

**BACKGROUND  
ON  
TAX INCENTIVES  
FOR EMPLOYMENT**

**SCHEDULED FOR A HEARING**

**BEFORE THE**

**SUBCOMMITTEE ON ECONOMIC GROWTH,  
EMPLOYMENT, AND REVENUE SHARING**

**OF THE**

**COMMITTEE ON FINANCE**

**ON APRIL 3, 1981**

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**BY THE STAFF OF THE**

**JOINT COMMITTEE ON TAXATION**



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## INTRODUCTION

The Subcommittee on Economic Growth, Employment, and Revenue Sharing of the Committee on Finance has scheduled a hearing on April 3, 1981, on the use of tax incentives to increase employment.

This pamphlet, prepared in connection with the hearing, contains three parts. The first part discusses the legislative history of tax incentives for employment, beginning with the WIN tax credit as adopted in 1971. The second part describes the present targeted jobs tax credit and WIN tax credit. The third part provides data on recent use of the credits and summarizes several recent reports evaluating the credits.

## I. LEGISLATIVE HISTORY

### A. Employment Tax Incentives Prior to the Revenue Act of 1978

#### 1. Work incentive program credit and welfare recipient tax credit

As part of the Revenue Act of 1971, Congress adopted a tax credit for the hiring of recipients of Aid to Families with Dependent Children (AFDC) who were placed in employment through the Work Incentive Program. The amount of the credit was 20 percent of the gross wages paid to the employee for the first 12 months of employment (whether or not consecutive) during a period of 24 months from the first day of employment. The maximum amount of credit which could be claimed by an employer, in any taxable year, was \$25,000 plus 50 percent of any remaining tax liability in excess of \$25,000. The credit was not available to nonbusiness employers (e.g., employers of household employees). In addition, the credit was recaptured in the case of an employee who ceased to work for the original employer unless the employee voluntarily quit, became disabled, or was fired for misconduct before two years had passed.

The Tax Reduction Act of 1975 added the welfare recipient tax credit for the hiring of AFDC recipients who had received benefits for 90 days. This credit was essentially the same as the WIN credit except that it was available to both businesses and nonbusiness employers (with a \$5,000 per year cap on eligible nonbusiness wages). A tax credit was allowable either under the WIN credit or welfare recipient tax credit but was not allowable under both with respect to the same wages paid to the same individual. The welfare recipient tax credit was to expire on July 1, 1976.

The Tax Reform Act of 1976 made several changes to both the WIN tax credit and the welfare recipient tax credit. Because the Congress was concerned that the WIN tax credit was not being used to the extent anticipated, revisions were made to encourage its greater use: (1) the credit was made available from the date of hiring if employment was not terminated without cause before the end of six months; (2) an additional exemption was added to the recapture rules so that no recapture would be required if an employee were laid off due to a substantial reduction in business; and (3) the limitation on the amount of the credit was increased from \$25,000 to \$50,000 plus one-half of tax liability in excess of \$50,000. Three changes also were made to the welfare recipient tax credit: (1) its expiration date was extended to January 1, 1980; (2) a 12-month limit was imposed upon the period of time for which the credit could be claimed for any one employee; and (3) WIN agencies, as well as State and local welfare agencies, were permitted to certify eligibility for the credit.

## 2. New jobs tax credit

The Tax Reduction and Simplification Act of 1977 provided a new jobs tax credit for 1977 and 1978. This credit was equal to 50 percent of the increase in each employer's wage base under the Federal Unemployment Tax Act (FUTA) above 102 percent of that wage base in the previous year. (The FUTA wage base, for purposes of this credit, consisted of the first \$4,200 of wages per employee.) The employer's deduction for wages was reduced by the amount of the credit. Thus, although the maximum gross credit with respect to each new employee was \$2,100, the effective credit per employee ranged from \$1,806 (for a taxpayer in the 14-percent tax bracket) to \$630 (for a taxpayer in the 70-percent bracket).

There were four limitations on the total amount of credit which could be claimed: (1) the credit could not exceed 50 percent of the increase in total wages paid by the employer for the year above 105 percent of total wages paid by the employer in the previous year; (2) the credit could not exceed 25 percent of the current year's FUTA wages; (3) the credit could not exceed \$100,000 per year; and (4) the credit could not exceed the taxpayer's tax liability.

Special rules were provided for businesses not covered under FUTA, such as farms and railroads. Special rules also were provided for computation of the credit by groups of companies under common control, for businesses with employees working abroad, and for businesses affected by acquisitions, dispositions, and other changes in business form. Additional rules were provided for allocating the credit among members of a partnership and of a subchapter S corporation.

The 1977 Act also provided an additional, nonincremental credit equal to 10 percent of the first \$4,200 of FUTA wages paid to handicapped individuals who received vocational rehabilitation. This credit was based on the first \$4,200 of wages paid to a handicapped individual whose first FUTA wages from the employer were paid in 1977 or 1978. Only wages paid during the one-year period beginning when the individual first was paid FUTA wages by the employer were taken into account in computing the credit. The credit for handicapped workers could not exceed one-fifth of the regular 50-percent credit which would have been allowable without regard to the \$100,000 limitation. However, this special 10-percent credit was not itself subject to any specific dollar limitation.

## B. Revenue Act of 1978

The Revenue Act of 1978 substantially revised the provisions relating to tax incentives for employment. The new jobs tax credit was permitted to expire at the end of 1978 because Congress believed that the unemployment rate had declined to a level where it would be more appropriate to focus employment incentives on individuals who have high employment rates, even when the national unemployment rate is low, and on other groups with special employment needs. Thus, in place of the new jobs tax credit, Congress enacted a provision which was designed to provide an incentive for private employers to hire individuals in seven target groups, which were singled out on the basis of their low income or because their



employment should be encouraged. The seven target groups consisted of (1) vocational rehabilitation referrals, (2) economically disadvantaged youths, (3) economically disadvantaged Vietnam-era veterans, (4) SSI recipients, (5) general assistance recipients, (6) cooperative education students, and (7) economically disadvantaged ex-convicts. (This provision is discussed more fully, below, under "Present law.")

Because Congress believed that employer utilization of the WIN and welfare recipient tax credits was far below what could have been achieved if the credit rate had been higher and the rules for claiming the credits had been simpler, the 1978 Act increased the credit rate and simplified the rules governing employer eligibility for the credits. In addition, the welfare recipient credit was made permanent. (These rules are discussed below, under "Present law.")

In addition to these substantive changes, the 1978 Act requires the Secretaries of Labor and Treasury to submit to the tax-writing committees a joint report concerning the effectiveness of the targeted jobs tax credit and the new jobs tax credit of prior law. This report is due no later than June 30, 1981.

## **II. PRESENT LAW**

### **A. Targeted Jobs Tax Credit**

**(Code secs. 51, 52, and 53)**

#### **1. General rules**

The targeted jobs credit, which applies to eligible wages paid before January 1, 1982, is available on an elective basis for hiring individuals from one or more of seven target groups. The credit is equal to 50 percent of the first \$6,000 of qualified first-year wages and 25 percent of the first \$6,000 of qualified second-year wages paid to each individual. Qualified first-year wages are wages that are paid for services during the one-year period which begins with the day the individual begins working for the employer. However, in the case of a vocational rehabilitation referral, this period begins with the day the individual starts work for the employer that is on or after the beginning of the individual's rehabilitation plan. Qualified second-year wages are wages attributable to service rendered during the one-year period immediately following the close of the first one-year period.

Since no more than \$6,000 of wages during either the first or second year of employment may be taken into account with respect to any individual, the maximum credit per individual is \$3,000 in the first year of employment and \$1,500 in the second year of employment. However, the deduction for wages is reduced by the amount of the credit (determined without regard to the tax liability limitation). Thus, for an employer who hires an eligible employee who earns \$6,000 in his first year of employment, the credit results in an actual tax reduction that ranges from \$900 (for an employer in the 70-percent bracket) to \$2,580 (for an employer in the 14-percent bracket). However, because all wages are deductible for employees who are not members of target groups, after-tax costs of the first \$6,000 of wages paid to such employees range from \$1,800 (for an employer in the 70-percent bracket) to \$5,160 (for an employer in the 14-percent bracket). Thus, the credit provides a 50-percent reduction in the after-tax costs of the first \$6,000 of wages paid to target group employees in the first year of employment, regardless of the employer's tax bracket.

#### **2. Target groups**

The targeted jobs tax credit is available only with respect to the hiring of individuals who are members of one of seven target groups.

The statute contains certification provisions which relieve the employer of responsibility for proving to the Internal Revenue Service that an individual is a member of a target group. The Secretaries of Treasury and Labor are required jointly to designate a single employment agency in each locality to make this determination and to issue a certificate which, without further investigation on the part

of the employer, is sufficient evidence that the individual is a member of such group. An exception to this procedure is made for cooperative education students, whose eligibility is certified by the qualified school participating in the program.

The seven target groups are described in detail in the following discussion:

*(1) Vocational rehabilitation referrals*

Vocational rehabilitation referrals are those individuals who have a physical or mental disability which constitutes a substantial handicap to employment and who have been referred to the employer while receiving, or after completing, vocational rehabilitation services under an individualized, written rehabilitation plan under a state plan approved under the Rehabilitation Act of 1973, or under a rehabilitation plan for veterans carried out under chapter 31 of title 38, U.S. Code. Certification can be performed by the designated local employment agency, upon assurances from the vocational rehabilitation agency that the employee has met the above conditions.

*(2) Economically disadvantaged youths*

Economically disadvantaged youths are individuals at least age 18 but not age 25 on the date they are hired by employers, and who are members of economically disadvantaged families (defined as families with income during the preceding 6 months, which on an annual basis would be less than 70 percent of the Bureau of Labor Statistics lower living standard as determined by the designated local employment agency).

*(3) Economically disadvantaged Vietnam-era veterans*

The third target group consists of Vietnam-era veterans certified by the designated local employment agency as under the age of 35 on the date they are hired by the employer and who are members of economically disadvantaged families. A Vietnam-era veteran is an individual who has served on active duty (other than for training) in the Armed Forces more than 180 days, or who has been discharged or released from active duty in the Armed Forces for a service-connected disability, but in either case the active duty must have taken place after August 4, 1964, and before May 8, 1975. However, any individual who has served for a period of more than 90 days during which the individual was on active duty (other than for training) is not an eligible employee if any of this active duty occurred during the 60-day period ending on the date the individual is hired by the employer. This latter rule is intended to prevent employers that hire current members of the armed services (or those recently departed from service) from receiving the credit. The definition of an economically disadvantaged family and the procedures for certifying to the employer that an individual is a member of such a family are the same as those discussed above.

*(4) SSI recipients*

SSI recipients are those receiving either Supplemental Security Income under Title XVI of the Social Security Act, including State supplements described in section 1616 of that Act or section 212 of P.L. 93-66. To be an eligible employee, the individual must have



received SSI payments during a month ending during the 60-day period which ends on the date the individual is hired by the employer. The designated local agency will issue the certification after a determination by the agency making the payments that these conditions have been fulfilled.

#### *(5) General assistance recipients*

General assistance recipients are individuals who receive general assistance for a period of not less than 30 days if this period ends within the 60-day period ending on the date the individual is hired by the employer. General assistance programs are State and local programs which provide individuals with money payments based on need. These programs are referred to by a wide variety of names, including home relief, poor relief, temporary relief, and direct relief. Examples of individuals who may receive money payments from general assistance include those ineligible for a Federal program, or waiting to be certified by such a program, unemployed individuals not eligible for unemployment insurance, and incapacitated or temporarily disabled individuals. Some general assistance programs provide needs to those individuals who find themselves in a one-time emergency situation; however, many of these families will not meet the "30-day requirement" described above. Because of the wide variety of such programs, the law provides that a recipient will be an eligible employee only after the program has been designated by the Secretary of the Treasury, after consultation with the Secretary of Health and Human Services, as a program which provides cash payments to needy individuals. Certification will be performed by the designated local agency.

#### *(6) Cooperative education students*

The sixth target group consists of youths who actively participate in qualified cooperative education programs, who have attained age 16 but who have not attained age 20, and who have not graduated from high school or vocational school. The definitions of a qualified cooperative education program and a qualified school are similar to those used in the Vocational Education Act of 1963. Thus, a qualified cooperative education program means a program of vocational education for individuals who, through written cooperative arrangements between a qualified school and one or more employers, receive instruction, including required academic instruction, by alternation of study in school with a job in any occupational field, but only if these two experiences are planned and supervised by the school and the employer so that each experience contributes to the student's education and employability.

For this purpose a qualified school is (1) a specialized high school used exclusively or principally for the provision of vocational education to individuals who are available for study in preparation for entering the labor market, (2) the department of a high school used exclusively or principally for providing vocational education to persons who are available for study in preparation for entering the labor market, or (3) a technical or vocational school used exclusively or principally for the provision of vocational education to persons who have completed or left high school and who are available for study in preparation for entering the labor market. In order for a nonpublic

school to be a qualified school, it must be exempt from income tax under section 501(a) of the Code. In the case of individuals in this group, wages paid or incurred by the employer are taken into account only if the school certifies that the individual is enrolled in and actively pursuing the qualified cooperative education program, is age 16 through 19, and is not a vocational or high school graduate.

*(7) Economically disadvantaged former convict*

Any individual who is certified by the designated local employment agency as having at some time been convicted of a felony under State or Federal law and who is a member of an economically disadvantaged family is an eligible employee for purposes of the targeted jobs credit, if such individual is hired within five years of the later of release from prison or date of conviction. The definition of an economically disadvantaged family and the procedures for certifying to the employer that an individual is a member of such a family are the same as those discussed above.

### **3. Limitations on amount of credit**

Wages may be taken into account for purposes of the credit only if more than one-half of the wages paid during the taxable year to the employee are for services in the employer's trade or business. In addition, wages for purposes of the credit do not include amounts paid to an individual for whom the employer is receiving payments for on-the-job training under Federally-funded programs, such as the Comprehensive Employment and Training Act (CETA). Moreover, the employer may not claim the targeted jobs credit for wages paid to an individual with respect to whom a WIN credit is claimed.

In order to prevent the hiring of targeted employees from displacing a substantial number of non-targeted employees, qualified first-wages for all targeted employees may not exceed 30 percent of FUTA wages for all employees during the calendar year ending in the current tax year.

Finally, in order to prevent taxpayers from escaping all tax liability by reason of the credit, the credit may not exceed 90 percent of the employer's tax liability after being reduced by all other nonrefundable credits, except the residential energy credit (sec. 44C), the credit for producing fuel from a conventional source (sec. 44D), and the alcohol fuel credit (sec. 44E). Excess credits may be carried back three years and carried forward seven years.

### **4. Special rules**

For purposes of determining the years of employment of any employee, wages for any employee up to \$6,000, and the 30-percent FUTA cap, all employees of all corporations that are members of a controlled group of corporations are treated as if they are employees of the same corporation. Under the controlled group rules, the amount of credit allowed to the group is generally the same which would be allowed if the group were a single company. Comparable rules are provided in the case of partnerships, proprietorships, and other trades or businesses (whether or not incorporated) that are under common control. Thus, all employees of such organizations generally are treated as if they are employed by a single person. The amount of targeted jobs



credit available to each member of a controlled group is each member's proportionate share of the wages giving rise to the credit.

The targeted jobs tax credit may be used as an offset against the alternative minimum tax except to the extent that the minimum tax is attributable to net capital gains and adjusted itemized deductions.

## **B. WIN Tax Credit**

(Code secs. 50A and 50B)

### **1. General rules**

In the case of trade or business employment, taxpayers are allowed a WIN tax credit equal to 50 percent of qualified first-year wages and 25 percent of qualified second-year wages paid to WIN registrants and AFDC recipients. For employment other than in a trade or business, the credit is 35 percent of qualified first-year wages.

No more than \$6,000 of wages during either the first or second year may be taken into account with respect to any individual. Thus, the maximum credit per individual employed in a trade or business is \$3,000 in the first year of employment and \$1,500 in the second year of employment. Since the employer's deduction for wages is reduced by the amount of the credit, an employer who pays an eligible employee \$6,000 in his first year of trade or business employment receives an actual reduction in taxes ranging from \$900 (for an employer in the 70-percent bracket) to \$2,580 (for an employer in the 14-percent bracket). However, because all wages are deductible for non-eligible employees, after-tax costs of the first \$6,000 of wages paid to such employees range from \$1,800 (for an employer in the 70-percent bracket) to \$5,160 (for an employer in the 14-percent bracket). Thus, the credit provides a 50-percent reduction in after-tax costs of the first \$6,000 of wages paid to eligible employees in the first year of employment, regardless of the employer's tax bracket.

### **2. Eligible employees**

An eligible employee is one who either is a member of an AFDC family that has been receiving AFDC for at least 90 continuous days preceding the date of hiring or is placed in employment under the WIN program. Either of these requirements must be certified to by the Secretary of Labor or by the appropriate state or local agency. In addition, for the credit to be available, the employee must be employed by the taxpayer for more than 30 consecutive days on a substantially WIN program. Either of these requirements must be certified by the full-time basis, or, in the case of an employee whose employment is related to providing child day care services, on a full-time or part-time basis.

No credit is available in the case of: (1) expenses reimbursed, for example, by a grant; (2) employees who displace other employees from employment; (3) migrant workers; or (4) employees who are close relatives, dependents, or major stockholders of the employer.

### **3. Limitations on amount of credit**

The WIN-welfare recipient tax credit may not exceed 100 percent of tax liability. Unused credits may be carried back three years and carried forward seven years.

In the case of non-trade or business wages, the maximum amount of creditable wages is \$12,000. In effect, this permits a taxpayer to claim the credit for up to two full-time nonbusiness employees.

Finally, the credit for dependent care expenses (Code sec. 44A) may not be claimed with respect to any wages for which the taxpayer is allowed a WIN-welfare recipient credit.

#### 4. Special rules

The WIN-welfare recipient credit contains rules similar to those applicable in the case of the targeted jobs credit for controlled groups. Thus, the amount of credit allowable to each member of a controlled group is the member's share of wages giving rise to the credit.

The WIN credit may be used as an offset against the alternative minimum tax, except to the extent that the alternative minimum tax is attributable to net capital gains and adjusted itemized deductions, to the extent the credit is attributable to the active conduct of a trade or business by the taxpayer claiming the credit.

There is a special 100-percent credit with respect to unreimbursed wages paid to workers whose wages are reimbursed in whole or in part by funds made available under section 2007 (grants to hire welfare recipients as child care workers) of the Social Security Act. If the taxpayer elects to compute the credit using this rate, the credit with respect to any employee is limited to the least of: (1) \$6,000 minus the reimbursement with respect to this employee under section 2007, (2) \$3,000 (for the first year of employment) or \$1,500 (for the second year of employment), or (3) 50 percent (for the first year of employment) or 25 percent (for the second year of employment) of the sum of unreimbursed wages and the reimbursement under section 2007.

### III. BACKGROUND INFORMATION ON USE OF EMPLOYMENT TAX CREDITS

#### A. Data on Certifications

##### 1. Targeted jobs tax credit

Table 1 presents figures on the number of certifications issued under the targeted jobs tax credit. Certifications are issued at an employer's request, to support a claim for the tax credit, after a member of a target group has been hired.

Cooperative education youth are the group for which the largest number of certifications has been issued. As of December 1980, 47.2 percent of all certifications issued were for members of this group. Of the total certifications issued in 1979, approximately the same percentage (50.3) of certifications also were for this group. Thus, apart from seasonal patterns, presumably related to the school year, cooperative education students appear to steadily receive about half of the certifications.

Economically disadvantaged youth have received the second largest number of certifications. As of December 1980, these youths had received 36.7 percent of all certifications. The absolute number of certifications going to this group has been increasing steadily over the period, rising from a monthly average of 4,086 in 1979 to 11,945 in the last three months of 1980.

The number of certificates issued for members of the other five targeted groups is much smaller than for either cooperative education youth or economically disadvantaged youth. Figures for economically disadvantaged Vietnam-era veterans and ex-convicts and for handicapped individuals have each averaged approximately 1,100 per month and have shown no clear trend over the period covered by these figures. The number of general assistance and SSI recipients participating in the program has been even smaller; for the former group, however, the number of certificates appears to be increasing slowly.



TABLE 1.—NUMBER OF CERTIFICATIONS ISSUED UNDER TARGETED JOBS TAX CREDIT, BY TARGET GROUP

Period	Economically Disadvantaged			Handi- capped	Coopera- tive education youth	General assistance recipients	SSI recipients	Total
	Youth	Vietnam veterans	Ex- convicts					
1979								
March to December-----	36, 774	4, 330	4, 768	6, 119	54, 764	1, 585	390	108, 730
1980								
January-----	6, 828	979	972	1, 253	21, 875	334	91	32, 332
February-----	7, 153	984	1, 286	1, 359	18, 506	375	82	29, 745
March-----	8, 758	1, 146	1, 255	1, 378	11, 634	471	84	24, 726
April-----	8, 569	1, 183	1, 316	1, 480	8, 059	498	64	21, 169
May-----	7, 804	895	1, 104	1, 239	6, 906	509	55	18, 512
June-----	8, 212	986	1, 078	1, 196	5, 648	551	49	17, 720
July-----	8, 935	1, 031	1, 106	1, 036	4, 288	493	47	16, 936
August-----	9, 278	995	986	1, 122	1, 753	552	42	14, 728
September-----	11, 372	1, 206	1, 174	1, 116	5, 484	750	43	21, 145
October to December-----	35, 834	3, 339	3, 484	3, 649	53, 301	1, 981	201	101, 789
Total-----	149, 517	17, 074	18, 529	20, 947	192, 218	8, 099	1, 148	407, 532

Source: U.S. Employment Service.

## 2. WIN tax credit

Table 2 presents recent figures on use of the WIN tax credit. The first column shows the number of certificates issued to employers for eligible employees and thus is roughly comparable to the data in Table 1. The number of certificates issued has grown sharply since 1978.

The second and third columns of table 2 show the number of tax returns on which the WIN credit was claimed. There is no apparent explanation for the drop between 1977 and 1978 in the number of individuals claiming the credit. However, for both corporations and individuals, there was a sharp jump in this figure between 1978 and 1979, which is consistent with the jump in the figures in the first column.

The number of both participating employees and participating employers grew sharply after 1978; this may be attributable to the modifications made to the credit by the Revenue Act of 1978.

TABLE 2.—DATA ON RECENT USE OF WIN TAX CREDIT

Year	Tax credits authorized <sup>1</sup>	Number of tax returns claiming credit	
		Corporations <sup>2</sup>	Individuals
1977-----	35, 266	5, 038	15, 785
1978-----	36, 085	5, 308	4, 817
1979-----	42, 713	6, 538	7, 524
1980-----	52, 625	( <sup>3</sup> )	( <sup>3</sup> )

<sup>1</sup> Fiscal years.

<sup>2</sup> Taxable years ending between Oct. 1 of the specified year and Sept. 30 of the following year.

<sup>3</sup> Not available.

Source: U.S. Department of Labor; Internal Revenue Service.

## B. Evaluation Reports

### 1. Ohio State University study<sup>1</sup>

#### *Overview*

A series of reports evaluating the implementation of the targeted jobs credit has been written for the U.S. Department of Labor by researchers at Ohio State University. These reports were based primarily on field interviews with administrators and employers in 25 sites around the United States; the latest interviews were conducted in October 1980.

The basic findings of the report are that the hiring patterns of most employers have not responded to incentives provided by the targeted jobs credit, although some employers say that they have shifted hiring to the target groups. In addition, many of the employees of the local agencies administering the credit are skeptical of it and reluctant to use it as a placement tool. A majority of the certifications issued to employers generally have been retroactive, that is, the determination of whether an employee is eligible has been made by the certifying agency (the local Employment Service) after the hiring decision has been made. Some Employment Service offices were found to be more reluctant than others to issue retroactive certifications, but those which were reluctant had difficulty in meeting their numerical goals. Toward the end of the period covered by the report, there appears to have been a decline in the percentage of certifications which were retroactive.

#### *Attitudes of certifying agencies*

The report found considerable variety across areas in the aggressiveness with which local Employment Service offices have marketed the credit. In some areas, many of the local agency employees believe that publicity and marketing at the national level has been inadequate, as have the financial resources and organizational incentives for taking the credit seriously. These attitudes have affected the enthusiasm with which these employees have pursued their own efforts to use the credit as a placement tool. However, the level of marketing apparently does not appear to have a great effect on the local offices' ability to achieve certification goals or on the proportion of certifications which are retroactive.

The various agencies involved in identifying target group members have widely varying attitudes about the desirability of the tax credit programs. The report found that employees of CETA prime sponsors were generally negative, since they viewed the credit as antithetical to what they saw as their basic mission—to train individuals for unsubsidized placements—rather than to compensate employers for employees' lack of productivity. Employment Service employees were found to be less negative, but they feel, in many cases, that the credit

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<sup>1</sup> Mershon Center CETA Study, Ohio State University, *The Implementation of the Targeted Jobs Tax Credit*, Report Nos. 1 (July 1980) and 2 (January 1981).



increases their workloads without positive results and is a windfall for employers who were already hiring substantial number of employees from the target groups. On the other hand, vocational rehabilitation agencies and agencies placing ex-offenders believe that the credit is a useful placement tool. Employees of cooperative education agencies believe that the credit is useful to reward employers for their participation in the cooperative programs, but they do not believe that the credit is needed to obtain placements for their students.

### ***Attitudes of employers***

Some employers believe that the credit has changed their hiring practices, although many believe that the credit is not large enough to compensate them for the costs of hiring members of the target groups and of participating in the credit. These perceived costs include lower productivity of target group members, increased costs of screening potential employees from target groups, fear of employment discrimination charges, increased probability of an IRS audit, and general reluctance to participate in government programs. Some employers also have found that the system for administering the credit is too uncoordinated, because of the large number of agencies involved.

### ***Study recommendations***

The authors of the report reach tentative conclusions about changes in the targeted jobs credit program which they believe may improve its effectiveness. These include:

1. Eliminating eligibility for students in cooperative education programs in order to focus the credit on people who clearly need it to obtain employment.
2. Increasing the amount of the credit.
3. Eliminating the option of having employees certified retroactively.
4. Providing additional funds to implement the program so that staff can be assigned to focus on marketing and administering the credit.
5. Centralizing implementation of the credit in a single agency, or providing that one agency has the authority required to coordinate the efforts of other agencies.
6. Establishing uniform questionnaires and procedures for determining eligibility of participants in the various target groups.
7. Reducing requirements for documenting participants' eligibility for the credit.

In addition, some of the local agency employees believe that the WIN credit should be merged with the targeted jobs credit to reduce confusion which arises from the existence of two separate credits with similar goals.

## **2. Northeast-Midwest Institute report <sup>2</sup>**

The Northeast-Midwest Institute issued a report on the targeted jobs tax credit in September, 1980. The report reviews the implementation of the credit and makes several recommendations for both legislative and administrative changes.

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<sup>2</sup> Northeast-Midwest Institute, *Putting the Targeted Jobs Credit Back to Work*, September, 1980.

The report criticizes the initial decision of the Department of Labor to assign responsibility to the CETA "prime sponsors" for identifying the three economically disadvantaged groups. Some CETA agencies were more accustomed to dealing with individuals who were not ready for a job than with those who were looking for immediate placement. Employment Service offices should have been given more responsibility, according to the report; this would have improved the implementation of the credit in its first months. In January, 1980, the Employment Service was given the authority to identify individuals in all target groups except cooperative education students.

Cooperative education agencies are found to be relatively enthusiastic about the program, but they admit that employers receiving the credit are those who have hired cooperative education students in the past and would have continued to do so without the credit.

The report also claims that Employment Service offices have not made a coordinated effort to refer target group members to employers. Further, retroactive certification is criticized as reducing the productivity of the employees administering the program.

The authors of the report make several recommendations for changing the administration of the credit, including more guidance from the national office of the Employment Service, greater publicity, funds earmarked specifically for administrative costs associated with the credit, and giving the Employment Service more authority to coordinate the program with other agencies. Several legislative recommendations also are made, including dropping cooperative education students from the program or limiting eligibility only to those who are economically disadvantaged, making the credit refundable, allowing employers both a credit and a full deduction for wages paid to eligible employees, allowing the credit against payroll taxes, disallowing retroactive certification, and targeting of distressed areas.

### **3. Wisconsin Health and Social Services Department report<sup>3</sup>**

The Wisconsin Department of Health and Social Services has written a report based on interviews with administrators of the WIN and targeted jobs credits and with employers. The authors find that the credits are underutilized, relative to the eligible population, and that lack of knowledge on the part of both employers and administering agencies was the major factor accounting for their low utilization. Some employers believed that participation in the credit would entail excessive paperwork, would increase the risk of a tax audit, and would conflict with affirmative action principles. In addition, some of the agency employees found a conflict between the idea of subsidized employment and what they viewed as their primary goal—improving human capital. As a result, there was considerable variation in the degree to which the credits were part of the agency's standard placement efforts. No specific problems were found with the design of the subsidy. With respect to the targeted jobs credit, employers found confusing the diffusion of administrative responsibility among different agencies, although lack of Federal resources for administration may account for some of the perceived administrative problems.

<sup>3</sup> *A Report of the Wage Bill Subsidies Research Project, Phase I.* Office of Client Employment Programs, Division of Policy and Budget, Wisconsin Department of Health and Social Services, November 1980.





