

Congress repeals 3% withholding, provides tax incentives for hiring veterans

On Nov. 16, Congress passed legislation repealing a controversial law that would have required federal, state and local government entities with total annual expenditures of \$100 million or more to withhold 3% of certain payments for goods and services to government contractors and vendors.

The legislation also contains an amendment — the VOW to Hire Heroes Act — that expands and extends tax credits for companies that hire unemployed or disabled veterans and provides other veterans' benefits.

Withholding relief

Originally established by the Tax Increase Prevention and Reconciliation Act of 2005, the 3% withholding requirement was scheduled to take effect in 2013 (after two postponements). It was intended to help close the “tax gap” created by government contractors and vendors that fail to pay all of the taxes they owe.

However, the provision ignited a firestorm of complaints that it would unfairly penalize tax-compliant companies, hurting their cash flow. Also, some federal agencies estimated that their cost to implement the requirement would outweigh any potential improvements in tax compliance.

Based on these arguments, lawmakers voted in overwhelming numbers to repeal the provision. This should be welcome news to the many businesses that provide products and services to government entities, such as construction contractors, manufacturers of vehicles and military equipment, and even health care providers.

Employer tax credits

The Work Opportunity credit provides employers with a tax credit equal to 40% of a portion of qualified first-year wages paid to new hires from certain disadvantaged groups, including qualified veterans. The Heroes act expands the credits available to companies that hire unemployed or disabled veterans and extends those credits through the end of 2012. (The Work Opportunity credit is scheduled to expire at the end of 2011 for other targeted groups.)

The basic credit applies to wages up to \$6,000 — for a maximum credit of \$2,400 per hire — paid to veterans whose families receive food stamps. In addition, before the Heroes act, a credit of up to \$4,800 was available for *disabled* veterans who were hired within one year after discharge from active duty or had been unemployed for six months or more during the year before the hire date.

The Heroes act expands the Work Opportunity credit by:

- Doubling the maximum credit, to \$9,600, for disabled veterans who've been unemployed for six months or more in the preceding year,
- Adding a credit of up to \$5,600 for hiring nondisabled veterans who've been unemployed for six months or more in the preceding year, and
- Adding a credit of up to \$2,400 for hiring nondisabled veterans who've been unemployed for four weeks or more, but less than six months, in the preceding year.

In addition to providing tax incentives for hiring veterans, the Heroes act creates or expands several programs that provide training, rehabilitation and other vocational benefits for veterans.

Inquire before you hire

To take advantage of the Work Opportunity credit, be sure to check prospective employees' eligibility *before* you hire them. To qualify for the credit, you'll need to complete certain forms *before* you make a job offer. In addition, within 28 days after an employee's start date, you'll have to apply with your state workforce agency for certification of the employee's eligibility for the credit.

We'd be pleased to assist you with the employee screening and certification process.