

companies of the burden of staying on top of frequent changes to tax codes and accounting rules. And a specialist outsourcing provider, accustomed to handling finance processes for a variety of organizations, is more likely to provide, as a standard part of its offering, the increased level of transparency and accountability that good control and compliance demands.

87 percent expressed the view that outsourcing either had no impact on the quality of governance and compliance at their company, or had actually raised it.

Nor are these purely theoretical suppositions. Instead, they come supported from the survey, backed by the experiences of real organizations. Almost 60 percent of respondents felt that outsourcing increased the rigor of business processes through better documentation and definition, for example. And among executives who already outsourced, 73 percent felt that this was so. Likewise, a majority of respondents felt that outsourcing relieves companies of the burden of staying on top of frequent changes to tax codes and accounting rules, and provided an increased level of information transparency, visibility of controls, and clarity of accountability.

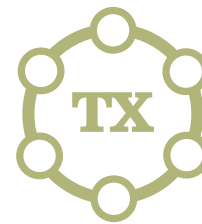
We have seen many examples of how outsourcing an organization's finance activities can improve its governance and compliance and help it move towards high performance. What's more, we also see the associated benefits in terms of the rest of the business. Freed from dealing with transaction-driven processes, organizations can spend more time on their strategic role, rather than the tactical.

The conclusion is clear. Concerns over control and compliance issues needn't prevent organizations from seeking—and achieving—the very real business benefits that come from finance business process outsourcing. **FAO**

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Reducing Taxes Through Welfare-to-Work and Work Opportunity Tax Credits

by Steve Carter and Joseph Denny



There is money to be saved in the newly extended WtW and WOTC tax credits. The question is, can you save by doing it by yourself?

Each year, large and small companies forfeit millions of dollars because they don't take advantage of federal tax credits, particularly welfare-to-work (WtW) and work opportunity tax credits (WOTC). These federal tax credits encourage employers to hire from eight targeted groups of job seekers by reducing employers' federal income tax liability by as much as \$8,500 per qualified hire for WtW and \$2,400 per qualified hire for WOTC.

In October 2004, President Bush signed into law the Working Families Tax-Relief Act of 2004. This legislation extends the WtW and WOTC tax credits, without change, for a two-year period through December 31, 2005. The reauthorization is retroactive to an employer after December 31, 2003, and before January 1, 2006. The incentive for this legislation is meant to encourage employers to hire individuals who are disadvantaged in one form or another and get them back into the mainstream and earning a paycheck.

There is still time for your company to take advantage of these programs too, but first we recommend doing your homework.

WHERE TO BEGIN

Getting the most from these programs involves managing many challenges—meeting deadlines established by law, submitting forms to state agencies, monitoring hours and wages, providing supporting documentation, and computing what can be complex tax credits. If you miss any one of these deadlines you will lose out on the money you had hoped to attain for

your company by hiring these workers.

“Once you understand the complexities associated with the administrative process, it becomes clear that significant resources would be required to correctly implement a program,” said Dennis Henderson, vice president, strategic planning for Volt Services Group. “You need to look at the opportunity cost associated with spending your resources on developing the process and decide what's best for your organization.”

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Some companies elect to manage the process in-house. This could take at least one full-time professional to keep abreast of all rules, regulations, and paper processes to ensure deadlines are met. And, if you operate in multiple states, each one has different sets of procedures that can make it even more complicated. ◀

Others choose to split the work by hiring a consultant to set up systems for managing different parts of the process. Consultants are usually paid for the services provided even though the company is still responsible for producing the bulk of the work to reap the tax credits.

Then there are companies who elect to outsource the entire process. This can work well for a number of reasons. First, the outsource firm is committed to keeping its professionals up-to-date on all state rules, regulations, and deadlines for the benefit of all its clients. Second, WtW and WOTC are self-contained processes that are ideal for outsourcing. Finally, these programs are almost always offered on a contingent fee basis and the firm is paid a percentage of the money they save you, meaning it doesn't cost you anything to get started.

TAKING THE FIRST STEP

Before you hire an outsource service firm or manage WtW and WOTC programs in-house, make sure these programs are suitable for your workforce. Employers that have the greatest success tend to maintain entry-level, lower pay positions that are fairly simple for new hires to master. Companies in the distribution, staffing, hospitality, food service,

food processing, and retail industries are usually a good fit.

Next, you need to be ready to collect a small amount of data from applicants during the interview process to determine if they are eligible for the tax credit programs. If they are and accept a position, they must complete an IRS 8850 form and submit it before starting the job. In addition, the ETA 9061 must be completed and submitted no later than 21 days from the start date. All untimely applications are denied.

Furthermore, for you to accrue benefits, employees must work at least 400 hours for the WtW credit and 120 hours for the WOTC credit. These hours need to be monitored closely for each eligible employee or the tax credits will be lost.

CHOOSING AN OUTSOURCE SERVICE PROVIDER

If you decide you want to outsource the WtW and WOTC processes, the first step is to interview several firms to find out what each one offers and what they expect from you. This leaves little room for surprises once you engage these services.

According to Henderson, "We decided to hire an outsource service firm to manage our WtW and WOTC programs because it's a non-core process and not part of our critical initiatives. However, it was very important to find a company who shared our vision for improving employment opportunities for individuals from disadvantaged socioeconomic populations."

Henderson raised several questions when he interviewed firms, including:

- Are you an expert in our industry?
- What do you do differently for our industry as compared to others?
- Do you have clients similar to us?
- Can you demonstrate before and after performance improvements?

- What steps will you take to help us become successful?

Asking for a client reference list is also helpful to the decision-making process. Contact companies to find out about their experiences working with the outsource:

- How much paperwork did the outsource firm expect?
- Who was responsible for calculating the wage-per-hour reports?
- Did the firm provide a full audit package at the end of the year with necessary forms for claiming credits?
- Did the firm meet deadlines and save money?

"We view ourselves as partners with our outsource service provider and review management summary reports on a monthly basis," says Henderson. "If an issue comes to the surface, we deal with it right away. We strive to improve the performance of our program by setting ambitious, but attainable goals and developing joint strategies for reaching those goals."

SUMMING IT UP

For some companies, WtW and WOTC programs can save them hundreds of thousands per year. Even small employers can see as much as \$20,000 to \$30,000 in tax credits, which is substantial. It's all relative to the size of your company. If you generate more credits than you can use in a given year, they can be carried forward up to 20 years. Ultimately, you can save a lot of money.

In an uncertain economy where job security is always a concern, launching a WtW and WOTC programs with an outsource service provider, on a contingent basis, is an excellent opportunity to leverage your benefit to your organization.

Many finance and accounting people are focused on running their business and adhering to compliance issues. This is a chance to enhance your value to your employer without adding staff or increasing administrative expenses. It can be a win-win for everyone. **FAO**

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