Statement for the Record

By

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For Committee on Ways and Means Subcommittee on Select Revenue Measures
Hearing on Certain Expiring Tax Provisions
April 26, 2012

Mr. Chairman and Ranking Member Neal, on behalf of the National Employment Opportunity Network (NEON), I want to thank you for the opportunity to submit testimony on the Work Opportunity Tax Credit (WOTC). I am Carl Cohen, President of NEON which is comprised of management assistance companies that help businesses to set up and administer hiring tax incentives programs both on the national, state and local level.

The Work Opportunity Tax Credit (WOTC) has been one of the most cost effective public-private sector partnership jobs programs Congress has enacted. Since its inception in 1996 in conjunction with the major reform of the nation’s welfare programs, WOTC has helped over 7,500,000 people transition from dependence on public assistance programs into the job market and in many cases providing an opportunity for advancement. WOTC gives employers an incentive to take a second look at those eligible and give them a chance to compete for a job. In 2001, the Government Accountability Office (GAO) concluded that employers significantly changed their hiring practices in response to WOTC.

According to a 2011 study by Dr. Peter Cappelli, a Labor Economist at the University of Pennsylvania’s Wharton School of Business, WOTC is a cost effective way to encourage employers to hire certain categories of individuals who have limited work skills and/or other barriers to employment, most of whom are on some form of public assistance. Dr. Cappelli points out in his study that individuals hired under WOTC tend to stay on the job longer and are more likely to advance than other entry level workers who did not qualify for WOTC. He also indicates that WOTC acts to expand the number of people in the workforce given that many non-WOTC job applicants are already employed. Dr. Cappelli concludes that WOTC saves the federal government an average of $5,000 in federal public assistance payments for every year that the individual stays in the workforce at a maximum onetime cost of $1,500 to the federal government. Because WOTC is generally only a one year credit (exception for long term welfare recipients) the savings to both the federal and state governments continue for each year that they remain in the workforce. It should be noted that a New York State Department of Labor Study indicates that those hired through WOTC continue in the workforce and do not go back on the public assistance rolls. The average credit, based upon employer records is approximately $1,100 per certified individual. Dr. Cappelli’s calculations do not factor the savings to the states for their share of public assistance payments for welfare and Medicaid. This makes WOTC one of the most cost effective jobs programs ever enacted.

When the Committee does move forward on the business tax extenders, which NEON hopes and urges that you will do expeditiously, we want to encourage you to take a look at the
Schock/Rangel bill H.R. 2082 which would seamlessly reauthorize WOTC. One of the major problems facing this country is youth unemployment for individuals who have dropped out of school or who have been socially promoted through the school system but graduate with few if any employable skills. In 2009, Congress added a new WOTC category – Disconnected Youth – which addressed this problem. The Department of Labor’s records indicate that employers responded to this new category by hiring 160,000 young people in FY 2010 most of whom would never have been even considered for employment absent the WOTC incentive. Unfortunately, this category was allowed to lapse at the end of 2010 when Congress last reauthorized the core WOTC program. For Disconnected Youth, unemployment remains well over 25% and in some inner city and rural communities, it is upwards of 30%. NEON strongly urges the Committee to reauthorize this provision.

Similarly, NEON would encourage the Committee to enact a provision in the Schock/Rangel bill which would help to make the program more user friendly and reduce the administrative burden on the State Workforce Agencies (SWAs) which are charged with certifying WOTC eligibility. Currently, employers are required to file a certification request and the SWA is charged with verifying eligibility and then issuing a certification. The volume of certification requests runs two to three times the number of certifications granted and is running as high as 2,000,000 applications a year. At a time when the SWAs are facing significant budgetary constraints this is placing an ever increasing and, in a number of instances, an unnecessary burden on the SWAs.

For most categories, the SWAs are the only entity which has access to the eligibility information required to issue a certification (welfare and food stamp records). However, in other instances, employers with the help of those they hire can obtain all the information needed to verify eligibility. That is why the Schock/Rangel bill provides employers with an “alternative” certification process. For categories such as Designated Community Residents (Empowerment Zones), SSI recipients, ex-offenders, and vocational rehabilitation referrals, in most cases the employer can obtain the information needed to determine eligibility. This information can be gathered either directly from the individual hired or from a government agency (subject to a release from the individual hired). In those instances, the employer should be allowed to claim the credit without having to submit a certification request to the SWA. Under the bill’s provisions, employers would be subject to audit, loss of the credit, and penalties should it be determined that the WOTC credit was claimed inappropriately. This would make the program more employer accessible and help to reduce the administrative burden for the SWAs.

Another concern for the employers we work with is the need to extend the Designated Community Residents Category which provides a tax incentive for employers who hire 18 to 39 year olds who reside in Empowerment Zones and Enterprise Communities. In FY 2010, over 65,000 individuals were hired from these communities. In order to be eligible, the provision is dependent upon the continued existence of these communities. NEON would urge the reauthorization of Empowerment Zones and Empowerment Communities or at the very least modifying WOTC to allow for continued eligibility under WOTC for those who reside in those previously designated communities.
NEON would like to point out to the Committee that despite the expiration of WOTC December 31, 2011, most employers have continued to maintain their WOTC programs which involves considerable expense to them. The costs involved in maintaining a successful WOTC program include:

1. establishing a community outreach program in order to increase the number of qualified applicants applying for jobs,
2. incorporating the WOTC IRS pre-screening form into the job application process,
3. training managers to look for and hire WOTC eligible individuals,
4. the added costs of training and retention, as well as
5. the costs involved in filling out the required paperwork and filing it with the SWA along with any required backup information, within 28 days of when the employee begins work.

Given this good faith reliance by employers who are currently incurring considerable expenditures in the expectation that, as Congress has done in the past, WOTC will be seamlessly extended -- NEON urges the Committee to do so once again.

Finally, we commend the Committee for recognizing the special challenges facing our troops when they come home and look for work. The enactment of the Returning Heroes and Wounded Warriors Work Opportunity Tax Credits will encourage employers to once again change their hiring practices and seek to hire veterans. However, NEON is concerned that without the extension of the core WOTC program, many of the same employers who participate in the traditional WOTC program will find that they cannot justify the cost of maintaining the WOTC infrastructure needed to make the veterans credit a success. As best we can tell, the veterans hiring credit will result in a program that is about one tenth the size of the traditional WOTC program. The new veterans credit will work best as an add on, not a substitute, for the core WOTC program.