

WELFARE-TO-WORK Tax Credit

WHAT IS THE WELFARE-TO-WORK TAX CREDIT?

The Welfare-to-Work Tax Credit is a federal income tax credit that encourages employers to hire long-term welfare recipients who begin work any time after December 31, 1997, and before January 1, 2002. Established by the August 5, Taxpayer Relief Act of 1997, this new tax credit can reduce employer federal tax liability by as much as 8,500 per new hire.

The Welfare-to-Work tax credit is administered under the Work Opportunity Tax Credit (WOTC) certification procedures established by the Small Business Job Protection Act of 1996. P. L. 106-170 reauthorized retroactively the WOTC and WtW Tax Credits through December 31, 2001, to encourage employers to hire nine groups of job seekers with barriers to employment.

The Welfare-to-Work tax credit is an important tool in a diverse toolbox of flexible strategies designed to help people move from welfare to work and economic self-sufficiency. It joins the WOTC and other targeted tax credit and employment program initiatives that both help American workers and increase American productivity and economic growth.

WHAT NEW HIRES CAN QUALIFY EMPLOYERS FOR THE WELFARE-TO-WORK TAX CREDIT?

The Welfare-to-Work Tax Credit applies to new hires who begin work after December 31, 1997, and before January 1, 2002, and are employed at least 400 hours or 180 days.

The new hires must be long-term welfare recipients,

Members of a family that received Temporary Assistance to Needy Families (TANF), or Aid to Families with Dependent Children (AFDC) for at least the 18 consecutive months before date of hire, or

Members of a family whose TANF/AFDC eligibility expired under federal or law after August 5, 1997, or;

Members of a family that received TANF/AFDC for a total of at least 18 months, beginning after August 5, 1997.

The Welfare-to-Work Tax Credit for new hires employed 400 or more hours or 180 days is 35% of qualified wages for the first year of employment and 50% for the second year. Qualified wages are capped at \$10,000 per year. Wages include tax-exempt amounts received under accident or health plans as well as educational assistance and dependent assistance programs.

