

# NEW TAX CREDIT for Companies that Hire Disconnected Young Adults

The American Recovery and Reinvestment Act includes a **new tax credit** for companies that hire disconnected young adults. Your company may now enjoy a substantial tax credit while at the same time accessing a new talent pool and providing a young adult with an onramp to the workforce.

The stimulus bill, which President Obama signed into law last year, added “Disconnected Youth” as a new category under the Work Opportunity Tax Credit (WOTC), amending Paragraph (1) section 51(d) of the Internal Revenue Code of 1986. The IRS has released guidance explaining the new category.

**Your company can save up to \$2,400 for each qualifying employee, so this can add up to significant savings depending on how many qualified young adults are hired.**

The WOTC has provided business with an incentive to reach out and provide training and employment opportunities to hundreds of thousands of individuals over the past 15 years. CVS alone has hired more than 70,000 individuals,

60 percent of whom are still with the company, some with three or four promotions.

## Who Qualifies for the Tax Credit?

Businesses earn a tax credit for each qualifying person they hire. A qualifying person is someone who:

- Is between the ages of 16 and 24;
- During the preceding six months, has not attended a secondary, technical or postsecondary school for more than 10 hours per week;
- During the preceding six months, has not been employed, or if employed has earned less than the applicable minimum wage times 30 hours per week; **and**
- Either does not have a high school degree or GED, or has a degree that was awarded at least six months prior to the date of hire and has not been in school or working (other than occasionally) since graduating.

## How Does the Credit Work?

The WOTC provides businesses an incentive to hire and provide career opportunities to various target populations. The size of the credit for the business is based on qualified wages paid to the employee during the first year of employment. Here are the specifics:

- Generally, qualified wages are capped at \$6,000.
- The credit is 25 percent of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours and 40 percent for those employed 400 hours or more.
- Thus, for an employee working at least 400 hours, the credit is worth up to \$2,400.

To access the credit, Form 8850 must be completed by the employer and signed by the new hire on or before the date of the job offer and then submitted to the appropriate state workforce agency within 28 days of the date of hire.

## Helpful Links

### IRS form to claim tax credit on tax return:

[www.irs.gov/pub/irs-prior/f5884--2008.pdf](http://www.irs.gov/pub/irs-prior/f5884--2008.pdf)

### IRS form for employees to verify eligibility:

[www.irs.gov/pub/irs-pdf/f8850.pdf](http://www.irs.gov/pub/irs-pdf/f8850.pdf)

### Instructions on how to fill out prescreening form:

[www.irs.gov/pub/irs-pdf/i8850.pdf](http://www.irs.gov/pub/irs-pdf/i8850.pdf)

### Department of Labor's Training and Employment Guidance Letter on the new tax credit:

<http://wdr.doleta.gov/directives/attach/TEGL/TEGL03-09.pdf>

## Other Resources

In addition to using their own internal tax staff, many companies partner with outside vendors that manage the tax credit process for them. For example, **First Advantage** (<http://fadv.com/employer>) provides a comprehensive suite of talent acquisition solutions, including helping employers screen job applicants for the WOTC. First Advantage works with companies to expand opportunities to the ever-growing disconnected youth population.



**Year Up** was founded in 2000 as a one-year, intensive education and internship program for urban young adults, ages 18–24, who are disconnected from the economic mainstream, livable wage careers and postsecondary education. Year Up's model combines marketable job skills training, life skills training, stipends, paid internships, up to 18 college credits, a behavior management system and multiple levels of support to place young adults on a viable path to economic self-sufficiency. More than 85 percent of Year Up graduates are pursuing careers in IT and financial services averaging \$30,000 per year, and nearly a third continue their college education, often part time and in the evenings. Year Up has served more than 2,320 young adults to date and will serve more than 800 in 2009 across a national network of sites in Atlanta; Boston; New York City; Providence; Washington, D.C.; and San Francisco.

[www.yearup.org](http://www.yearup.org)



**Corporate Voices for Working Families** is the leading national business membership organization representing the private sector on corporate and public policy issues involving working families. A nonprofit, nonpartisan organization, we improve the lives of working families by developing and advancing innovative policies that reflect collaboration among the private sector, government and other stakeholders.

[www.corporatevoices.org](http://www.corporatevoices.org)