designed to incentivize the hiring and employment of certain categories of workers.

After pre-screening a job applicant, the employer must then request certification by submitting Form 8850 to the appropriate state workforce agency no later than 28 days after the employee begins work. Other requirements and further details can be found in the instructions **PDF** to Form 8850.

WOTC has 10 designated categories of workers. The 10 categories are:

- Qualified IV-A Temporary Assistance for Needy Families (TANF) recipients
- Certain veterans, including unemployed or disabled veterans
- The formerly incarcerated or those previously convicted of a felony
- Designated community residents living in Empowerment Zones or Rural Renewal Counties
- Vocational rehabilitation referrals
- Summer youth employees living in Empowerment Zones
- Food stamp (SNAP) recipients
- Supplemental Security Income (SSI) recipients
- Long-term family assistance recipients
- Qualified long-term unemployment recipients.

Although the credit generally is not available to tax-exempt organizations, a special provision allows them to claim the WOTC against the employer's share of Social Security tax for hiring qualified veterans. These organizations claim the credit on Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans. Visit the WOTC page on IRS.gov for more information.



Work Opportunity Tax Credit

The Work Opportunity Tax Credit (WOTC) is a Federal tax credit available to employers for hiring and employing individuals from certain targeted groups who have faced significant barriers to employment.

WOTC joins other workforce programs that incentivize workplace diversity and facilitate access to good jobs for American workers.

The Consolidated Appropriations Act, 2021 (Section 113 of Division EE P.L. 116-260) authorized the extension of the WOTC until December 31, 2025.

Notice 2021-43, issued on August 10, 2021, provided transition relief by extending the 28-day deadline for employers hiring individuals who are Designated Community Residents or Qualified Summer Youth Employees who begin work on or after January 1, 2021, and before October 9, 2021, to submit a completed Form 8850 to the designated local agency (DLA) no later than November 8, 2021.

Notice 2020-78, issued on December 11, 2020, provided transition relief for employers that hired certain individuals residing in empowerment zones by extending the 28-day deadline for employers who submit a certification request for an individual who began work between January 1, 2018, and December 31, 2020.

To be eligible for the transition relief under either notice, an individual must reside within an empowerment zone.

Frequently Asked Questions

⊖ Q1. What is the Work Opportunity Tax Credit? (added September 24, 2021)

A1. The Work Opportunity Tax Credit, or WOTC, is a general business credit provided under section 51 of the Internal Revenue Code (Code) that is jointly administered by the Internal Revenue Service (IRS) and the Department of Labor (DOL). The WOTC is available for wages paid to certain individuals who begin work on or before December 31, 2025. The WOTC may be claimed by any employer that hires and pays or incurs wages to certain individuals who are certified by a designated local agency (sometimes referred to as a state workforce agency) as being a member of one of 10 targeted groups. In general, the WOTC is equal to 40% of up to \$6,000 of wages paid to, or incurred on behalf of, an individual who:

- is in their first year of employment;
- is certified as being a member of a targeted group; and
- performs at least 400 hours of services for that employer.

Thus, the maximum tax credit is generally \$2,400. A 25% rate applies to wages for individuals who perform fewer than 400 but at least 120 hours of service for the employer. Up to \$24,000 in wages may be taken into account in determining the WOTC for certain qualified veterans. An employer cannot claim the WOTC for employees who are rehired. In general, taxable employers may carry the current year's unused WOTC back one year and then forward 20 years. See the Instructions to Form 3800 (General Business Credit) for more information.

⊖ **Q2. Are both taxable and tax-exempt employers of any size eligible to claim the WOTC? (added September 24, 2021)**

A2. Employers of all sizes are eligible to claim the WOTC. This includes both taxable and certain tax-exempt employers located in the United States and in certain U.S. territories. While taxable employers claim the WOTC against income taxes, eligible tax-exempt employers can claim the WOTC only against payroll taxes and only for wages paid to members of the Qualified Veteran targeted group.

⊖ **Q3. For which employees may an employer claim the WOTC? (added September 24, 2021)**

A3. An employer may claim the WOTC for an individual who is certified as a member of any of the following targeted groups under section 51 of the Code:

- the formerly incarcerated or those previously convicted of a felony;
- recipients of state assistance under part A of title IV of the Social Security Act (SSA);
- veterans;
- residents in areas designated as empowerment zones or rural renewal counties;
- individuals referred to an employer following completion of a rehabilitation plan or program;
- individuals whose families are recipients of supplemental nutrition assistance under the Food and Nutrition Act of 2008;
- recipients of supplemental security income benefits under title XVI of the SSA;
- individuals whose families are recipients of state assistance under part A of title IV of the SSA; and
- individuals experiencing long-term unemployment.

⊖ **Q4. What does an employer need to do to claim the WOTC? (added September 24, 2021)**

A4. On or before the day that an offer of employment is made, the employer and the job applicant must complete Form 8850 (Pre-Screening Notice and Certification Request for the Work Opportunity Credit). The employer has 28 calendar days from the new employee's start date to submit Form 8850 to the designated local agency located in the state in which the business is located (where the employee works). Additional forms may be required by the DOL to obtain certification. See the Instructions to Form 8850 and the DOL Employment and Training Administration's website on WOTC [↗](#) for more information. Following receipt of a certification from the designated local agency that the employee is a member of one of the 10 targeted groups, taxable employers file Form 5884 (Work Opportunity Credit)

and tax-exempt employers file Form 5884-C (Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans) to claim the WOTC. See the Instructions to Form 5884 and Form 5884-C for more information. Additionally, see the LB&I and SB/SE Joint Directive on the Work Opportunity Tax Credit that the IRS issued to help certain employers affected by extended delays in the WOTC certification process.

⊖ **Q5. If an employer is eligible for other wage-based credits, can it also claim the WOTC? (added September 24, 2021)**

A5. Generally, the wages that are used to calculate the WOTC cannot be used to calculate other wage-based credits, however an employer may be able to claim more than one wage-based credit for the same employee. Provided the same wages are not used to calculate each credit, an employer may be able to claim the WOTC and another credit such as the American Rescue Plan's Employee Retention Credit (ERC), the Empowerment Zone Employment Credit, the Employer Credit for Paid Family and Medical Leave, and the ERC for employers affected by qualified disasters, among others. For example, a small business can combine the WOTC with the American Rescue Plan's ERC and claim both credits on wages paid to the same employee, provided that any wages used to calculate the WOTC are not also used to calculate the ERC.

Targeted Groups

Employers can hire employees from the following targeted groups for WOTC.

⊖ **Qualified IV-A Recipient**

A "qualified IV-A recipient" is an individual who is a member of a family receiving assistance under a state program funded under part A of title IV of the Social Security Act relating to Temporary Assistance for Needy Families (TANF). The assistance must be received for any 9 months during the 18-month period ending on the hiring date.

⊖ **Qualified Veteran**

A "qualified veteran" is a veteran who is any of the following:

- A member of a family receiving assistance under the Supplemental Nutrition Assistance Program (SNAP) (food stamps) for at least a 3-month period during the 15-month period ending on the hiring date
- Unemployed for periods of time totaling at least 4 weeks (whether or not consecutive) but less than 6 months in the 1-year period ending on the hiring date
- Unemployed for periods of time totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date
- Entitled to compensation for a service-connected disability and hired not more than 1 year after being discharged or released from active duty in the U.S. Armed Forces or

- Entitled to compensation for a service-connected disability and unemployed for periods of time totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date

See IRS Notice 2012-13 for more detailed information.

⊖ **Qualified Ex-Felon**

A “qualified ex-felon” is a person hired within a year of:

- Being convicted of a felony or
- Being released from prison for the felony

⊖ **Designated Community Resident (DCR)**

A DCR is an individual who, on the hiring date:

- Is at least 18 years old and under 40 and
- Has a principal residence within one of the following:
 - An Empowerment Zone (EZ) or
 - A Rural Renewal County (RRC)

When determining the credit, wages do not include wages paid or incurred for services performed while the individual's principal place of residence is outside an EZ or RRC. See the instructions to Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, for the current list of EZ and RRC designations.

⊖ **Vocational Rehabilitation Referral**

A “vocational rehabilitation referral” is a person who has a physical or mental disability and has been referred to the employer while receiving or upon completion of rehabilitative services pursuant to:

- A state plan approved under the Rehabilitation Act of 1973
- An Employment Network Plan under the Ticket to Work program or
- A program carried out under the Department of Veteran Affairs

⊖ **Qualified Summer Youth Employee**

A “qualified summer youth employee” is one who:

- Is at least 16 years old, but under 18 on the hiring date or on May 1, whichever is later
- Only performs services for the employer between May 1 and September 15 (was not employed prior to May 1) and
- Resides in an Empowerment Zone (EZ)

⊖ **Qualified Supplemental Nutrition Assistance Program (SNAP) Benefits Recipient**

A “qualified SNAP benefits recipient” is an individual who on the hiring date is:

- At least 18 years old and under 40 and
- A member of a family that received SNAP benefits for:
 - the previous 6 months or
 - at least 3 of the previous 5 months

⊖ **Qualified Supplemental Security Income (SSI) Recipient**

A “qualified SSI recipient” is an individual who received SSI benefits for any month ending within the 60-day period that ends on the hire date.

⊖ **Long-Term Family Assistance Recipient**

A “long-term family assistance recipient” is an individual who, at the time of hiring, is a member of a family that meet one of the following conditions:

- Received assistance under an IV-A program for a minimum of the prior 18 consecutive months
- Received assistance under an IV-A program for a minimum 18-month period beginning after 8/5/1997 and it has not been more than 2 years since the end of the earliest of such 18-month period or
- Ceased to be eligible for assistance under an IV-A program because a federal or state law limited the maximum time those payments could be made, and it has been not more than 2 years since the cessation of such assistance

⊖ **Qualified Long-Term Unemployment Recipient**

A “qualified long-term unemployment recipient” is an individual who has been unemployed for not less than 27 consecutive weeks at the time of hiring and who received unemployment compensation during some or all of the unemployment period.

Pre-screening and Certification

An employer must pre-screen and obtain certification from the appropriate Designated Local Agency (referred to as a State Workforce Agency or SWA) that an employee is a member of a targeted group to claim the credit. To satisfy the requirement to pre-screen a job applicant, **on or before the day that a job offer is made**, a pre-screening notice (Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit) must be completed by the job applicant and the employer. The Targeted Jobs Tax Credit (TJTC), which preceded WOTC, did not contain a pre-screening requirement. In enacting WOTC to replace the TJTC in 1996, Congress

included the requirement that employers pre-screen job applicants before or on the same day the job offer is made. In doing so, Congress emphasized that the WOTC is a subsidy designed to incentivize the hiring and employment of individuals who are members of targeted groups.

On page two of Form 8850, there are four dates that must be provided before Form 8850 can be submitted to a SWA. They are the dates that the job applicant **Gave information, Was offered job, Was hired, and Started the job**.

To confirm that the employer pre-screens the job applicant, and obtains information provided by the job applicant on the basis of which the employer believes that the job applicant is a member of a targeted group, the date the applicant **Gave information** about being a targeted group member must be a date that is the same as, or before the date the applicant **Was offered job**. The dates that the job applicant **Was hired** and **Started the job** must be on or after the dates the applicant **Gave information** and **Was offered job**. Form 8850 including the dates entered on page two of Form 8850, must be signed under penalties of perjury and must be submitted to the SWA (or postmarked, if mailed) no later than 28 days after the date that the job applicant **Started the job**.

Some individuals have a Conditional Certification (DOL-ETA Form 9062) issued by partnering agencies or SWAs. Employers can contact their SWAs for more information on Conditional Certifications. If an employer does not receive a certification on or before the day that the individual begins work, the employer must request certification by submitting Form 8850, to the SWA of the state in which their business is located (where the employee works) within 28 days of the individual beginning work.

Employers should contact their SWA with any specific processing questions for Form 8850.

Limitations on the Credit

The credit is limited to the amount of the business income tax liability or Social Security tax owed.

A taxable business may apply the credit against its business income tax liability. In general, taxable employers may carry the current year's unused WOTC back one year and then forward up to 20 years. See the instructions for Form 3800, General Business Credit, for more details.

For qualified tax-exempt organizations, the credit is limited to the amount of employer Social Security tax owed on the total taxable social security wages and tips reported by the organization for the employment tax period for which the credit is claimed. See "Tax-exempt Employers," below.

For more information on the wages that can be used to determine the credit, see the instructions for Form 5884, Work Opportunity Credit [PDF](#), and Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans.

Claiming the Credit

Taxable Employers

After the required certification is received, taxable employers claim the credit as a general business credit on Form 3800 against their income tax by filing the following:

- Form 5884 (with instructions)
- Form 3800 (with instructions)
- The employer's business's related income tax return and instructions (for example, Forms 1040 or 1040-SR, 1041, 1120, etc.)

Tax-exempt Employers

Qualified tax-exempt organizations described in IRC Section 501(c), and exempt from taxation under IRC Section 501(a), may claim the credit for qualified veterans who begin work for the organization before 2026.

After the required certification is received, tax-exempt employers claim the credit against the employer's share of Social Security tax by separately filing Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans. Each Form 5884-C determines the cumulative credit the organization is entitled to for all periods. The amount of the cumulative credit is reduced by the previously claimed credits and increased by any previously repaid amounts to determine the credit claimed for the employment tax period for which the Form 5884-C is filed. If the credit refunded for a prior period was limited by the employer's social security tax liability for that period, any credit not refunded will be carried forward and included in the cumulative credit determined on any subsequent Form 5884-C.

The employer files Form 5884-C after filing the related employment tax return for the period for which the credit is claimed. The IRS recommends that qualified tax-exempt employers do not reduce their required deposits in anticipation of any credit. The credit will not affect the employer's Social Security tax liability reported on the organization's employment tax return.

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