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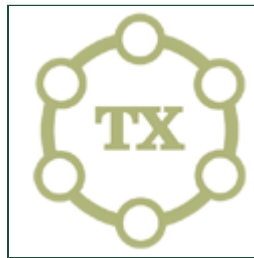
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FAO Today: January 2006



A Win-Win-Win in Tax Credits?

Native American employment tax credits can be great for your employee, indigenous tribes, and your organization!

By Dan Murray

What would you say if you were told of a federal tax credit that could be realized for

open tax years dating back to 1994? These credits could be applied to tax liability for this or the next 20 years to come. Add to that the possibility of obtaining healthcare benefits, college tuition, and other social benefits for employees. Furthermore, what if the employees involved benefited through increased government funding and lower unemployment?

Believe it or not, that is exactly what the Federal Indian Employment Credit (IEC) is designed to provide. Oklahoma is a "hot spot" for this credit, but 36 states in all are part of the IEC program. While it is not always the easiest credit to claim, this "niche" program offers one of the most lucrative tax credits available today.

HOW THE CREDIT WORKS

The IEC generates tax credits that, unlike tax deductions, directly offset an organization's federal tax burden. The tax credit is equal to 20 percent of the first \$20,000 in annual wages and health insurance benefits as long as total annual wages do not exceed \$35,000. The maximum per year credit for any one employee is \$4,000. This credit can be claimed each year retroactively to 1994 (provided an organization's tax years are still open) and may be claimed each year you employ the IEC-eligible individual.

On the surface, the IEC appears to be a simple, one-page, easily claimed credit. Many organizations ask employees if they are Native American, fill out the appropriate one-page form, and take the credit. It could


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be that easy, but that approach may preclude your organization from maximizing the total tax credit available. Basically, the IEC qualification reads as follows: For every employee who is a certified member of an approved Native American tribe or the spouse of an approved member, an employer is entitled to this credit. The employee must live on “or near” the reservation and perform the majority of his work on the reservation.

HOW IS THE CREDIT CLAIMED?

Companies that manage these tax credits usually pose the question right on their employment forms: “Are you an enrolled Native American Indian?” If the answer is yes, the credit is taken. Conversely, if the response is no, the credit is not claimed and the issue ends there.

Admittedly, most companies find that utilizing a simple employment form is more preferable than not identifying the credit at all. However, one method that often yields far better results is to simply ask more refined questions up front, questions that provide a more productive investigation process. For organizations in a position to outsource, there are industry specialists available, and tax credit companies who employ genealogists specifically trained to identify enrolled employees who are Native Americans. These industry specialists are also able to assist companies in the enrollment process. Often, these specialists are the very best way to help organizations reach that win-win-win scenario that is unfortunately often not seen enough in business today.

Data indicate that for a business located in Oklahoma—or in an area near a high population of Native Americans—the standard yes/no questionnaire will uncover approximately nine percent of its geographically qualified employees are eligible for the IEC. By comparison, genealogy-based research conducted on the same group nets an eligibility rate of more than 30 percent and a significant bottom-line improvement.

The good news is that a typical business, through existing in-house resources, can do virtually everything it needs to capture that nine percent portion of IEC-eligible employees. An effective alternative is to tap into the expertise of industry specialists and outsource this highly specialized service to those whose primary focus is on services that complement and enhance a company’s productivity and profitability. Administered with care, the Indian Employment Credit can enhance a company’s profitability and provide an important service and benefit to employees.

Dan Murray is the Native American tax credit product specialist for TALX Corporation.

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