

Appendix III: Business Tax Credits and Reduced Labor Costs

Incentives for small- and medium-sized businesses make tapping into the disability community an attractive recruiting strategy. There are three tax incentives—small business tax credit, architectural and transportation tax deduction, and work opportunity tax credit—available to help employers cover accommodation costs for employees or customers with disabilities to make their business environment accessible to these individuals.

Small Business Tax Credit

Internal Revenue Code (IRC) Section 44: Expenditures to Provide Access for Disabled Individuals (Disabled Access Tax Credit).

What Is IRC Section 44?

Your small business may take an annual tax credit for making your business accessible to persons with disabilities. The total disabled access tax credits taken in 1996 on corporate income tax returns by all industries totaled \$11.9 million (*IRS 1996 Statistics of Income Report, 1999*).

Is Your Business Eligible?

A business that in the previous year earned \$1 million or less in gross receipts or had 30 or fewer full-time employees is eligible for the Small Business Tax Credit.

What Expenses Are Covered?

The tax credit is available every year and can be used for a variety of costs including the following:

- ✓ Sign language interpreters for employees or customers who have hearing impairments and readers for employees or customers with visual impairments.
- ✓ The purchase of adaptive equipment or the modification of equipment.
- ✓ Printed materials in alternate formats (e.g., Braille, audio tape, large print).
- ✓ The removal of architectural barriers in buildings or vehicles.
- ✓ Other similar services (e.g., use of a job coach or coworker to provide support to an employee with a disability).

What Expenses Are Not Covered?

The tax credit does not apply to the costs of new construction. Also, the tax credit does not apply to any building being modified if the building was placed in service after November 6, 1990.

What Is the Amount of the Tax Credit?

The credit is 50 percent of expenditures between \$250 and \$10,250, for a maximum benefit of \$5,000.

How Can This Credit Be Claimed?

Your business can claim the Disabled Access Credit on IRS Form 8826.

Example of a Small Business Disabled Access Tax Credit Using Coworker Support as a Similar Service Cost

Company X hired a person with a disability; a coworker was assigned to support the new employee as a workplace accommodation. The coworker spent a total of one hour each day providing support. The number of coworker hours spent with the employee totaled 200 hours during the calendar year. The coworker's hourly wage was \$10 per hour. Therefore, the cost of providing the reasonable accommodation for the new employee with a disability was \$2,000. The amount by which \$2,000 exceeds \$250 is \$1,750. Fifty percent of \$1,750 is \$875. Company X may take a tax credit of \$875 on its next income tax return.

Architectural and Transportation Tax Deduction

IRC Section 190: Expenditures to Remove Architectural Barriers and Transportation Barriers to the Handicapped and Elderly (Barrier Removal).

What Is IRC Section 190?

Your business may take an annual deduction for expenses incurred to remove physical, structural and transportation barriers for people with disabilities.

Is Your Business Eligible?

All businesses are eligible.

What Expenses Are Covered?

The architectural and transportation deduction is available each year to businesses with qualified expenses. It can be used for a variety of costs to make a facility or public transportation vehicle, owned or leased for use in the business, more accessible to and usable by persons with disabilities. Examples of deductions include:

- ✓ Providing accessible parking spaces, ramps and curb cuts.
- ✓ Making telephones, water fountains and restrooms that are accessible to persons using wheelchairs.
- ✓ Making walkways at least 48 inches wide.
- ✓ Providing accessible entrances to buildings, including stairs and floors.

What Expenses Are Not Covered?

The deduction may not be used for expenses incurred for new construction, completion of renovations being made to a facility or public transportation vehicle or for normal replacement of depreciable property.

What Is the Amount of the Tax Deduction?

The Internal Revenue Service allows a deduction of up to \$15,000 per year for qualified architectural and transportation barrier removal expenses.

How Can This Expenditure Be Deducted?

Businesses seeking to take a deduction for expenditures made for architectural and transportation modifications should follow the instructions found in IRS Publication 907 and in IRS Publication 535, entitled *Business Expenses*. Businesses cannot take a deduction and a tax credit for the same expenditure.

Work Opportunity Tax Credit (WOTC)

The WOTC was authorized by the *Small Business Job Protection Act of 1996*. In 2006, the WOTC was extended through December 31, 2007.

What Is the WOTC?

The WOTC replaced the Targeted Jobs Tax Credit program. It provides a tax credit for employers hiring individuals from certain targeted groups, including low-income individuals, vocational rehabilitation referrals, former Aid to Families with Dependent Children recipients, veterans, ex-felons, food stamp recipients, summer youth employees and Supplemental Security Income (SSI) recipients. The total amount of WOTC taken by all industries in 1996 on corporate income tax returns totaled \$6.9 million (*IRS 1996 Statistics of Income Report, 1999*).

How Does WOTC Apply to People With Disabilities?

An employer who hires an employee receiving Supplemental Security Income or who is a certified vocational rehabilitation participant may claim the WOTC after certification is received from the State Employment Security Agency (SESA).

What Is the Amount?

An employer may take a tax credit of up to 40 percent of the first \$6,000 in first-year wages per qualifying employee. The maximum per employee credit is \$2,400 in a given tax year. This credit applies only to employees who work at least 400 hours during the tax year. With respect to qualified summer youth employees, the maximum credit for each is \$1,200 (40 percent of the first \$3,000 of first-year wages).

What are the Minimum Employment Requirements?

The employer may claim a partial credit of 25 percent for certified employees who worked at least 120 hours, but fewer than 400 hours, during a one-year period. No credit is available for employees who work fewer than 120 hours.

How Do I Claim the Credit?

Complete and submit IRS Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits*, to your local SESA. Do not submit this form to the IRS. Claim the credit by filing IRS Form 5884 with your tax return.

How Does WOTC Work?

The following steps must be followed:

1. The employer determines likely eligibility by including the WOTC Pre-Screening Notice as part of the application process.
2. On or before the day employment is offered, the Pre-Screening Notice must be signed by the employer and employee and mailed to the SESA within 21 days after the employee begins work.
3. The employer documents eligibility (based on information received from the employee) and submits documentation to the SESA.
4. The SESA certifies that the individual is eligible for the WOTC and notifies the employer in writing for purposes of filing the tax credit.

Another particularly helpful publication produced by the U.S. Department of the Treasury, Internal Revenue Service (IRS), in coordination with the U.S. Department of Health and Human Services (HHS), Office on Disability, is *Living and Working with Disabilities: Tax Benefits and Credits*. It can be accessed at www.irs.gov/pub/irs-pdf/p3966.pdf, or by calling 1-800-829-3676 (Voice) or 1-800-829-4059 (TTY/TDD).