

WORK OPPORTUNITY TAX CREDIT COALITION
5920 Munson Court
Falls Church, VA 22041
703-587-4566 (o)
703-341-6166 (fax)
www.wotccoalition.com

**SUBMISSION TO SENATE FINANCE COMMITTEE AND
HOUSE WAYS AND MEANS COMMITTEE**

WORK OPPORTUNITY TAX CREDIT AND THE POVERTY SAFETY NET

The Record

WOTC is a core component of the nation's anti-poverty safety net. In FY 2013, when 1.6 million workers certified for WOTC were an all-time high, 1.4 million or 90% met the poverty or near-poverty tests for SNAP, TANF, or SSI—1.24 million SNAP, 176,000 TANF, 16,500 SSI, and 43,500 ex-felons.(1) WOTC is also a key hiring incentive for veterans and people with disabilities, a large number of whom are poor and homeless, and assists recovery of high-poverty areas.

Tax reform should carefully evaluate each component of tax policy as it relates to the poverty safety net. The child tax credit, earned income tax credit, and work opportunity tax credit are the key triad of tax policy to support and improve opportunity and mobility for people in poverty. These anti-poverty measures are supported by conservatives and liberals alike because they operate through the marketplace to provide work and reward work.

WOTC complements direct expenditure programs for training of low-income or unemployed workers via the Workforce Investment Act, TANF, Social Security Act (for people with disabilities) and Veterans Readjustment Act (for veterans) because at the end of training there is still a road ahead to find employment, and the impediments borne by the poor and homeless (those in most severe poverty), the disabled, veterans, and ex-felons are severe and reflected in their above-average unemployment rates and low workforce participation rates. The hiring incentive for employers provided by WOTC helps offset these barriers, resulting in up to 1.6 million of these workers, specifically identified and certified by their State Workforce Agency, being hired. Employers remain free to make whatever hiring decisions they wish, and the Federal government achieves monetary savings (discussed below) of more than \$3.4 billion a year from individuals transitioning from welfare and other public assistance into jobs.

WOTC supports the standard set most recently by Ways and Means Chairman Paul Ryan, "to require all able-bodied recipients to work or engage in work-related activities in return for aid."(2) This continues conservative policy set by President Reagan's passing of the targeted jobs tax credit and earned income tax credit in 1981, and Congressman Jack Kemp's making the jobs credit integral to empowerment zones for poor and depressed areas.

The work opportunity tax credit and earned income tax credit were designed to work together as core safeguards against poverty becoming entrenched, barring access to the middle class. WOTC lends an “extra boost” to the chance of being hired, and EITC supplements the income of the poor with dependents. Chairman Ryan agrees EITC should be continued as core safety net, and even expanded; it would be a mistake to do so without continuing WOTC’s extra lift for the poor into jobs, which is the only real basis for exiting poverty.

Why has WOTC grown from a half million jobs in 1997 to 1.6 million today? The answer lies in the nation’s population growth and economic conditions—the bottom quintile of the workforce has grown in size. Today, there are more people in poverty and total recipients of SNAP, TANF, and SSI has grown, enlarging the population of WOTC-eligible workers.

In any overhaul of anti-poverty policy accompanying tax reform, WOTC should be made permanent. WOTC could help more of the poor if eligibility were granted to the elderly on food stamps, youth who are out of school and out of work, SSDI and Medicaid recipients. (In WOTC, workers in poverty are identified by receipt of benefits, which makes it easy to verify their eligibility for the tax credit—a poverty income test is too difficult to administer.)

WOTC would be more effective providing jobs in growing occupations with good wages if private non-profit employers and firms with excess credits could claim WOTC against FICA tax, with Treasury reimbursing the Trust Funds.

WOTC Works Through The Marketplace and Has Strong Program Integrity

WOTC doesn’t create new jobs—it gives the poor or near poor an extra boost when a private employer is looking to fill an existing job. Our country’s larger employers know in advance whether a job applicant is WOTC-eligible because nowadays they require IRS Form 8850 from their job applicants. This one-page form couldn’t be simpler—all the applicants do is report their age and check a box if they’re SNAP, TANF, or SSI eligible, or are a veteran, formerly incarcerated, live in an empowerment zone or rural renewal county, or in the case of disability, are referred by a State Vocational Rehabilitation Agency or Employment Network.

If hired, the employer sends Form 8850 to their State Workforce Agency with a short DOL form with data on industry, occupation, and wage, requesting the SWA to certify the worker’s eligibility for WOTC. *From application to hire, the entire hiring process occurs in the private market without interfering with employers’ freedom to recruit and hire whomever they please.*

Because a worker’s eligibility is verified by SWA before certifying the worker for WOTC, and claims for WOTC on an employer’s tax return are backed by SWA certification and subject to IRS review upon audit, WOTC has strong program integrity that has been confirmed repeatedly by GAO. SWA’s issued 1,590,000 certifications and 1,660,000 denials to employers in FY 2013, showing this watch-dog’s effectiveness.(3)

WOTC Is Highly Cost-Effective

The data prove WOTC's effectiveness helping the poor obtain jobs—the 1.4 million poor or near-poor workers placed in jobs in FY 2013 are each verified by State Workforce Agencies to be eligible for the credit, down to their SSA wage record—WOTC works and new hires step into productive, tax-paying, private sector jobs.

Not only the unemployed, but also the working poor are aided. The working poor as a group experience low job tenure and sporadic work (4)—when unemployed, they fall back on welfare or food stamps, so WOTC is there for their next job—provided it's with a different employer.

But wouldn't these workers be hired anyway—without the tax credit? The employer will certainly fill the job vacancy but there's no assurance a poor worker will be hired. That would require a higher ratio of poor to non-poor in the pool of job applicants, but the poor are a minority of the workforce and in most labor markets more non-poor workers are applying for jobs. Employers have a choice, and the poor come with the impediments of poverty.

Picture a world without WOTC's market-based, private-sector incentive to hire a poor person looking for a job—left to chance, the poor will be hired less often, earn less income, spend more time in poverty, and have less upward mobility without the “extra boost” of WOTC.

WOTC is capped for most workers at a maximum credit of \$2,400. Since employers must reduce their wage deduction by the amount of the credit, the real cost of a single hire to the Treasury is \$1,560 for an employer paying a 35% tax rate. In effect, WOTC covers part of the “hiring wedge” of payroll taxes and mandated benefits that are added to wages—and are a proven deterrent to hiring—but the employer still pays the bulk of compensation costs. For a minimum wage hire at \$7.50 an hour for 2,000 hours a year, the employer's wage payments alone are ten times the government's cost.

WOTC's efficiency can be seen in the welfare program (TANF), where Congress increased the tax benefit for hiring long-term welfare recipients—the most costly cases and the most difficult to place in jobs. The result was 103,000 long-term welfare recipients finding work during FY 2013, compared to 73,000 short-term recipients. WOTC adapted to the special needs of long-term welfare cases by employers boosting their hiring in response to the added benefit. With WOTC, it's not necessary for states to ask that welfare's work requirement be waived.

TANF provides employment and training grants to the states which are sometimes used to fund public sector or non-profit jobs for welfare recipients at the rate of around \$12,000 per year per worker. In six months, a minimum wage WOTC worker will earn \$7,500 in a private sector job at a cost to the Treasury of \$1,560, while a public sector or non-profit job costs almost four times that. The less-costly WOTC route helps states economize their limited TANF funds, and results in a productive, tax-paying, private sector job.

Overall, WOTC's ten-year cost for permanent extension is given by the Joint Committee on Taxation as \$17.485 billion for Fiscal Years 2016-2025 (5). Another \$180 million of federal funds must be added for SWA administration, making the total \$17.665 billion. The FY 13 rate of 1.6 million WOTC hires per year yields 16 million hires over the next ten years. This implies an

average cost per hire of \$1,100, which is below the \$1,560 cost for the \$2,400 credit due to the lower job tenure of poor workers, many of whom work intermittently or to find higher wages.

For small and medium-size employers who use WOTC, the entire tax saving is plowed back into their home state, and this saving in liquidity and after-tax earnings can be estimated by multiplying \$1,100 times the number of state WOTC job certifications for the year. *We see every state's economy benefiting while a poor worker finds employment—a win-win situation!*

In an important study, Professor Peter Cappelli of the Wharton School has estimated TANF saving of \$19,282 per WOTC job, and potentially higher savings for veterans and people with disabilities. Multiplying \$19,282 by 175,683 TANF recipients in FY 2013 equals gross one-year saving of \$3.4 billion on TANF alone, and similar saving would recur each year.⁽⁶⁾ Over ten years, this is double the 10-year cost of WOTC given by the Joint Committee on Taxation.

Our conclusion is that WOTC is the most efficient, adaptable, and cost-effective of all Federal job programs. For questions or comments, please respond to wotc@cox.net.

Lists of organization and business members of WOTC Coalition are at www.wotccoalition.com.

FOOTNOTES:

1. U.S. Department of Labor, Employment and Training Administration, *WOTC Certifications by Recipient Group Regional and National Details For FY 2013*
2. Congressman Paul Ryan, House Budget Committee Discussion Draft, *Expanding Opportunity In America*, July 24, 2014
3. U.S. Department of Labor, Employment and Training Administration, *op. cit.*
4. U.S. Department of Labor, Bureau of Labor Statistics, *Profile of the Working Poor*, 2015
5. U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2016 Budget*, JCX-50-15, Mar 6, 2015
6. Cappelli, Peter, *A Detailed Assessment of the Value of WOTC*, Wharton School, 04/2013

Date of submission: April 13, 2015

