A Santa Claus for Businesses

Significant tax credits exist for the taking but knowing how to unroll the red tape is the challenge for most organizations.

By Stephanie Droppelmann

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Everybody wants a tax break. Let's face it, paying taxes hurts! Businesses are no different than individuals. They want to reduce their tax liability, but like consumers, they do not always have the time, resources, or knowledge to identify ways to potentially lower their tax burdens.

Ironically, on the tax credit front, there is good news for businesses, and these tax credits are there for the taking with the right moves. For example, the federal government has several tax credit and incentive programs that are specifically created to assist businesses with their tax liability. One of the leading federal tax credit programs available to employers today is the Work Opportunity Tax Credit (WOTC). In 2006, the U.S. Congress reauthorized the WOTC for two years, effective January 1, 2006 through December 31 of this year with new eligibility criteria and credit amount change revision taking effect January 1 this year (accompanying chart is online at hrotoday.com).

Created by the Small Business Job Protection Act of 1996, the WOTC program offers employers an incentive—in the form of a tax credit—for hiring and retaining employees from targeted groups. The WOTC program is designed to encourage employers to hire job applicants who are economically disadvantaged and/or face significant employment barriers. Employers that participate in the WOTC program can reduce their federal tax liability up to $2,400 per qualified new hire.

As of January 1 this year, the Welfare-to-Work (WtW) tax credit has been incorporated into the WOTC program. The WtW tax credit program is now known as the Long Term Family Assistance recipient category under WOTC. This program is designed to encourage employers to help long-term family assistance recipients move from welfare to work and gain on-the-job experience. Employers that hire applicants under this category of WOTC can reduce their federal tax liability up to $9,000 in two years per qualified new hire. The WOTC credits are applied to taxes due to the Internal Revenue Service, and unused credits may be carried forward for up to 20 years.

The WOTC and WtW programs are structured so that the determination of eligibility is done during the hiring process. This allows employers to proactively screen for the tax credits and utilize that knowledge in their decision-making process. And while these two tax credits involve the hiring process, many others focus on the impact of natural disasters such as hurricanes or locating in a business in a distressed area being revitalized.

So, with this abundance of riches—tax credit-generated riches, that is—why don't more employers take advantage of these programs?

Actually, many employers do have formal initiatives in place to leverage a lot of these programs. Doing so involves dedicating resources that track the specific opportunity and corresponding dates and deliverables. Unfortunately, where internal resources often find roadblocks is when the program parameters change. Without a champion to help communicate specific program expectations, especially when something needs to be done prior to the actual tax credit, these credits are often missed entirely.

One such example is the tax credit program in response to Hurricane Katrina. Small businesses and employers in the Gulf region received a variety of tax breaks and incentives under the recently enacted GO Zone legislation (Gulf Opportunity Zone Act of 2005). Certain small businesses affected by Hurricane Katrina can annually deduct up to $200,000 in qualifying property expenditures made in the disaster area, which is double the amount allowed for small business expensing. In addition, the phase-outs for level of investment increased from $400,000 to $1 million, allowing more small businesses to use this tax benefit. However, these provisions only apply to property placed in service in the Gulf Opportunity Zone (GO Zone) after August 27, 2005 and before January 1, 2008.

The bottom line is that almost every employer can benefit from tax credit programs. These incentives are there for the asking, provided you've done your homework, know what the respective program requires, and continually monitor for updates. The best-case scenario is a tax credit windfall.

On the other hand, not staying in lockstep with your selected tax credit programs can result in lots of work and no rewards. There are vendor partners ready to assist, and many times that's may be the best way to ensure your company's proper place in tax credit-generated remuneration. HRO