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August 1, 2000

**OWF/PRC Guidance Letter No. 26**

TO: Directors, County Departments of Job and Family Services  
Directors, County Public Children Services Agencies  
Directors, Child Support Enforcement Agencies

FROM: Jacqueline Romer-Sensky, Director

**SUBJECT: Tax Credits**

The purpose of this guidance letter is to provide information on the various tax credits that are available to encourage employers to hire individuals and to encourage individuals to work. In this guidance letter a Tax Credit means an income tax credit provided by the Internal Revenue Service to employers who hire certain categories of low-income individuals, an Earned Income Tax Credit from the Internal Revenue Service for low-income individuals who are employed, and an Ohio Training Tax Credit given to employers who provide necessary training to their workforce.

**The Earned-Income Tax Credit (EITC)** is a special credit for certain persons who work. The credit reduces the amount of tax a person owes and is intended to offset some of the increases in living expenses and social security taxes. This credit is based on a percentage of the employee's earned income.

For EITC purposes, "qualifying child" is:

- biological son, daughter
- adopted child
- stepchild
- grandchild
- foster child

Age and Co-residency of qualifying child:

- Child must be under age 19 at the end of the tax year and have lived with the taxpayer for more than 6 months during the year (or have lived with the taxpayer the entire year if foster child) or
- Child must be full-time student under age 24 at the end of the tax year and have lived at least part of the year with the taxpayer or
- There is no age limit if the child is permanently and totally disabled but must have lived with the taxpayer for more than 6 months during the year.

To qualify for the EITC individuals:

- Must file a tax return
- Must have had at least \$1 of earned income the previous year, but less than:
  - 1) \$10,200, (without a qualifying child)
  - 2) \$26,928, (one qualifying child)
  - 3) \$30,580, (two or more qualifying children)
- Must have a valid social security number (spouse too if married)
- If married, cannot be filing a separate return
- Qualifying child cannot be the qualifying child of another person whose modified AGI is more than the person filing the credit

If the individual does not have children, then the individual:

- Must be at least 25 years old, but under age 65 at end of tax year
- Cannot be claimed as dependent on someone else's return

Modified AGI is:

- Adjusted Gross Income for people filing taxes.”<sup>1</sup>

Individuals expecting to receive an EITC can receive part of their credit in each paycheck during the year in which they qualify for the tax credit or they can wait and apply for their credit at the end of the tax year when they file their taxes. To receive the tax credit in their paycheck, individuals must fill out a special tax form and give it to their employer. The employer in turn will reduce the amount of taxes paid by the employee which increases the employee's net pay.

**The Work Opportunity Tax Credit (WOTC)** is a federal income tax credit designed to encourage employers to hire individuals in nine targeted groups. This tax incentive is designed to help job seekers gain on-the-job-experience and move towards economic self-sufficiency. “The Ticket to Work and Work Incentives Improvement Act of 1999” was signed into law on December 17, 1999 reauthorizing and amending the WOTC/WtW Tax Credits. This reauthorization applies to individuals who began work for the employer **on/or after July 1, 1999, and before January 1, 2002.**

“The WOTC can reduce the federal tax liability by as much as \$2,400 annually per new hire. The tax credit is calculated at the rate of 25% of the qualified first-year wages up to \$6,000 for employees working at least 120 hours but less than 400 hours. This allows a maximum credit amount of \$1,500. For employees working at least 400 hours or more, the credit is calculated at the rate of 40% of the qualified first-year wages up to \$6,000. This allows a maximum credit amount of \$2,400. For individuals participating in Summer Youth Employment, the credit is calculated at a rate of 25% of the qualified first year's wages up to \$3,000. This allows a maximum credit amount of \$750.

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<sup>1</sup><http://www.4.law.cornell.edu/uscode/26/9507/html>

If working at least 400 hours or more, the credit is calculated at the rate of 40% of the qualified wages up to \$3,000, maximum tax credit of \$1,200."<sup>2</sup>

**Targeted groups for the Work Opportunity Tax Credit:**

- **Long term welfare recipients**---A member of a family that received Ohio Works First (OWF), cash payments for at least 18 consecutive months before date of hire; or, whose family's OWF eligibility expired under federal or state law after August 5, 1997; or, whose family received OWF for at least 18 months after August 5, 1997. **Also eligible for the WtW tax credit.** (The WOTC and Welfare-to-Work Tax Credits cannot both be claimed for the same individual by the same employer in the same taxable year.)
- **Other welfare recipients**---A member of a family that received OWF for a total of at least 9 of the 18 months ending on the date of hire.
- **Veterans**---A veteran and member of a family that received food stamps for at least 3 consecutive months of the 15 months before the date of hire.
- **18-24 year old food stamp recipients**---A member of a family that received food stamps for up to 6 months ending on the date of hire, or for at least 3 of the 5 months before the date of hire and the assistance group's food stamp eligibility expired.
- **18-24 year old EZ/EC residents**--- a resident of one of the 105 federally designated Empowerment Zones or Enterprise Communities (EZ/ECs)
- **16-17 year old EZ/EC residents**---Individuals hired as Summer Youth Employees.
- **Vocational rehabilitation referrals**---A disabled person who completed or is completing rehabilitative services approved by the state or the U.S. Department of Veteran Affairs.
- **Ex-felons**---An ex-felon and member of a low-income family.

“Any person certified by the designated local agency as one who:

- has been convicted of a felony under any statute of the U.S. or any state; and

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<sup>2</sup>The National Employer Council Inc., 444 N. Capitol St. NW, Washington, DC 20001/OBES, WOTC Section, 145 S. Front St., Cols., Ohio.

- has a hiring date which is not more than one year after the last date on which he/she was so convicted or was released from prison; and
- is a member of an economically disadvantaged family.

[This definition has been clarified, in past legislation, to treat an individual as convicted if a State Court places the individual on probation without a finding of guilty (deferred adjudication)]. Deferred Adjudication only applies to those accused of a felony. This does not apply to anyone placed on probation after serving time in prison. All procedures placing accused felons on probation without a finding of guilty should be considered as “deferred adjudication” for WOTC purposes.

Ex-felons who are participating in a transitional program; such as work release, are eligible for the WOTC program if they were convicted of a felony and are members of an economically disadvantaged family.”<sup>3</sup>

- **SSI recipients**----An individual who received Supplemental Security Income benefits for any month during the 60 days before the date of hire.

The **Welfare-to-Work Tax Credit (WtW)** encourages employers to hire long-term welfare recipients, and provides up to \$8,500 per new hire. The amount of the credit is 35% of qualified first year wages and 50% of qualifying second year wages. Up to \$10,000 of wages, per year, paid to these individuals may be considered in determining the amount of the WtW tax credit.

For WtW purposes, wages include tax exempt amounts received under accident and health plans as well as educational and dependant assistance programs.

The only target group for the WtW tax credit is the “Long Term Welfare Recipient” defined in the WOTC regulations.

Participating employers have a maximum combined period of two years to claim either tax credit. The WOTC and Welfare-to-Work Tax Credits cannot both be claimed for the same individual by the same employer within the same taxable year.

To receive the WOTC/WtW Tax Credits employers must apply for and receive certification from their state employment agency that their new hire is a long-term welfare recipient or member of a WOTC target group before they can claim the tax credit. “To apply for certification, employers need to:

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<sup>3</sup>ETA Handbook No. 408, Second Edition, U.S. Department of Labor, Employment and Training Administration, Washington, D.C. 20210.

- Complete IRS Form 8850 “Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Tax Credits” by the date the job offer is made, and
- Complete either the U.S. Department of Labor ETA Form 9062 “Conditional Certification Form”, if provided to the potential new hire by the CDJFS or a participating agency etc, or ETA Form 9061 “Individual Characteristics Form”, if the potential new hire has not received a conditional certification form.
- Mail the signed IRS 8850 and the ETA 9061 or 9062 to their state employment agency WOTC unit. **The IRS 8850 must be mailed within 21 days of the new hire’s start date.**<sup>4</sup>

### **Training Tax Credit Program**

The Training Tax Credit is authorized within Ohio Revised Code Section 5733.42. This is a nonrefundable franchise tax credit designed to encourage Ohio’s corporations to provide necessary training to its current Ohio workforce that is at risk of being displaced because of skill deficiencies or the inability to use new technologies.

Only C-Corporations subject to the Ohio franchise tax provision of the Ohio Revised Code Section 5733.06 are eligible for this credit. This credit does not apply to pass through entities or individuals. (Pass through entities for this purpose refers to the ability of companies organized in a way different from C Corporations to “Pass” their profits and tax obligations through the organization on to the shareholders or principals.) C-Corporations falling within the designated Standard Industrial Classification categories of manufacturing, finance, insurance, real estate, business services, legal services, engineering, accounting, research, management, and related fields are eligible.

Only eligible training costs for current employees who have been employed by the corporation for at least 180 consecutive days and have been on the same job assignment for at least 90 consecutive days are considered eligible for the training. An eligible employee must work at least 24 hours per week for the employer in Ohio. Management personnel are excluded except for the direct supervisors of non-management staff.

The employer must conduct an eligible training program to correct the skill deficiencies identified by the corporation for specific at risk employees. While an eligible training program is broadly interpreted, the statute excluded executive, management, career development and personal enrichment programs.

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<sup>4</sup>ETA Handbook No. 408, Second Edition, U.S. Department of Labor, Employment and Training Administration, Washington, D.C. 20210.

An employer is permitted only one application per calendar year. Twenty million of Training Tax Credit will be available for each of calendar years 2000, 2001, 2002, and 2003 at which point the program is scheduled to expire.

Annually, no more than \$10 million in credit value may be allocated for employers primarily engaged in manufacturing. Annually, at least \$5 million in credit value must be set-aside for non-manufacturing corporations having fewer than 500 employees.

Eligible costs include direct cost of instructors, materials, supplies and instructional media, and necessary training equipment. The wages paid to eligible employees during normal working hours while participating in eligible training programs as well as the cost to determine employee skill deficiencies are also eligible expenses.

The credit equals one-half of the total excess eligible costs incurred during the calendar year period of the application. This calculation is computed by subtracting the total training costs incurred during the calendar year period of the application from the average of the total eligible costs incurred by the employer in the three preceding calendar years and dividing by two. Additionally, the credit may not exceed:

- A maximum of \$100,000 annually per company (including all facilities in Ohio)
- An average of \$500 per eligible employee trained
- One-half of the employer's Ohio franchise tax liability for the preceding year

The unused portion of a credit can be carried forward for up to three years.

### **Training Tax Credit Application Process**

The Training Tax Credit is currently administered through the Ohio Department of Development (ODOD). In the future the program will be administered by the Ohio Department of Job and Family Services. Applications can be obtained from the ODOD, Office of Tax Incentives, Mr. Jeffrey Harris, 77 S. High Street, 28<sup>th</sup> floor, Columbus, Ohio 43215, (614) 644-8360, or on-line at [www.state.oh.us/odjfs/ottc](http://www.state.oh.us/odjfs/ottc).

The Ohio Training Tax Credit Program is a state administered program. Eligibility, distribution of tax credit certificates, marketing and the receipt of the applications will be handled by the ODOD, Office of Tax Incentives.

- The Training Tax Credit calculations are based on calendar year activities regardless of whether the employer's franchise tax filing is based on a different fiscal period.

- All applications must be submitted no later than October 1 of the calendar year in which the training will occur. (An application may be made prior to conducting the eligible training program. A preliminary credit allocation will be made.)
- All eligible training pertaining to an application must be completed by December 31 of the calendar year of the application.
- The employer must submit a final verification of eligible costs to the administering agency (ODOD) by January 31 of the following year.
- A nonrefundable initial application fee of \$100 will be due at the time of filing the application. For companies with more than 40 employees, a servicing fee of 1% of the value of the credit (minimum \$100) will be due when the final credit amount is determined and before a certificate will be issued.

**The County Departments of Job and Family Services are encouraged to:**

- Provide employers with information about these tax credits as a means of encouraging employers to hire OWF participants.
- Provide OWF participants and other consumers with information about these tax credits, particularly information about the EITC.
- Provide information to employers and participants in the completion of tax forms or documents needed to receive the tax credits.
- Refer applicants to the appropriate agencies that offer tax assistance.

If you have any questions about these tax credits, please contact your local IRS office.

References

Earned Income Tax Credit: A Financial Tool For Self-Sufficiency; TOPS in Human Services OVC Workshop Presentation; D.C. Meyers, L.L. Meyer, Ph.D., Westerville, Ohio 43081.

Earned Income Tax Credit (EITC) US Code: Title 26, Section 32; <http://www4.law.cornell.edu/uscode/26/32.text.html>.

Earned Income Tax Credit (EITC)-IRS; [http://www.irs.gov/ind\\_info/eitc4.html](http://www.irs.gov/ind_info/eitc4.html).

The National Employer Council, 444 N. Capital Street N.W., Washington, D.C. 20001/OBES, WOTC Section, 145 S. Front Street, Columbus, Ohio 43215.

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