

How does the Work Opportunity Tax Credit (WOTC) Work?

The tax credit employers can claim depends upon the target group of the individual hired, the wages paid to that individual in the first year of employment, and the number of hours that individual worked. There is also a maximum tax credit that can be earned.

For the long-term Temporary Assistance for Needy Families (TANF) target group only, the credit is available to employers who hire members of this group for up to a two-year period.

- In the first year, the employer may claim a tax credit equal to 40% of the first-year wages, up to the maximum tax credit, if the individual works at least 400 hours.
- In the second year, the employer may claim a tax credit equal to 50% of the second-year wages, up to the maximum tax credit, if the individual works at least 400 hours.

For all other target groups (Veterans, Vocational Rehabilitation Referrals, Ex-Felons, Supplemental Security Income Recipients, Summer Youth Employees), the credit is available to employers who hire members of these groups, based on the individual's hours worked and wages earned in the first year.

- If the individual works at least 120 hours, the employer may claim a tax credit equal to 25% of the individual's first year wages, up to the maximum tax credit.
- If the individual works at least 400 hours, the employer may claim a tax credit equal to 40% of the individual's first year wages, up to the maximum tax credit.

Please note:

- + Employers earn a tax credit only if employees work at least 120 hours in the first year of employment.
- + If an employee works at least 120 hours in the first year of employment, the employer earns a tax credit equal to 25% of the employee's earnings, up to the maximum for the target group.
- + If an employee works at least 400 hours in the first year of employment, the employer earns a tax credit equal to 40% of the employee's earnings, up to the maximum for the target group.