

Hiring Ex-Offenders is Good Business:

A Guide to Tax Credits and Federal Bonding Benefits for Maryland Businesses

Prepared by the Job Opportunities Task Force
as part of the PastForward campaign.

For more information, visit
www.pastforwardmd.org

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Disclaimer: This guide is for informational purposes, and should not be used as the sole basis for legal decisions.

Quick Facts:
What Incentives are Available to Employers?

- 1) **Federal Tax Credit: Work Opportunity Tax Credit (WOTC)**
Businesses that hire workers with barriers to employment, including individuals with criminal records, may be eligible for a federal tax credit of up to \$2,400 per qualifying employee. See Page 2.

- 2) **The Federal Bonding Program**
This program encourages businesses to hire at-risk, hard-to-place job seekers by providing insurance policies that protect against employee theft or dishonesty. The bonds provide six months of coverage ranging from \$5,000 to \$25,000, are available at no cost to the job applicant or the employer, and require no paperwork on the part of the employer. See Page 5.

- 3) **Maryland State Tax Credit: Long-Term Employment of Ex-Felons**
Maryland businesses that hire ex-felons within one year of conviction or release, and employ them for at least one year, may be eligible for a credit up to \$3,000 per qualifying employee against state corporate or income taxes. See Page 7.

NOTE: This program is currently awaiting implementation. JOTF will provide notice and additional information when the credit is available.

1) Federal Work Opportunity Tax Credit (WOTC):

How to Claim It

The Consolidated Work Opportunity Tax Credit Program (WOTC) encourages employers to hire workers from any one of nine target groups, including:

- ✓ **Ex-felons with a hiring date within a year of conviction or release from prison**
- ✓ Long-term Temporary Assistance to Needy Families (TANF) recipients
- ✓ Food stamp recipients who are 18-39 years of age or who are veterans
- ✓ Empowerment Zone, Enterprise Community, or Renewal Community residents under 25 years of age
- ✓ Vocational Rehabilitation Referrals completing rehabilitative services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs
- ✓ Supplemental Security Income (SSI) recipients

The credit can be claimed for an unlimited number of employees, once they have been certified as eligible. The credit can be worth up to \$2,400 per employee. A business may claim the following amounts per each WOTC certified employee:

If a Minimum of 120 Hours is Worked, but Fewer Than 400 Hours
Up to 25% of the first \$6,000 in wages (up to \$1,500)

If 400 Hours or More is Worked
Up to 40% of the first \$6,000 in wages (up to \$2,400)

This is a program of the U.S. Department of Labor Employment and Training Administration (ETA) Office of Workforce Investment and is administered on the state level.

Maryland WOTC Coordinator Contact

David Ghee, Tax Credit Program Administrator, (410) 767-2080
OR Belinda Dunkin (410) 767-2047

Maryland Department of Labor, Licensing & Regulation
1100 N. Eutaw Street, Room 201
Baltimore, MD 21201

Steps to Claiming the WOTC

If you learn of a job applicant's ex-offender status, either through their disclosure or because they were referred through a non-profit or government agency, you should first determine if they are qualified to fill the vacant position. Once you conclude that they are a good candidate for the job, this is the time to determine their eligibility for the credit and have them complete the appropriate paperwork.

1. Determine whether the applicant is a qualified ex-felon.

A qualified ex-felon is someone who has been convicted of a felony under any federal or state law and is hired not more than 1 year after the conviction or release from prison for that felony.

2. If the applicant was referred to the job by a local agency, they may already have a form conditionally certifying them for the WOTC. This form (*ETA Form 9062*, see Attachment A) can help you verify eligibility, and will be used to claim the credit if the job offer is made. If the applicant was referred through an agency, ask the applicant to verify that this form is complete.

If the applicant applied independently and was not referred, proceed to Step 3.

3. If you are considering offering the job to the applicant, you should ask him or her to complete page one of *IRS Form 8850* (see Attachment B). You, the employer, must complete page two. This document will be submitted to DLLR for certification and approval of the credit. **THIS FORM MUST BE COMPLETED ON OR BEFORE THE DATE A JOB OFFER IS MADE.**

4. Once you make the job offer, you and the new employee must complete the Department of Labor's conditional tax credit certification form (*ETA 9062* or *ETA 9061*).

a. IF THE APPLICANT WAS REFERRED FROM AN AGENCY:

An applicant referred from an agency should have *ETA Form 9062* (see Step 2). The new employee should provide this form to you, the employer, and you should complete the appropriate sections.

b. IF THE APPLICANT WAS NOT REFERRED, OR DOES NOT HAVE FORM 9062:

You and the applicant must each complete the appropriate sections of the substitute form—*ETA Form 9061* (see Attachment C). The employee will need to show documentation of their ex-felon status, such as correctional records, court records, or the name of their parole officer. To avoid delays, list these documents in the appropriate box on *Form 9061*, and staple them to the form before mailing.

The last section of the form asks the employer to enter the name of the State Workforce Agency (SWA)—in Maryland, this is the Department of Labor, Licensing and Regulation. This portion should be detached and given to the new employee for their records.

5. The completed forms (*IRS 8850* and *ETA 9061* or *9062*) must be submitted to the Maryland WOTC Coordinator **BEFORE THE NEW EMPLOYEE'S 28th DAY OF**

EMPLOYMENT, WITH A POSTMARK ON OR BEFORE THE 28th DAY OF EMPLOYMENT. To expedite processing, *IRS Form 8850* should be submitted together with *ETA 9062* or *ETA 9061* with eligibility documentation. Mail all documents with a cover letter noting employer contact information to:

DLLR, WOTC Unit
David J. Ghee, Tax Credit Program Administrator
1100 N. Eutaw Street, Room #201
Baltimore, MD 21201

6. Once you've been approved, DLLR will send you *ETA Form 9063- Employer Certification* (see Attachment D). This form constitutes final certification of a candidate's eligibility for the WOTC program. If there are any problems with the documents submitted, DLLR will contact you in writing.
7. **Keep copies of all forms and documentation you submit, and any certification letters you receive, for at least three years** from the date any income tax return claiming the credit is due or filed.
8. **You are now ready to claim the credit on your next corporate tax return.** To claim the credit, use *IRS Form 5884- Work Opportunity Credit* (see Attachment E) and attach it to your federal tax return. Do not attach any other WOTC documents (ie: *IRS Form 8850*, *ETA Form 9061*, or *ETA Form 9062*) to your return. Keep these for your own records.

2) Federal Bonding Program: **How to Claim It**

The Federal Bonding Program is a partnership between the U.S. Department of Labor and The McLaughlin Company (an agent for Travelers Casualty and Surety Company of America). The program provides Fidelity Bonds that promote the employment of at-risk, hard-to-place job seekers by insuring against employee theft. These bonds cover the first six months of employment per worker and are available at no cost to the job applicant or the employer. The bonding program is open to a range of at-risk groups, including:

- ✓ **Anyone with a record of arrest, conviction, or imprisonment, and anyone who has ever been on probation or parole**
- ✓ Recovering substance abusers
- ✓ Individuals with poor financial credit
- ✓ Low-income individuals who lack a work history
- ✓ Individuals dishonorably discharged from the military
- ✓ Any other individual who cannot secure employment without bonding

A total of \$5,000 in bond coverage is usually issued, with no deductible amount of liability for the employer. Larger bond amounts can sometimes be issued, at no cost, if the agency issuing the bonds has determined that larger bond amounts are appropriate and funding is available. Bonding is administered at the state level through certified local agencies.

Maryland Bonding Program Coordinator

Ms. Constance Parker, Bonding Services Coordinator
(410) 767-2018

Maryland Department of Labor, Licensing and Regulation
Division of Workforce Development
1100 N. Eutaw Street, Suite 209
Baltimore, MD, 21201

Steps to Getting Bonding

1. Employers can request bonding on behalf of an applicant, or the job seeker may apply independently. **The process requires NO paperwork on the part of the employer, and is completely free of charge.** If you plan to offer a job to an ex-offender, call the state bonding coordinator at (410) 767-2018 to start the process.
2. The bonding coordinator will ask for a few pieces of basic information to certify eligibility and determine who the bond should be issued to. **You will need to provide the**

employee's start date in order to request bonding. The bond will go into effect on this date. Most bonds are issued in amount of \$5,000, but bonds of up to \$25,000 can be requested and may be issued if appropriate.

3. The state agency will request the bond from the McLaughlin Company, to be issued on the applicant's first day of employment.
4. The bond is sent directly to you, the employer, and is valid for six months against theft, larceny, or embezzlement.
5. Once the six month bond is expired, continued coverage will be available for purchase through The McLaughlin Company if the worker has exhibited job honesty under the original bond:

The McLaughlin Company
1725 DeSales Street NW, Suite 700
Washington, DC 20036
(800) 233-2258

3) Maryland Long-Term Employment of Ex-Felons Tax Credit: How to Claim It

***AWAITING IMPLEMENTATION.
IF YOU ARE INTERESTED IN CLAIMING THE CREDIT,
PLEASE CONTACT DLLR FOR THE MOST UP-TO-DATE INFORMATION.***

Maryland encourages employers to hire ex-offenders by providing a tax credit for long-term employment of ex-felons. The credit can be claimed for an unlimited number of employees, once they have been certified as eligible and worked for the employer for at least one year.

The credit can be worth up to \$3,000 per employee, claimed over two tax years. A business may claim the following amounts for each certified ex-felon:

After Year One of Employment
30% of the first \$6,000 in wages (up to \$1,800)

After Year Two of Employment
20% of the first \$6,000 in wages (up to \$1,200)

The credit can be taken against corporate or personal income tax, and for certain tax exempt organizations, state and local taxes withheld. If the credit is more than the state tax liability, the unused credit may be carried forward for the next five tax years.

Maryland Tax Credit Contact

David Ghee, Tax Credit Program Administrator
(410) 767-2080

Maryland Department of Labor, Licensing & Regulation
1100 N. Eutaw Street, Room 201
Baltimore, MD 21201

How to Claim the Credit

If you learn of a job applicant's ex-offender status, either through their disclosure or because they were referred through a non-profit or government agency, you should first determine if they are qualified to fill the vacant position. Once you conclude that they are a good candidate for the job, this is the time to determine their eligibility for the credit and have them complete the appropriate paperwork.

1. Determine whether the applicant is a qualified ex-felon.

A qualified ex-felon is someone who has been convicted of a felony under any federal or state law and is hired not more than 1 year after the conviction or release from prison for that felony.

2. For an employer to claim the credit, the employee must be certified as eligible through the Maryland Department of Labor, Licensing and Regulation. **Contact David Ghee at (410) 767-2080 to get details and begin the process** as soon as you have an applicant who may qualify for the credit.

3. Once the employee has been certified as eligible and has been employed for one year, you may claim the first year of the credit. Complete and submit *Form 500CR* with your tax return. You may claim the credit for a second year if you continue to employ the worker.