



The Work Opportunity Tax Credit

THE WORK OPPORTUNITY TAX CREDIT

Driving diversity and elevating the bottom line

INTRODUCTION

The Work Opportunity Tax Credit (WOTC) is a federal tax credit, (not a deduction), but a dollar-for-dollar reduction in federal tax liability for hiring individuals from federally designated groups that have faced barriers to employment (including veterans, SNAP recipients, residents of designated community zones, long-term unemployed individuals, and certain TANF recipients). While WOTC is currently in a Congressional hiatus, employers who maintain their screening and documentation practices are positioned to capture retroactive credits if and when the program is reauthorized.

HOW IT WORKS: THE FOUR STEPS

WOTC is often treated as a finance initiative, but operationally it may be more appropriately viewed as an HR function. The decisions that determine whether credits are realized such as documentation, submission deadlines, and retention tracking, all sit squarely inside HR's workflows.

For most eligible hires, the credit can be worth up to \$2,400.¹

For certain veterans, up to \$9,600.

For long-term TANF recipients, up to \$9,000 over two years.

HOW IT WORKS: THE FOUR STEPS

1. Pre-screening on or before the offer date: The applicant must complete IRS Form 8850 on or before the date the offer is extended. If screening happens even one day after the offer date, eligibility for that hire is permanently lost, no exceptions.
2. Submit within 28 days: Once the employee starts, the employer has 28 calendar days to submit Form 8850 and ETA Form 9061 or 9062. Again, no exceptions.
3. Receive certification: The agency reviews the application and issues official certification.
4. Claiming the credit at tax filing: The credit is claimed using IRS Form 5884, as part of the general business credit.



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Three factors determine value:

1. Target group category (sets wage cap – typically \$6,000 for most groups).
2. Hours worked.²
 - A. Fewer than 120 hours: no credit.
 - B. 120–399 hours: 25% of qualified wages.
 - C. 400+ hours: 40% of qualified wages.
3. Wages paid in the first 12 months.

WHERE CREDITS MAY BE LOST

Notably, the IRS is not lenient on these timelines. Any small slip, such as screening that occurs a day or two after the offer date instead of before it, or paperwork submitted on day 30 instead of within the 28-day deadline, renders the WOTC ineligible. Tracking hours across an entire year is difficult, and can absolutely slip without anyone noticing.

Any one of these issues seems minor on its own, but across an entire year of hiring can add up to a substantial amount of value that was earned, and then lost.

Protecting that value requires building structure directly into the hiring and onboarding process rather than relying on individuals to remember each step. Screening needs to be embedded as a standard part of the hiring workflow, not treated as an optional add-on.

Documentation should be standardized, complete, and stored in a centralized system. The 28-day submission deadline cannot depend on someone remembering to act; automated tracking is the only reliable solution at scale. Payroll and HR also need to stay aligned so first-year hours and wages are tracked accurately, and certification records should be maintained for every hire tied to a credit claim. When these steps are built into the process, the credit becomes predictable and recoverable instead of something that slips away through small, preventable errors.

FROM COMPLIANCE BURDEN TO STRATEGIC TOOL

Instead of trying to determine whether a new hire qualifies for WOTC after they've already started, it's easier to screen applicants during the application stage. This allows your organization to see the potential credit value before a hiring decision is finalized. That said, you should absolutely not make hiring decisions based on a candidate's tax credit eligibility, but instead view it as allowing WOTC to become part of the broader workforce planning conversation.

Building automation into the process is key. WOTC screening and the required forms should be embedded directly into the onboarding workflow that new hires are already completing, resulting in full documentation gathered on time, without adding manual steps for either HR or the new hires.

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Continue on with automated submission to the State Workforce Agency and active tracking of each application through certification, and centralized reporting that shows both projected and realized credit value by employee.

WOTC can be a clear result of HR generating measurable ROI for the organization.

CURRENT STATUS: THE PROGRAM IS IN HIATUS

Why read this far if the program is currently in congressional hiatus? Because this situation is not unprecedented; WOTC has expired and later been reauthorized multiple times over its nearly thirty-year history, and reauthorization has historically been retroactive, allowing credits earned during a lapse period to be restored once the program was renewed.

The operational takeaway is simple: keep the process moving. Organizations that pause screening and documentation during the hiatus run the risk of losing retroactive credits if and when the program is reauthorized. Those that stay disciplined during the gap can be better positioned to move immediately when the program is renewed, with a clear record of eligible hires and properly documented applications prepared for submission.





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