

Staffing Firms Gain Thousands of Dollars Through Work Opportunity Tax Credit (WOTC)

WOTC tax credits reward employers and staffing firms through tax credits for hiring individuals from certain target groups, primarily disadvantaged workers. **The consolidated WOTC for hiring most target group members ranges from \$2,400 to \$9,000.**

Given the diversity and reach of staffing firms' hiring practices, it is more than likely that they are already hiring individuals from the following twelve target groups:

Unemployed and qualified veterans, disconnected youth, long-term and other TANF (Temporary Assistance for Needy Families) recipients, qualified food stamp recipients, designated community residents, summer youth employees, vocational rehabilitation referrals, qualified ex-felons, SSI (Supplemental Security Income) recipients, and Hurricane Katrina employees.

Target group candidates are eager to work

Many of these target group members include qualified individuals who have the goal of getting a job. In Pennsylvania, for example, there are over 530,000 working age individuals with disabilities and over 60,000 youth receiving Social Security Administration benefits. According to a National Beneficiary Survey conducted by Mathematica Policy Research, 44% of beneficiaries reported a goal of getting a job or a better paying job within the next five years.¹ The study debunks the common myth that people with disabilities cannot, or do not wish to, work.

How staffing agencies benefit from WOTC-eligible candidates

The US personnel staffing industry includes over 23,000 companies with a combined annual revenue of about \$120 billion. 90% of US companies use staffing agencies and many Fortune 500 companies work with staffing agencies as the sole or main point of entry for new, permanent employees.² As the statistics indicate, staffing agencies not only recruit a large pool of qualified candidates, they reach over 90% of US companies and **place hundreds of thousands of candidates every year.**

Each eligible employee under WOTC can generate up to \$9,000 in incentives. **With the staffing industry's 2003 turnover rate of 373%, these tax credits can [dramatically] affect the bottom line of staffing firms each year.**³

Overall benefits from WOTC-eligible candidates include increased revenues, significantly lower recruitment costs, larger and more diverse labor pool, reduced turnover, enhanced client satisfaction, and improved compliance with regulatory and diversity requirements.

Staffing companies use WOTC to maximize profitability

Staffing companies leverage WOTC to maximize profits and achieve client satisfaction in unique ways. Some staffing firms, for example, provide free placement services to employers, provided they select from a qualified pool of talented veterans. These agencies offset recruitment costs by taking advantage of WOTC tax credits available for hiring these veterans. Employers benefit from not having to pay recruitment costs, veterans gain meaningful employment, and the staffing firms claim tax credits to generate thousands of dollars.

Recruitment firms with a contingency staffing model utilize WOTC as a platform to provide additional value-added services to their clients, including finding, screening, and referring qualified WOTC-eligible candidates.

Unfortunately, many employers fail to take advantage of WOTC, either due to a lack of awareness or the inability or lack of administrative resources to process paperwork. Some staffing firms perform such administrative work on behalf of these employers and as compensation ask that WOTC credits be transferred to them.

For staffing firms adhering to the outsourcing or temporary help business model, the potential is virtually unlimited. The US Census estimates that between 1990 and 2000, the number of Americans with disabilities increased 25%, outpacing any other subgroup of the US population. About one in five people has a disability and of the nearly 70 million families in the US, more than 20 million families have at least one member with a disability. Given the availability of such a large pool of individuals, a large percentage of employees will qualify for this special tax credit.⁵

Temporary help services (THS) firms are increasing their hiring of disadvantaged individuals and claiming more subsidies for doing so. WOTC/WtW applications (and certifications) from THS firms have increased steadily over time, expanding from fewer than 16% of applications in 1999 to 26% in 2002. A survey conducted in Wisconsin found that more than 70% firms were aware of tax credits, and of these, 60% reported that they currently claim the tax credits.⁶

Employer-friendly, bottom-line enhancing program rewards hiring practices

- ✓ Save Money
- ✓ Lower Labor Costs and Taxes
- ✓ Improve Cash Flows
- ✓ Optimize Business Valuations
- ✓ Minimal Paperwork
- ✓ Easy Application
- ✓ No Limit to Number of Hires
- ✓ Control Hiring Decision
- ✓ Benefit the Economy
- ✓ Easy-to-access Credits

WOTC is a mutually-beneficial private-public sector partnership that benefits staffing firms from compensation and reduces the total federal income tax liability. Unlike other programs, WOTC requires minimal paperwork, is easy to administer, and has no cap on the number of new hires who can qualify the employer for these tax savings. Since employers retain control of the hiring decision, it benefits businesses through qualified employees who generate credits and ultimately lower the employer's cost of doing business. Furthermore, the program allows businesses to

claim tax deductions for the entire spectrum of qualified fulltime, part time, and temporary employees.

The higher the number of eligible employees under WOTC, the direct savings could exceed tens of thousands of dollars in addition to indirect benefits from community gains and subsequent business growth.

How small businesses can participate in the WOTC program

In order to become certified and ascertain whether the new hire qualified the employer for tax credit, the employer needs to follow a few simple steps:

- Complete page one of IRS Form 8850 on or before the day of job offer, page two after individual is hired.
- Fill one-page ETA Form 9061 or Form 9062 as required.

Submit the completed and signed IRS and ETA forms to the employer's state workforce agency within 28 days after the employment start date.

References:

1. <http://www.disabled-world.com/disability/employment/usa/disability-employment-pennsylvania.php>
2. <http://www.apse.org/business/lead.cfm>
3. <http://www.americanstaffing.net/memberDocuments/swarchive/sw10112004.htm>
4. <http://veterans2.server260.com/?q=node/226>
5. http://www.vtchamber.com/upload/photos/613Economic_Recovery_VR.pdf
6. Sarah Hamersma, University of Florida; Carolyn Heinrich, University of Wisconsin-Madison, Temporary Help Service Firms' Use of Employer Tax Credits: Implications for Disadvantaged Workers' Labor Market Outcomes, Upjohn Institute Staff Working Paper No. 07-135, February 12, 2007.