



# Work Opportunity Tax Credit

The Work Opportunity Tax Credit (WOTC) is a Federal tax credit available to employers for hiring individuals from certain [targeted groups](#) who have consistently 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 Appropriation Act, 2021 (Section 113 of Division EE P.L. 116-260) authorized the extension of the Work Opportunity Tax Credit (WOTC) until December 31, 2025.

[Notice 2021-43](#) [PDF](#), issued on August 10, 2021, provides 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](#) [PDF](#), issued on December 11, 2020, provides 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.

The certification of an individual as a Designated Community Resident under § 51(d)(5), or as a Qualified Summer Youth Employee under § 51(d)(7), requires that the individual reside within an empowerment zone.

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## Frequently Asked Questions

### **Q-1. What is the Work Opportunity Tax Credit? (added September 24, 2021)**

A-1. 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.

### **Q-2. Are both taxable and tax-exempt employers of any size eligible to claim the WOTC? (added September 24, 2021)**

A-2. 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.

### **Q-3. For which employees may an employer claim the WOTC? (added September 24, 2021)**

A-3. 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.

#### **⊖ Q-4. What does an employer need to do to claim the WOTC? (added September 24, 2021)**

A-4. 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.

#### **⊖ Q-5. If an employer is eligible for other wage-based credits, can it also claim the WOTC? (added September 24, 2021)**

A-5. 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 eligible employees from the following target groups for WOTC.

### ⊖ Qualified IV-A Recipient

An individual who is a member of a family receiving assistance under a state plan approved 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-month period 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 3 months during the first 15 months of employment.
- Unemployed for a period 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 a period totaling at least 6 months (whether or not consecutive) in the 1-year period ending on the hiring date.
- A disabled veteran entitled to compensation for a service-connected disability hired not more than one year after being discharged or released from active duty in the U.S. Armed Forces.
- A disabled veteran entitled to compensation for a service-connected disability who is unemployed for a period totaling at least six months (whether or not consecutive) in the one-year period ending on the hiring date.

See IRS [Notice 2012-13](#)  for more detailed information.

### ⊖ Ex-Felon

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

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

## ⊖ Designated Community Resident (DCR)

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

- Is at least 18 years old and under 40,
- Resides within one of the following:
  - An Empowerment zone
  - An Enterprise community
  - A Renewal community
- AND continues to reside at the locations after employment.

## ⊖ 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 OR
- An Employment Network Plan under the Ticket to Work program, OR
- A program carried out under the Department of Veteran Affairs.

## ⊖ Summer Youth Employee

A “qualified summer youth employee” is one who:

- Is at least 16 years old, but under 18 on the date of hire or on May 1, whichever is later, AND
- Is only employed between May 1 and September 15 (was not employed prior to May 1) AND
- Resides in an Empowerment Zone (EZ), enterprise community or renewal community.

## ⊖ Supplemental Nutrition Assistance Program (SNAP) Recipient

A “qualified SNAP benefits recipient” is an individual who on the date of hire 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.

### ⊖ Supplemental Security Income (SSI) Recipient

An individual is a “qualified SSI recipient” if a month for which this person received SSI benefits is within 60 days of the date this person is hired.

### ⊖ Long-Term Family Assistance Recipient

A “long term family 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; OR
- Received assistance for 18 months 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 such assistance 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.

### ⊖ Qualified Long-Term Unemployment Recipient

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

## Pre-screening and Certification

An employer must obtain certification that an individual is a member of the targeted group, before the employer may claim the credit. An eligible employer must file [Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit](#), with their respective state workforce agency within 28 days after the eligible worker begins work.

Employers should contact their individual state workforce agency with any specific processing questions for Forms 8850.

## Limitations on the Credits

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, and the normal carry-back and carry-forward rules apply. 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 wages paid to all employees for the period the credit is claimed.

## Claiming the Credit

Qualified tax-exempt organizations will claim the credit on Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans, as a credit against the employer's share of Social Security tax. The credit will not affect the employer's Social Security tax liability reported on the organization's employment tax return.

## Taxable Employers

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

- [Form 5884 \(with instructions\)](#)
- [Form 3800 \(with instructions\)](#)
- Your business's related income tax return and instructions (i.e., 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 began work for the organization after 2020 and before 2026. After the required certification (Form 8850) is secured, tax-exempt employers claim the credit against the employer Social Security tax by separately filing [Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans](#).

File Form 5884-C after filing the related employment tax return for the period that 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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