

## EMPLOYMENT SERVICE NATIONAL ACTIVITIES - WOTC

<b>BUDGET AUTHORITY BEFORE THE COMMITTEE</b>						
(Dollars in Thousands)						
	FY 2008 Enacted	FY 2009 Enacted	Diff. FY09 Enacted / FY08 Enacted	Recovery Act	FY 2010 Request	Diff. FY10 Req / FY09 Enacted
<b>Activity Appropriation</b>	<b>17,368</b>	<b>18,520</b>	<b>1,152</b>	<b>0</b>	<b>18,520</b>	<b>0</b>

### Introduction

The Work Opportunity Tax Credit (WOTC), created in 1996 by the Small Business Job Protection Act, and the Welfare-to-Work Tax Credit (WtWTC), created in 1997, are Federal tax credit incentives that the Congress provides to private-sector businesses for hiring individuals from eleven target groups who have consistently faced significant barriers to employment. The main objective of this program is two-fold: The WOTC program enables the targeted employees to gradually move from economic dependency into self-sufficiency as they earn a steady income and become contributing taxpayers, while the participating employers are compensated by being able to reduce their federal income tax liability.

The amount of the credit depends on the specific target group, the worker's wages, and the retention period. For most target groups, a partial credit of 25% is available for workers who work at least 120 hours but less than 400 hours, and a 40% credit is available for workers who work at least 400 hours. A 50% credit is available for the second year of employment for long-term family assistance recipients. The eligible wages vary by target group. Employers can have their tax liability reduced by as much as \$9,000 per qualified long-term Temporary Assistance to Needy Families (TANF) recipient (over a combined two-year period), \$4,800 for each veteran hire, and \$2,400 per qualified adult hire.

On December 20, 2006, the Tax Relief and Healthcare Act of 2006 retroactively reauthorized the WOTC Program through December 31, 2007, and eliminated the WtWTC by merging it into the WOTC program. On May 25, 2007, the U.S. Troop Readiness, Veterans Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 expanded the program by introducing new provisions and changes that make it easier for businesses to participate. The American Recovery and Reinvestment Act of 2009 (Recovery Act), signed into law on February 17, 2009, established two new target groups for WOTC, unemployed veterans and disconnected youth.

WOTC only applies to new employees hired by a participating employer after December 31, 2006 and before September 1, 2012, who, if eligible, may be certified under any of the eleven targeted groups. The eleven target groups are: TANF recipient, veteran, 18-39 year old food stamp recipient, 18-39 year old designated community resident, 16-17 year old summer youth, vocational rehabilitation referral, ex-felon, Social Security Insurance recipient, Ticket-to-Work participant, unemployed veteran, and disconnected youth.

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## Funding Mechanism

ETA distributes WOTC program funds to the State Workforce Agencies (SWA) using a three-part funding formula based on: 1) civilian labor force, 2) WOTC workload, and 3) a percentage of the welfare population.

## Five-Year Program Category History

<b>Fiscal Year</b>	<b>Funding</b> (Dollars in Thousands)	<b>FTE</b>
2005	17,856	0
2006	17,677	0
2007	17,677	0
2008	17,368	0
2009	18,520	0

NOTE: Excludes Recovery Act Funding. See budget activity head table.

## FY 2010

ETA requests \$18,520,000 for FY 2010 to support the continued administration of the WOTC program. State administration of the WOTC program faces some near term challenges including backlogs of certification requests in a number of states. This backlog is due, in part, to the technical nature of the certification requests. In response to frequent legislative changes and increased workload, ETA has been providing comprehensive technical assistance to states through its national and regional office WOTC coordinators. Additionally, ETA is working with internal and external partners to increase the use of WOTC as a method to promote employment of targeted populations, particularly veterans and disabled veterans, ex-offenders, and youth.

## FY 2009

The WOTC administration funds are used to support state staff to certify WOTC applications. ETA will continue to support WOTC administration through provision of technical assistance. In FY 2008, the SWAs issued over 692,421 certifications. With the two new target groups introduced by the Recovery Act (Unemployed Veterans and Disconnected Youth), and the recent target group expansions in 2006 and 2007 to the Veteran, Food Stamp, Ex-felon, and Designated Community Resident target groups; ETA is expecting a significant increase in the number of certification requests received by the SWAs.

## Recovery Act

The WOTC program did not receive funding under the Recovery Act. However, work generating activities were created with the establishment of two new target groups, unemployed veteran and disconnected youth authorized in the Recovery Act. SWA staff will be certifying workers in these two new categories, and ETA will provide training to the SWA staff on the new forms to be approved by the Office of Management and Budget that incorporate the new target groups.

## **EMPLOYMENT SERVICE NATIONAL ACTIVITIES - WOTC**

### **FY 2008**

FY 2008 funds supported the continued administration of the WOTC program. ETA, on an ongoing basis and in response to legislative changes, provides comprehensive technical assistance to states through its national and regional office WOTC coordinators.

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<b>WORKLOAD SUMMARY</b> <b>(Dollars in Thousands)</b>			
	<b>FY 2008 Actual*</b>	<b>FY 2009 Target</b>	<b>FY 2010 Target</b>
<b>Work Opportunity Tax Credit</b>			
Certifications/Participants	692,421	698,520	698.52
<b>Budget Activity Total</b>	<b>\$17,368</b>	<b>\$18,520</b>	<b>\$18,520</b>

\* Note: Across state grantees, the median cost per WOTC certification issued is approximately \$25. If denials are included the cost per denial is roughly \$9.