



Second Chance Initiative Resource Guide:

WOTC and Federal Bonding

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This guide is designed to give manufacturers the tools needed to explore and implement Second Chance hiring. This resource offers an overview of two federal incentives designed to encourage employers to consider candidates with barriers to the workforce, including past convictions.

I. Work Opportunity Tax Credit (WOTC): WOTC is a federal tax credit that incentivizes employers to hire justice-involved individuals and other target groups who have consistently encountered significant barriers to employment. Private employers can claim the WOTC against their federal income tax liabilities by hiring justice-involved people. The amount of the tax credit that businesses may claim depends on the hired individual's target group, wage, and the number of hours worked during the first year of employment.

Local state workforce agencies (SWA), often state commerce departments, administer and determine eligibility for WOTC. A company can receive \$2,400 for each eligible employee. While every state has their own local SWA overseeing the administration of WOTC, the following process provides the general framework for applying for WOTC:

1. **Register with your local SWA:** States have developed WOTC Online Systems where companies can enter tax credit applications and submit requested paperwork
2. **Determine employee eligibility:** Employers must complete a pre-screen form to certify each eligible employee
3. **Report individual characteristics:** Applicants must complete the Individual Characteristics form to qualify for the work opportunity credit. The form may be completed directly by an employee or by an employer on their behalf

Important Things to Know

- All forms should be submitted to the state workforce agency (SWA) within 28 days after the new hire's start date. WOTC applications can be submitted electronically or by mail.
- After receiving a certification, employers may file for the tax credit with the IRS. Generally, an employer elects to take the credit by filing IRS Form 3800 and IRS Form 5884. Employers also must meet requirements for the Minimum Employment Period, which is the number of hours required to be worked by the employee – at least 120 hours in the first year of employment – before they can file and qualify for the tax credit.

- The credit is limited to the amount of the business income tax liability or social security tax owed. A taxable business may apply the credit against its business income tax liability, and the normal carry-back and carry-forward rules apply.

II. Federal Bonding: Federal Bonding provides free individual fidelity bonds to employers when they hire justice-involved individuals and others who traditionally have had difficulty finding meaningful employment. Employers receive \$5,000 in coverage for the first six months of employment. The coverage protects the employer from acts of dishonesty such as theft, larceny or embezzlement.

Employers are required to establish a bond, which takes the following steps:

1. The employer contacts their local SWA or the Federal Bonding Coordinator
2. SWA staff complete the Federal Bonding Certification form (employers DO NOT need to complete this)
3. SWA staff send the form to the state's Federal Bonding Coordinator
4. SWA staff send the employer a letter confirming the bond has been processed
5. The Federal Bonding Coordinator processes the bond
6. The employer receives a packet from Union Insurance Group with instructions on how to file a claim, if necessary

Important Things to Know

- The bond must be established prior to the first day of work. While it must be the employer who establishes the bond, job seekers can request a Federal Bonding Eligibility Letter from the Federal Bonding Coordinator or their local/state Career Center for use when applying for employment.
- For companies to access federal bonding, there must be an existing Employer/Employee relationship and the employer must be deducting all required federal and state income taxes from pay.
- The employee must be receiving a W2 at the end of the year (No 1099 or contract workers). Self-employed individuals are not eligible for the Federal Bonding Program.