



## **Credits & Incentives talk with Deloitte**

Working hard: Governmental incentives  
to combat long-term unemployment

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## Working Hard: Governmental Incentives to Combat Long-Term Unemployment

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The federal government and state authorities have created many types of incentive programs to address the issue of long-term unemployment, which is currently at a high level. Statistics show that following the recession of 2007-2009, the rate of long-term unemployment (LTU) skyrocketed relative to pre-recession averages and continues to remain persistently high today, representing more than 25% of the current overall unemployment rate. Although the overall rate of unemployment is now hovering near 5%, the percentage of those people who have been unemployed for six months or longer is almost *twice* as high as the pre-recession average LTU rate.<sup>1</sup>

These U.S. Bureau of Labor statistics understate the full scope of the problem, however. Many long-term unemployed people stop looking for jobs or become "underemployed," with the result that they are no longer included in the unemployment figures reported by the U.S. Bureau of Labor statistics.

Companies may be more inclined to reach out to this population for their hiring needs, given the incentives that are being offered to mitigate this problem. Adding employees at a reduced cost while

providing valuable employment may be more attractive for many employers to mitigate their employment risk.

This column will take a closer look at these trends and highlights various federal and state programs that provide tax-related benefits to companies that act to hire people within the LTU population.

## Long-term unemployment trends

The unemployment rate—which represented 5% of the workforce, or 7.9 million people, in April 2016<sup>2</sup>—is a common measure of economic health. Many people cite this figure and its relatively modest level compared to historic averages as a sign that the U.S. economy is recovering from the recession of 2007-2009. Based on recent LTU trends, however, this statistic should not be viewed in a simplistic fashion, and should be subject to further analysis.

An individual officially meets the government's definition of "long-term unemployed" after being out of work and actively seeking reemployment for a period of 27 weeks or more.<sup>3</sup> While LTU rates typically trend higher for several years after a recession ends, the current level of LTU is significant in its severity and persistence.

The accompanying Exhibit 1, "LTU Rates 1986 through 2015," shows how the seasonally adjusted LTU rate has fluctuated over the last 30 years.<sup>4</sup> For the 20-year period before the 2007-2009 recession, long-term unemployed individuals, on average, accounted for 15.9% of the unemployed.<sup>5</sup> This period included two economic downturns in the early 1990s and early 2000s. The pre-2007-2009 recession average helps put into perspective today's LTU rate, which was 27.6% in March 2016.<sup>6</sup>

Digging deeper into the Bureau of Labor unemployment statistics reveals other demographics of interest to employers. LTU rates currently tend to be higher among African Americans and Asians, compared to Whites and Hispanics.<sup>7</sup> Older people also tend to be more significantly affected by LTU rates than their younger counterparts. And men are slightly more likely than women to be long-term unemployed.<sup>8</sup>

People who previously held jobs in sales and office, management and professional occupations were among the long-term unemployed.<sup>9</sup> In addition, a higher percentage of long-term unemployed people are college-educated, compared to the short-term employed population.<sup>10</sup>

In recent years, job growth has been slow and disproportionately concentrated among lower-paying positions. Improvements have not offset the significant job loss and do not account for population growth

following the recession. Moreover, the longer someone is jobless, the harder it becomes to find a new job, especially one that offers comparable pay and benefits.

## Potential benefits for both sides

One solution lies in private sector employers that, given potential incentives, are more willing to take a chance on job applicants who have gaps in their employment history. In February 2014, President Obama made a call to action in a White House blog, posting: "The [long-term unemployed] just need employers to realize it doesn't reflect at all on their abilities or their value. It just means they've been dealing with the aftermath of this really tough job market, and all they need is a fair shot. And with that shot, an out-of-work young person can get the critical experience he needs to improve his employment prospects for the rest of his life. With that shot, someone with decades of experience could get back in the game and show a younger worker the ropes. We can give them that shot."

Research conducted by Deloitte Consulting LLP in collaboration with The Rockefeller Foundation revealed that, on average, companies that used "skills-based hiring practices" to hire long-term unemployed candidates experience the following benefits:

- 25% to 75% reduction in turnover,
- 50% to 70% reduction in time to hire,
- 70% reduction in cost to hire, and
- 50% reduction in time to train.<sup>11</sup>

Employers that hire long-term unemployed candidates may also find a more qualified, motivated and diverse talent pool that may be relatively easy and less expensive to access, using referral sources provided by government-funded and nonprofit organizations, such as American Job Centers, Workforce Investment Boards and community colleges. These organizations, commonly referred to as "intermediaries," also may train and pre-screen candidates, as well as provide apprenticeship, internship and temp-to-hire opportunities.

## Federal tax credits

The federal government offers various tax incentives to employers that hire the long-term unemployed. One of the most well-known is the Work Opportunity Tax Credit (WOTC), which has been retroactively renewed for 2015 and extended through 2019. Under the Protecting Americans from Tax Hikes (PATH)

Act of 2015, the credit was expanded in 2016 to include a new "target" group: LTU compensation recipients, defined as individuals who have been certified by the designated local agency as being in a period of unemployment of 27 weeks or more, including a period in which the individual was receiving unemployment compensation under state or federal law.

Under Internal Revenue Code (IRC) Section 51, employers generally may claim the WOTC on the first \$6,000 of qualified wages paid to a new hire in the first year,<sup>12</sup> but there are some exceptions for summer youth workers and veterans, who qualify for different limits. New hires must work for the business at least 120 hours during the first year to qualify for the WOTC.

To claim this credit, an employer must obtain certification from its state employment security agency that the worker(s) belong to one of these target groups:<sup>13</sup>

- long-term family assistance recipients,
- qualified recipients of Temporary Assistance for Needy Families (TANF),
- qualified veterans,
- qualified ex-felons,
- designated community residents who live in Empowerment Zones, enterprise communities, renewal communities, or rural renewal counties,
- vocational rehabilitation referrals for individuals certified as having a physical or mental disability that constitutes a substantial handicap to employment,
- qualified summer youth employees,
- qualified Supplemental Nutrition Assistance Program (SNAP) recipients,
- qualified Supplemental Security Income benefits recipients, or
- qualified LTU compensation recipients.

The credit equals 25% of an employee's qualified wages, up to the applicable limit, if a new hire works at least 120 hours during the first year.<sup>14</sup> The credit increases to 40% if the new employee works more than 400 hours.<sup>15</sup> Employers also may qualify for a credit of 50% of qualified second-year wages (in addition to first-year wages) if they hire someone who is certified as a long-term family assistance recipient.<sup>16</sup> Employers that receive payment from a federally funded on-the-job training program are ineligible from claiming the WOTC.<sup>17</sup>

In addition, the PATH Act reauthorized legislative authority for Empowerment Zones through December 31, 2016.<sup>18</sup> Previously, tax incentives available in Empowerment Zones expired on December 31, 2014.<sup>19</sup> Empowerment Zones are certain urban and rural areas where employers and other taxpayers qualify for

special tax incentives, including the 20% wage credit under IRC Section 1396 for "qualified zone wages" up to \$15,000, for a maximum credit of \$3,000.<sup>20</sup>

## State tax credits

Certain states also offer various tax incentives to encourage private employers to hire unemployed and long-term unemployed candidates. Examples include the following.

**Louisiana:** Louisiana offers a variety of tax incentives for employers that create new jobs. A long-standing example is the credit for employment of the previously unemployed.<sup>21</sup> It provides a \$540 income tax credit for hiring unemployed candidates for new full-time jobs, effective until June 30, 2018.<sup>22</sup> This credit generally applies in the first year of service.<sup>23</sup> But employers can elect to take the credit against their franchise tax for the subsequent tax year—in other words, the new hire's second year of full-time service.<sup>24</sup>

To qualify for this credit, an employer must increase its full-time employment level by at least 5% over the previous year and only those additional new employees over the 5% increase are eligible for the credit.<sup>25</sup>

For example, if a company reported an average of 100 full-time jobs for tax year 2015, it would be required to hire five additional full-time employees in 2016, and then the company would earn the credit for each additional qualifying employee hired. Jobs that have been eliminated are netted against created jobs in calculating the number of new jobs created.

Qualifying employees must be Louisiana residents who have resided in the state for at least six months prior to employment and have been either: (1) unemployed for at least an eight-week consecutive period prior to employment, or (2) a recipient of Family Independence Temporary Assistance Program payments who is participating in the Family Independence Work Program.<sup>26</sup>

The employer must obtain a notarized statement from qualifying employees certifying that they meet one of the above conditions.<sup>27</sup> This credit cannot be combined with other state tax credits, including the credit for hiring eligible re-entrants, the corporate jobs credit, the neighborhood assistance tax credit and various others.<sup>28</sup>

**New Jersey:** One of New Jersey's economic incentives aimed at lowering the LTU rate is the Redevelopment Authority Project Employee tax credit.<sup>29</sup> This incentive provides a \$1,500 credit each year for two years for qualified new employees who were unemployed or on public assistance before joining

the project.<sup>30</sup> It is available starting in the tax year after the year of qualification.<sup>31</sup> Unused tax credits may be carried forward for one year only, and any credit remaining after such time is forfeited.<sup>32</sup> Qualifying employers must meet all of the following requirements to claim this credit:

- conduct business on a project with the New Jersey Redevelopment Authority (or one of its project developers),
- operate as a manufacturer,
- hire the qualifying employee during the tax year for which the credit is claimed,
- employ the qualifying employee for at least six continuous months during the tax year of first employment (or for six continuous months in the tax year of first employment plus the succeeding tax year), and
- hire the qualifying employee on or after the date of closing of the development project.<sup>33</sup>

The credit is available for each qualifying employee.<sup>34</sup> To qualify, a new hire must be: (1) a resident of the municipality in which the New Jersey Redevelopment Authority project is located, and (2) previously unemployed for at least 90 days or dependent upon public assistance as the primary source of income.<sup>35</sup>

**California:** In California, the New Employment tax credit<sup>36</sup> is available for each taxable year beginning on or after January 1, 2014, and before January 1, 2021, to a qualified taxpayer that hires a qualified full-time employee on or after January 1, 2014.<sup>37</sup> To be eligible for this credit, an employer must pay or incur qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or economic development area.<sup>38</sup> In addition, the qualified taxpayer must have a net increase in the total number of full-time employees in California.<sup>39</sup>

The state targets specific areas with high unemployment and poverty for this credit, such as portions of Fresno, Merced and Riverside. However, certain types of business are specifically excluded from the New Employment tax credit, unless they qualify as a small business with aggregate gross receipts of less than \$2 million in the previous tax year.<sup>40</sup> Examples of excluded businesses are temporary help agencies, retailers, restaurants, theaters, casinos, bars and nightclubs.<sup>41</sup>

A qualified full-time employee is an individual who meets all of the following:

- performs at least 50% of his or her services for the employer in the designated area,
- receives starting wages that exceed 150% of the state minimum wage (or receives starting wages exceeding \$10 per hour, if the employee is working in one of the initial "pilot" areas),
- is hired on or after January 1, 2014,
- is hired after the census tract or economic development area is designated by the state, and

- is paid hourly wages for an average of at least 35 hours per week (or is salaried) and paid for full-time employment under the state labor code.<sup>42</sup>

In addition, a qualifying employee must fall into one of these five categories:

1. Unemployed for the six months immediately preceding hire. (If the individual completed a college or similar program and received a baccalaureate, postgraduate or professional degree, the completion date must be at least 12 months prior to hire.)
2. Veteran separated from the U.S. Armed Forces in the preceding 12 months.
3. Recipient of the Earned Income Tax Credit in the previous taxable year.
4. Ex-offender convicted of a felony.
5. Current recipient of CalWORKS or general assistance from the state of California.<sup>43</sup>

The New Employment tax credit is generally equal to 35% of qualified wages times the "applicable credit percentage," which is based on the employer's net increase in full-time employees working in California.<sup>44</sup>

This is measured by comparing the full-time employees working in California during the taxable year to the base year.<sup>45</sup> The numerator of the fraction is the net increase in full-time employees and the denominator of the fraction is the number of qualified full-time employees.<sup>46</sup> The applicable percentage cannot exceed 100%.<sup>47</sup>

Other states that offer tax incentives for businesses that hire the long-term unemployed, veterans and other at-risk groups include Alabama, Arizona, Connecticut, Illinois, Kentucky, North Carolina and Pennsylvania.

## Additional financial incentives

Some people who are long-term unemployed may not have the skills employers need to fill open positions. For example, an individual might not have kept up-to-date with changes in technology or continuing professional education requirements. Other times, there may be a general shortage of skilled workers in an industry or geographic area.

Federal and state governments offer additional financial incentives to employers that help the unemployed obtain skills they need for a new job. These incentives include cash grants, tax credits, training-in-lieu-of-pay programs and apprenticeships.

One example is the American Apprenticeships Grants program.<sup>48</sup> In September 2015, the Department of Labor awarded \$175 million in grants—generally ranging between \$2.5 million and \$5 million per grant—

to 46 public-private partnerships to expand U.S. apprenticeships and make them available to more workers and employers.<sup>49</sup> The grantees have pledged to train and hire more than 34,000 new apprentices in high-growth and high-tech industries, including health care, information technology (IT) and advanced manufacturing, over the next five years.<sup>50</sup>

Hands-on apprenticeships, where workers earn and learn at the same time, are a proven path to secure middle class jobs. They typically include both on-the-job training and classroom instruction provided by apprenticeship training centers, technical schools, community colleges and even distance learning. Often apprentices also earn college credit from community colleges that participate in the programs.

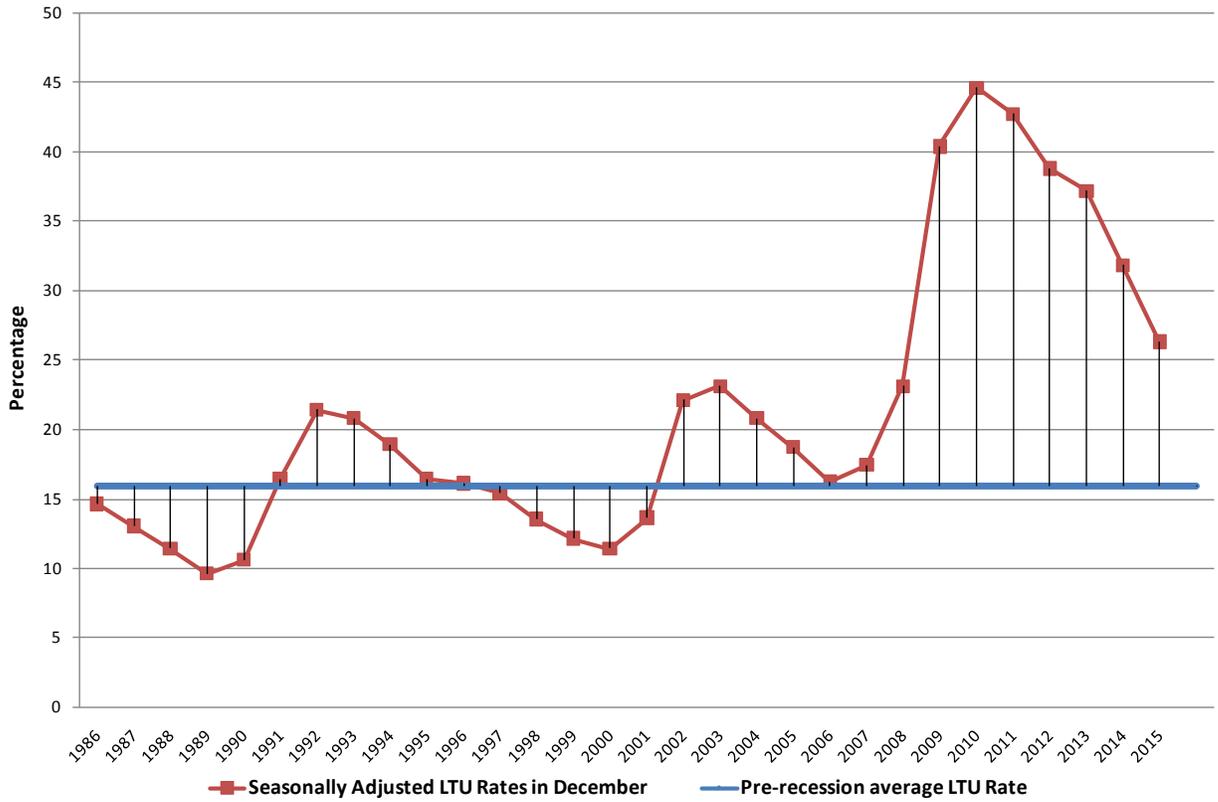
Consider the state of Washington's "Get in IT" apprenticeship program.<sup>51</sup> Companies participating in the program have pledged to provide more than 3,000 apprenticeships in IT positions<sup>52</sup> In addition to a revolutionary training curriculum that speeds the time to acquire skills, Get in IT will launch a statewide marketing campaign to recruit a more diverse population of apprentices, including women, minorities and transitioning veterans.<sup>53</sup>

Besides financial incentives, employers participating in apprenticeship programs may reap additional benefits, including lower recruitment costs, reduced turnover rates, improved productivity and increased safety in the workplace.<sup>54</sup>

## Pairing need with opportunity

The long-term unemployment rate continues to remain at unprecedented levels while the rate of improvement appears to have stalled over the last year. Companies should consider the various state and federal tax incentives for hiring and training the long-term unemployed to both address LTU and improve their workforce on a lower cost basis. Providing a "fair shot" to the long-term unemployed while also receiving tax benefits is the classic "win-win."

**Exhibit 1: LTU Rates 1986 through 2015**  
Source: U.S. Bureau of Labor Statistics



<sup>1</sup> U.S. Bureau of Labor Statistics, "Trends in Long-Term Unemployment," Karen Kosanovich and Eleni Theodossiou Sherman, March 2015, <http://www.bls.gov/spotlight/2015/long-term-unemployment/pdf/long-term-unemployment.pdf>

<sup>2</sup> U.S. Department of Labor, Bureau of Labor Statistics, *The Employment Situation—April 2016*, USDL-16-0662, <http://www.bls.gov>

<sup>3</sup> Internal Revenue Code Section 51(d)(15).

<sup>4</sup> U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Series Id: LNS13008636

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> U.S. Bureau of Labor Statistics, "Trends in Long-Term Unemployment," Karen Kosanovich and Eleni Theodossiou Sherman, March 2015, <http://www.bls.gov/spotlight/2015/long-term-unemployment/pdf/long-term-unemployment.pdf>

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *A Guide to Recruiting and Hiring the Long-Term Unemployed: A Handbook for Employers*, Deloitte Consulting LLP and The Rockefeller Foundation, October 2014.

<sup>12</sup> Internal Revenue Code Section 51(b)(3).

<sup>13</sup> Internal Revenue Code Section 51(d)(1).

<sup>14</sup> Internal Revenue Code Section 51(i)(3)(A).

<sup>15</sup> Internal Revenue Code Section 51(a).

<sup>16</sup> Internal Revenue Code Section 51(e)(1)(A).

<sup>17</sup> Internal Revenue Code Section 51(c)(2)(A).

<sup>18</sup> Protecting Americans from Tax Hikes (PATH) Act of 2015, Sec. 171.

<sup>19</sup> *Id.*

<sup>20</sup> Internal Revenue Code Section 1396(b) and (c)(2).

<sup>21</sup> La. Rev. Stat. Ann. § 47:6004.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> Louisiana Department of Revenue, Form 40058, *Credits, Exemptions, Exclusions, & Deductions for Individual and Corporation Income Tax, Corporation Franchise Tax, Inheritance Tax, and Gift Tax*, p. 32.

<sup>29</sup> N.J. Admin. Code § 18:7-3.28.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> New Jersey Department of Revenue, Form 302, *New Jersey Corporation Business Tax: Redevelopment Authority Project Tax Credit*.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> Cal. Rev. and Tax. Code § 23626.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> U.S. Department of Labor, *American Apprenticeship Grants*,  
<http://www.dol.gov/featured/apprenticeship/grants>.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

<sup>54</sup> U.S. Department of Labor, *Apprenticeships: Frequently Asked Questions*,  
<http://www.dol.gov/featured/apprenticeship/faqs>.