

American Taxpayer Relief Act Extends Work Opportunity Tax Credit, Empowerment Zone Incentives, and the Indian Employment Credit; and Makes Other Related Changes

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Overview

On January 2, 2013, President Barack Obama signed into law the American Taxpayer Relief Act of 2012 (“ATRA”).¹ The new law contains termination date extensions through December 31, 2013 applicable to the Work Opportunity Tax Credit, Empowerment Zone Incentives, the Indian Employment Tax Credit, and Indian Reservation Accelerated Depreciation. In this Tax Alert we summarize these and other related ATRA law changes.

Extension of the Work Opportunity Tax Credit

ATRA Section 309 extends the Work Opportunity Tax Credit (“WOTC”) expiration date from December 31, 2011 to December 31, 2013.² The WOTC is a federal income tax credit of up to \$2,400 for each qualified newly hired employee that falls into one of eight targeted groups.³ These groups include members of families receiving benefits under the Temporary Assistance to Needy Families program, designated community residents, vocational rehabilitation referrals, qualified ex-felons, qualified summer youth employees, qualified food and nutrition recipients, qualified Supplemental Security Income recipients, and long-term family assistance recipients.⁴

Section 309 also extends through December 31, 2013 the WOTC available to businesses that hire qualified veterans.⁵ The maximum federal income tax credit amount for employers that hire qualified veterans ranges from \$2,400 - \$9,600 per qualified veteran hired.⁶ Tax exempt employers that hire qualified veterans may claim this credit against Social Security taxes.⁷

Extension of Empowerment Zone Tax Incentives; Additional Related Changes

ATRA Section 327 extends from December 31, 2011 to December 31, 2013 the period for which an Empowerment Zone designation shall be in effect for certain economically depressed census tracts.⁸ The Empowerment Zone Hiring Credit program provides an annual federal income tax credit of up to \$3,000 per Empowerment Zone resident hired.⁹ Section 327 also extends through December 31, 2018 the special treatment afforded capital gains on investments made within Empowerment Zones.¹⁰

A notable exclusion from the ATRA extension provisions concerns tax incentives in the District of Columbia Enterprise Zone.¹¹ The time for which zone designation was applicable in the District of Columbia ended on December 31, 2011,¹² and was not extended by ATRA.

Extension of Indian Employment Tax Credit and Reservation Accelerated Depreciation

ATRA Section 304 extends through December 31, 2013 the federal income tax credit for the hiring of qualified persons that work and live on or near an Indian reservation.¹³ The program provides an annual

¹ American Taxpayer Relief Act of 2012; P.L. 112-240; 2013 Enacted H.R. 8.

² ATRA Sec. 309(a), amending Internal Revenue Code (“IRC”) §51(c)(4)(B).

³ IRC §51(a),(b).

⁴ IRC §51(d).

⁵ ATRA Sec. 309(a), amending IRC §51(c)(4)(B).

⁶ IRC §51(a),(b).

⁷ IRC §3111(e).

⁸ ATRA Sec. 327(a), amending IRC §1391(d)(1)(A)(i).

⁹ IRC §1396(c)(2).

¹⁰ ATRA Sec. 327(b), amending IRC §1202(a)(2)(C).

¹¹ IRC §1400 (f).

¹² IRC §1400 (f)(1).

¹³ ATRA Sec. 304(a), amending IRC §45A(f).

tax credit of up to \$4,000 based on wages and health insurance costs paid to qualified employees.¹⁴ Additionally, ATRA Section 313 extends through December 31, 2013 the accelerated depreciation benefits for businesses making investments on or near an Indian reservation.¹⁵

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¹⁴ IRC §45A(a).

¹⁵ ATRA Sec. 313(a), amending IRC §168(j)(8).