



HIRE A VETERAN AND WIN TAX BREAKS FROM THE GOVERNMENT



By Blake Christian, CPA, MBT and Chuck Swenson, CPA, PHD Updated March 17, 2009

The debate continues regarding the specific plans for getting our troops back home as quickly and safely as possible. Regardless of your political leanings, or optimal timetable for the troops to return, we can all agree that once these brave men and women return home, we need to assist them in finding good jobs and help them in starting or resuming their careers. Unfortunately they are returning in the midst of a very challenging economic environment.

Business owners should view these well-trained and dependable veterans as excellent candidates for any job openings. In addition to "doing the right thing", there are a number of federal and state tax incentives that should provide an added reason for companies to give our veterans top priority in the job market.

Federal tax benefits for hiring veterans are available to business owners in any state. The federal benefits are available under the Work Opportunity Tax Credit (WOTC) Program. Employers can secure a federal credit of up to \$4,800 for hiring:

- A veteran who is a member of a family that has received **Food Stamps** for at least 3 consecutive months in the 12 months prior to the date of hire; **OR**
- A veteran with a **service-connected disability** hired within 1 year of having been discharged, or released from active duty **and** who has been unemployed for any 6 of the last 12 months; **OR**
- A veteran hired in 2009 or 2010 hired within 5 years of having been discharged, or released from active duty who **received unemployment compensation** for at least 4 weeks within a year of being hired.

Other veterans, not meeting one of these three tests, can still often generate up to \$2,400 in federal credits for their employers.

Employers hiring multiple WOTC qualified employees can make a significant reduction in their federal income taxes. These benefits are more fully detailed and can be claimed on IRS Form 5884 or 8884.

In addition to the federal WOTC program, 41 states, including California, have state-sponsored Enterprise Zone Programs. A few of these state programs allow employers to claim credits for a portion of employee wages paid to veterans, and the vast majority allow credits for employees who live in certain regions, were unemployed or received government assistance. For example, California has one of the largest veteran populations, and their state Enterprise Zone Program entitles employers that hire Vietnam-era veterans, or men and women who have been in the Armed Services/Reserves in the last 48 months, to claim up to 50% of the first \$24,960 of W-2 wages as a tax credit during the first 12-month employment period. Provided the employee continues employment, a 40%, 30%, 20% and 10% credit is allowed for years two through five, resulting in a cumulative credit of over \$35,000 over the five-year employment period (some California EZ websites have not been updated and they erroneously list a different amount). Illinois and Arizona also allow credits for hiring veterans; however, the dollar amounts are only in the hundreds of dollars per employee.

While these incentive programs vary from state to state, most of these credit programs also allow employer-level credits for employees (including veterans) who live in specified census tracts with higher than average poverty rates, were unemployed at some point prior to being hired, or if they were receiving some form of government assistance (e.g., food stamps, welfare, etc.) at the time of hire.

The federal WOTC program will entitle **businesses located in any region** to benefit from hiring most veterans. Those states with Enterprise Programs that provide credits for hiring veterans also generally require the business that hires the veteran (or other "qualified" employee) to be located in specified incentive Zones.

Currently 26 states also offer partial or total exclusions from state-level taxes for combat and/or other military compensation paid to troops/reserves. The five states offering outright tax exemption for military pay include: Illinois, Michigan, Montana, Arizona and Tennessee. In addition, the pay of enlisted active duty personnel and warrant officers serving in combat zones is tax-free for federal tax purposes, as is commissioned officers' pay up to certain limits. Certain federal changes over the past few years also allow more flexibility for the military in funding IRA's and claiming the Child Care Credit.

Other federal and state benefits, including: training funds, tuition reductions, and the aforementioned military pay exemptions, are also available in many states.

Other incentives which may benefit veterans include:

- **Federal Welfare-to-Work (WtW) Hiring Credit**-Up to \$8,500 over a two-year employment period if the employee was receiving welfare benefits prior to finding employment.
- **Mentor-Protégé Program**-Allows certain government contractor's reimbursements for training/incidental costs associated with training physically challenged veterans.

The process for documenting these benefits is fairly straightforward. Generally, the CPA or taxpayer simply:

1. Confirms that their business location is located in a specified federal or state incentive Zone.
2. Confirms that certain employees working at the location either live in specified areas or meet other "qualification" criteria (e.g., veteran, ex-offender, previously unemployed, etc.).
3. The CPA or taxpayer then calculates the credit that is generally a percentage of W-2 wages (with an overall cap), a per-employee credit, or based on the number of months worked.
4. The federal or state tax forms (generally one or two simple pages) are then completed.

Systems can be set up to allow the employer to pre-screen the employees before they are hired in order to streamline the documentation process and maximize the hiring credits.

All of the above-referenced credits result in permanent tax savings and can have a dramatic impact on a taxpayer's tax burden. Many of these credits can also eliminate Alternative Minimum Tax (AMT) and unused credits can generally be carried over for five or more years for federal purposes and, in some states, the credits never expire.

These business hiring credits and the resulting tax savings result in enhanced cash flow, lower labor costs, lower after-tax capital expenditures, and enhanced business valuations. Amended returns and **refunds for three years** or more are allowed for federal purposes, and certain states also allow amended return refunds-which can average over \$100,000 in many cases.

Ultimately, by claiming these tax incentives, the business owners are rewarded for their hiring practices and are often much more competitive in the marketplace. The long-term impact of the business owners' actions also improves the lives of the veterans, their families, as well as the communities in which the business operates.

Once business owners and their CPAs understand the financial and social impact of these programs, they do tend to alter their hiring practices and also tend to expand their facilities and workforce within the various federal and state incentive zones.

Resources

Additional information on these programs can be found at www.usvetsinc.org, www.hud.gov, or by checking with your state, county or city-level tax authority's web site. For example, information on the California EZ program can be found at www.hcd.ca.gov.

Commerce Clearing House (CCH) has also developed a comprehensive web-based tool that consolidates and identifies all federal and state tax credits and provides all cross-referenced forms and instructions. The CPA or taxpayer needs only to type in the client's address to determine eligibility and filing requirements. You can visit their site at: <http://tax.cchgroup.com/taxzonelocator/default.htm>

NTCG/HCVT Can Assist Employers and Employees

If you are veteran who will meet any of the above tax credit characteristics, you should add a comment in your resume or any job application that you will likely generate state or federal tax credits for the employer.

Questions can also be directed to the authors at:

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