

The Work Opportunity Tax Credit & Justice-Involved Employees

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February 2024

What is it?

The **Work Opportunity Tax Credit (WOTC)** is a [federal tax credit](#) for employers hiring jobseekers from [one of ten targeted groups](#), including certain justice-involved employees. The tax credit is based on the amount of wages paid to the new employee in the first year of employment. The WOTC is administered by the IRS and the Department of Labor in cooperation with state workforce agencies. It was established in 1996.

What employers are eligible?

Any employer that hires and pays wages to a qualified new employee from one of the ten targeted groups is eligible for the credit.

What justice-involved employees are qualified?

The WOTC covers Qualified Ex-Felons. A "[Qualified Ex-Felon](#)" is an individual who has been convicted of a felony under any federal or state law and is hired by an employer not more than one year after their conviction or release from prison for that felony. The group does not include those with only misdemeanor convictions. To ensure eligibility, the employer must [pre-screen the new employee](#) before a job offer is made. The employer must complete appropriate [IRS](#) and [Department of Labor](#) pre-screening forms and submit them to the relevant state workforce agency for certification within twenty-eight calendar days after the new hire's start date.

Other justice-involved individuals may qualify under one of the other eligibility categories that are not based on previous convictions. The North Carolina Department of Commerce provides more detailed information on each category [here](#).

What exactly is the benefit?

The WOTC is calculated based on a percentage of wages paid to a qualifying employee in the first year of employment. Employers must file [IRS Form 5884](#) to claim the credit. For employees that work at least 400 hours, the WOTC rate is equal to 40% of up to \$6,000 in wages paid to the qualified employee, meaning a maximum of \$2,400 in tax credit. A 25% rate applies for employees who work at least 120 hours but less than 400 hours. No credit is given for employees who work less than 120 hours in their first year of employment.

What costs accrue for the employer?

Employers have no direct costs, but must complete the pre-screening forms, submit them to the state workforce agency, and receive a certification verifying that the new hire is eligible. In North Carolina, this process is administered by [the Commerce Department's Division of Workforce Solutions \(DWS\)](#), and may [be completed online](#).

Additional Considerations

- The WOTC is not a permanently authorized program. It is currently set to expire on December 31, 2025, but already has been extended several times.
- In addition to the benefit limits noted above, the WOTC is limited to the amount of [business income tax liability or Social Security tax](#) owed by the business.
- The WOTC cannot be claimed for relatives, individuals who have previously worked for the employer, or federally subsidized on-the-job training.

Where can North Carolina employers go to learn more?

The North Carolina Department of Commerce has a WOTC [information page](#) and has produced [a short video](#) on the process. The [IRS](#) has a WOTC page, along with informational pages related to the forms required to claim the credit. Finally, the Department of Labor has a WOTC [information page](#) that includes resources and other information.

Sources: INTERNAL REV. SERV. [IRS WOTC FAQ'S](#), DWS [WOTC INFO PAGE](#), DEPT. OF LABOR, EMP. TRAINING AND ADMIN. [WOTC INFO. PAGE](#), NAT'L EMP. OPP. NETWORK, [FACTS ABOUT THE WOTC](#)

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