



Credits & incentives talk with Deloitte

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CREDITS & INCENTIVES TALK WITH DELOITTE

The Many Rewards of Hiring Veterans

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As we go about our daily life we continue to hear a great deal about veteran issues in America, including the focus on efforts to enhance private-sector employment opportunities for our unemployed veterans and transitioning military personnel. According to the Bureau of Labor Statistics, as of March 2014, unemployment for post-September 11 veterans (Gulf War-era II veterans) was 9.0 percent in 2013, which is significantly higher than the 6.6 percent national overall veteran unemployment rate and the current national average unemployment rate of 5.9 percent.¹ In addition to the veteran unemployment issue plaguing the country, the American labor force is anticipating a surge in newly retired members of the military over a period of five years that began in 2012-with more than 1 million armed services personnel expected to transition to civilian life, according to former Veterans Affairs Secretary Eric K. Shinseki.²

In an effort to address the veteran unemployment issue, the U.S. Government and approximately 10 states have adopted tax incentive programs directed at encouraging the hiring of veterans. In this article, we summarize the federal programs and some of the programs offered by the larger states. These incentives, along with the skills that veterans bring to the workforce from their military training and service, present a strong business case for hiring veterans.

Paradox of misperception

The paradox is that, despite the ample supply of veterans with a diverse portfolio of skills, there remain some in the business sector that underestimate the value associated with hiring veterans. This may stem from the fact that private-sector organizations are unaware of the state-of-the-art training offered by our military that, by necessity, has proactively adopted the latest technological advances in its ongoing effort to protect the nation. According to Harvard Business School faculty member Scott Snook, ³ "The Army is one of the best training institutions in the world. By focusing on a clear set of tasks, conditions, and standards, we take thousands of young recruits every month and train them to operate some of the most sophisticated equipment in the world under some of the most challenging conditions imaginable."

Military training of armed forces personnel builds a cluster of competencies and behaviors that is of great value to the private sector. According to a recent report, ⁴ "Veterans bring leadership and management skills to the table-skills that are the hardest to grow." The traits of adaptability and trainability of veterans coupled with strong problem-solving skills and critical thinking make them ideally suited in an economy with ever-changing job descriptions created by globalization and continuously evolving technology.

Federal government incentives

In apparent recognition of both the need to employ veterans and the capability that veterans bring to the workforce, the U.S. government has passed legislation and launched several initiatives to encourage the hiring of veterans, including promoting veteran hiring through tax credits. In 1996, the federal Work Opportunity Tax Credit ("WOTC") was enacted, providing a federal income tax credit to private-sector businesses that hire individuals from designated target groups with significant barriers to employment. ⁵ In 2011, President Barack Obama signed the "Vow to Hire Heroes Act" (P.L. 112-56, The "Vow Act") to encourage companies to hire veterans. The Vow Act extended the expiration date of the veteran-targeted group within the WOTC ⁶ program and created two new veteran-focused credits within that program, namely, the Returning Heroes Tax Credit and the Wounded Warrior Tax Credit.

The Returning Heroes Tax Credit provides an incentive for businesses to hire both short-term and long-term unemployed veterans. The Wounded Warrior Tax Credit doubles the existing tax credit for long-term unemployed veterans with service-connected disabilities. The Vow Act also created a Special Employer Incentive program ⁷ where, in certain instances, the Department of Veterans Affairs is authorized

to pay up to half the salary (for the first six to nine months) of a veteran engaged in an on-the-job training program.

The WOTC falls under the general business credit and is, therefore, subject to the net tax liability limitation of Section 38 of the Internal Revenue Code ("IRC") and the carryback and carryover rules of IRC Section 39. The WOTC amount for most targeted groups can be up to \$2,400 per employee, or 40 percent of the employee's first-year qualified wages up to \$6,000.

The potential WOTC credit amounts (including those added by the Vow Act) available for hiring veterans can increase depending on a number of factors. The first-year qualified wages are limited to \$6,000 for most qualified groups, which amounts to a yearly credit of up to \$2,400.⁸ The wage limit for disabled veterans is \$12,000, if hired within one year of leaving the service, or \$24,000, if unemployed for at least 6 months, amounting to yearly credits of up to \$4,800 and \$9,600, respectively.⁹ The wage limit for a qualified veteran who has been unemployed for at least six months is \$14,000, amounting to a yearly credit of up to \$5,600.¹⁰ Additionally, for the first time since the inception of the WOTC program, the Vow Act also allows qualified tax-exempt 501(c) organizations to claim a credit against payroll taxes for hiring qualified veterans.

It should be noted that the WOTC credit for all targeted groups expired as of December 31, 2013, and had not been reinstated as of press time. The WOTC is an incentive that is often referred to as one of the "tax extenders" that must be reauthorized by congressional action every year or two. While there is no guarantee that the WOTC will be extended for periods subsequent to December 31, 2013, Congress has shown a consistent practice since the inception of the WOTC to enact extension legislation (retroactively, when necessary).

State government incentives

In addition to the efforts made by the federal government, state governments are also trying to pass legislation and create programs to support veterans and returning military personnel. Currently, Alabama, Alaska, Arizona, Delaware, Illinois, New Mexico, New York, Utah, West Virginia, and Wisconsin all have specific incentives to support the hiring of veterans. In addition, there are a number of states that have pending veteran-incentive legislation and/or have broader incentives that include veterans among the groups targeted for incentivized hiring. In this article we will highlight some of the larger states with specific veteran-hiring incentives.

Illinois. The state of Illinois enacted the Wages Paid to Veterans Tax Credit that entitles corporate taxpayers to a nonrefundable tax credit for the gross wages paid to a qualifying veteran hired after January 1, 2007, and before December 31, 2016. Illinois has modified the statute to increase the credit for those veterans who are also unemployed. The amount of the credit varies depending upon when (between 2007 and 2016) the credit is claimed.

For taxable years beginning on or after January 1, 2007, and ending on or before December 30, 2010, the credit is equal to 5 percent of the gross wages paid, up to a maximum credit amount of \$600. For tax years beginning on or after January 1, 2010, the credit is equal to 10 percent of gross wages paid, with the credit amount not to exceed \$1,200.¹¹ For taxable years ending on or after December 31, 2012, the taxpayer may claim a credit equal to 20 percent of the gross wages paid, up to a \$5,000 credit amount, provided that the wages are paid to a qualified unemployed veteran who was unemployed for an aggregate period of four weeks or more during the six-week period ending on the Saturday immediately preceding the date he or she was hired by the taxpayer.¹²

Depending upon which veteran credit is sought, to be eligible, the individual must meet the definition of a "qualified veteran" or a "qualified unemployed veteran." A "qualified veteran" is defined as an Illinois resident who: (i) was a member of the Armed Forces of the United States, the Illinois National Guard, or any reserve component of the Armed Forces of the United States; (ii) served on active duty in connection with Operation Desert Storm, Operation Enduring Freedom, or Operation Iraqi Freedom; (iii) has provided, to the taxpayer, documentation showing that he or she was honorably discharged; and (iv) was initially hired by the taxpayer on or after January 1, 2007.¹³ The definition of a "qualified unemployed veteran" is similar to that of a qualified veteran (see above), but also includes a requirement that the veteran have been unemployed for four or more weeks during the six-week period prior to the hire date.¹⁴

New York. In 2013, New York passed legislation that allocated \$74 million to provide a nonrefundable veteran hiring credit to employers that hire a qualified veteran who is employed: (i) for at least one year, (ii) for no less than 35 hours per week, and (iii) for tax years beginning on or after January 1, 2015, and before January 1, 2017. The credit available is 10 percent of the total amount of wages paid to the qualified veteran during the veteran's first year of employment, with the credit amount not to exceed \$5,000.¹⁵ In the case of a disabled veteran, the credit available is 15 percent of the total amount of wages paid, with the credit amount not to exceed \$15,000.¹⁶

The credit may only be claimed in the year that the veteran completes one year of employment with the taxpayer.¹⁷ Unused credits may be carried forward for a period of three years.¹⁸ In order for the credit to be

claimed, the employer is required to have the qualified veteran complete the Employee Affidavit for the Hire a Veteran Credit. Further, the veteran must certify that he or she meets the requirements of a qualified veteran.¹⁹ The taxpayer should keep a record of this documentation.²⁰

A qualified veteran is one who: (i) served on active duty in the U.S. army, navy, air force, marine corps, coast guard or the reserves thereof, or who served in active military service of the U.S. as a member of the army national guard, air national guard, New York guard or New York naval militia; (ii) was released from active duty by general or honorable discharge after September 11, 2001; (iii) commences employment by the qualified taxpayer on or after January 1, 2014, and before January 1, 2016; and (iv) certifies by signed affidavit that he or she has not been employed for 35 or more hours during any week in the 180-day period immediately prior to his or her employment by the taxpayer.²¹

Wisconsin. For taxable years beginning after 2012, the Wisconsin Veteran Employment Credit provides a nonrefundable income tax credit for hiring qualified veterans. A veteran is defined as a person who: (i) is verified by the Wisconsin Department of Veteran Affairs to have served on active duty under honorable conditions of the U.S. armed forces;²² (ii) is verified by the Wisconsin Department of Veteran Affairs to have a service-connected disability rating of at least 50 percent;²³ and (iii) received unemployment compensation benefits for at least one week prior to being hired, was receiving those benefits at the time he or she was hired, and was eligible for those benefits at the time they were paid.

For a qualifying full-time veteran, the credit is equal to \$4,000 in the taxable year that the veteran is hired and \$2,000 in each of the succeeding three taxable years; however, if the employment is part-time, the credit is reduced to \$2,000 and \$1,000, respectively.²⁴ The credit must be claimed by the employer within four years of the original due date of its tax return; however, the state explicitly provides that no credit may be claimed in a year during which the veteran voluntarily or involuntarily leaves employment.²⁵ For taxable years that begin before January 1, 2013, credits may be carried forward for 15 years to taxable years that begin after December 31, 2012.²⁶ Both the employer and the veteran must complete a form requesting approval of eligibility in order for the credit to be claimed.

California. Other states, such as California, have included veterans as qualifying categories in broader incentive packages. On June 27, 2013, the California Legislature approved Assembly Bill 93 which repealed the California Enterprise Zone credit program and created the New Employment Credit ("NEC") for qualified employees hired in tax years beginning on or after 2014 and prior to January 1, 2021. The NEC program allows a nonrefundable credit for qualified employers that hire qualified full-time employees to work in a designated census tract or economic development area.²⁷ One of the qualifying criteria for

eligibility applies to veterans that have separated from service in the U.S. Armed Forces within the 12-month period prior to being hired.²⁸ The allowable credit is in an amount equal to 35 percent of qualified wages paid for each net new qualified full-time employee.²⁹ The amount of any unused credit may be carried forward for up to five years.

A taxpayer that wishes to claim the credit must request a tentative credit reservation from the Franchise Tax Board ("FTB") within 30 days of complying with the Employee Development Department's new-hire reporting requirements on a form prescribed by the FTB.³⁰ Also, the taxpayer must furnish to the FTB, by the 15th day of the third month of the taxable year, an annual certification of employment with respect to each qualified full-time employee hired in a previous taxable year.³¹

Conclusion

Despite the well-intended focus on providing private-sector employment opportunities for unemployed veterans and transitioning military personnel, some in the corporate sector may continue to underestimate the benefit derived from hiring veterans. According to a recent study by The Corporate Executive Board, as compared to non-veterans, on average veterans perform at higher levels and are less likely to separate from employment, which can lead to increased business results.³² Veterans bring significant technical skills, leadership skills, and adaptability to their jobs. Veterans perform at higher levels and tend to be more committed to the organizations that employ them than non-veterans. When you consider these elements, and then factor in the applicable federal and state incentives, the value proposition in favor of hiring veterans becomes very persuasive.

¹ See National Conference of State Legislatures, "National Employment Monthly Update" (Sept. 2014) at <http://www.ncsl.org/research/labor-and-employment/national-employment-monthly-update.aspx>.

² Donna Miles, "Shinseki Vows to Support Military Members, Vets," American Forces Press Service, <http://www.defense.gov/News/NewsArticle.aspx?ID=67784>, (Mar. 30, 2012).

³ George B. Forsythe, Scott Snook, Philip Lewis, and Paul T. Bartone, "Making Sense of Officership: Developing a Professional Identity for 21st Century Army Officers." Chap. 24 in *The Future of the Army Profession*, edited by Lloyd J. Matthews, 357-378. McGraw-Hill, 2002.

⁴ See http://www.snelling.com/Client_Resources/10_Reasons_to_Hire_a_Veteran/.

⁵ 26 U.S.C. § 51.

⁶ The Vow Act extended the WOTC for qualified veterans hired before Jan. 1, 2013. The American Taxpayer Relief Act of 2012 extended the WOTC for qualified veterans hired before Jan. 1, 2014.

⁷ See <http://www.benefits.va.gov/VOW/docs/seiflyerfinal.pdf>.

⁸ 26 U.S.C. § 51(b)(3).

⁹ 26 U.S.C. § 51(b)(3).

¹⁰ 26 U.S.C. § 51(b)(3).

¹¹ 35 Ill. Comp. Stat. 5/217(a).

¹² 35 Ill. Comp. Stat. 5/217.1(a).

¹³ 35 Ill. Comp. Stat. 5/217(b).

¹⁴ 35 Ill. Comp. Stat. 5/217.1(b).

¹⁵ N.Y. Tax Law § 210(23-a)(d).

¹⁶ N.Y. Tax Law § 210(23-a)(d).

¹⁷ N.Y. Tax Law § 210(23-a)(a).

¹⁸ N.Y. Tax Law § 210(23-a)(e).

¹⁹ TSB-M-13(9)C(8)I.

²⁰ TSB-M-13(9)C(8)I.

²¹ N.Y. Tax Law § 210(23-a)(b).

²² Wis. Stat. § 71.28(6n)(a)(5).

²³ Wis. Stat. § 71.07(6n)(a)(2).

²⁴ Wis. Stat. § 71.28(6n)(b).

²⁵ Wis. Stat. § 71.28(6n)(c)(2).

²⁶ Wis. Stat. § 71.28(6n)(d); Fact Sheet 1112.

²⁷ Cal. Rev. & Tax Code § 23626(a)(1).

²⁸ Cal. Rev. & Tax Code § 23626(b)(10)(A)(vi)(II).

²⁹ Cal. Rev. & Tax Code § 23626(b)(12).

³⁰ Cal. Rev. & Tax Code § 23626(e)(1).

³¹ Cal. Rev. & Tax Code § 23626(e)(3).

³² 2013 The Corporate Executive Board Company, The Business Case For Hiring Veterans, CLC7538513SYN.