

MAKING THE WORK OPPORTUNITY TAX CREDIT A SUCCESS FOR SMALL BUSINESS

HEARING BEFORE THE SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS OF THE COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS

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THURSDAY, MAY 4, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10 a.m., in room 2360, Rayburn House Office Building, Hon. Donald A. Manzullo [chairman of the Subcommittee] presiding.

Chairman MANZULLO. We are going to call this Subcommittee to order. The first order of business is the testimony of Congressman Jerry Weller. Congressman Rangel, who has been working on the African trade bill for many years with Congressman Crane, is understandably excused from not appearing this morning because after all the years of work it is finally coming to the floor. What we are going to do is take Congressman Weller's testimony and we will put Congressman Rangel's statement into the record. And if it is not here, we will leave the record open for at least a week in order to put it in.

[Mr. Rangel's statement may be found in appendix.]

Chairman MANZULLO. Then we will start with Congressman Weller. If we have any questions, we can ask him. Then after that, if the ranking minority member, Mrs. McCarthy, has an opening statement, we will read it at that time. Did you want to say anything up front, Mrs. McCarthy?

Congressman Weller.

STATEMENT OF HON. JERRY WELLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. WELLER. Thank you, Mr. Chairman, Mrs. McCarthy. I appreciate the opportunity to appear before your committee today to testify about an important initiative which has been working. One message I learned as we worked on enacting the first real welfare reform in over a generation was whether you were liberal or conservative on the issue of welfare reform, we all agreed that if people were going to move off welfare, they needed a job. Of course the Work Opportunity Tax Credit, which I am before you to testify on today, enlisted the private sector to help provide jobs and give those that were on welfare the opportunity to move up the economic ladder and have a chance by moving from the welfare rolls to the employment rolls.

I am very pleased to have this opportunity to talk about a success story today before your Committee. As you know, the Work

Opportunity Tax Credit was created in 1996 as part of the Small Business Job Protection Act. This program offered employers a tax credit for hiring employees which were part of the following groups: families receiving AFDC or TANF benefits, veterans participating in the food stamp program, 18- to 24-year-old members of families receiving food stamps, high-risk youth, which could be defined as 18- to 24-year-olds, living in empowerment zones or enterprise communities, at risk-summer youth, SSI recipients, and economically disadvantaged ex-felons trying to find work soon after prison release.

Once employees in these categories work 400 hours with a company, employers can claim a 40 percent tax credit on the first \$6,000 earned in the first year, and for employees working with a company 120 to 399 hours, the employer can claim a 25 percent credit. I am proud to report to the Subcommittee that the Work Opportunity Tax credit has been a success. According to the Department of Labor, over 600,000 individuals have been hired under WOTC thus far. Over 80 percent of these individuals had been on public assistance in the form of welfare or food stamps. In 1999, the Department of Labor issued more than 335,000 certifications for WOTC hires. This was 50,000 more than 1998. In my home State of Illinois last year, over 23,419 individuals went from the welfare public assistance rolls and were put into meaningful employment through the Work Opportunity Tax Credit.

These 23,419 individuals will no longer rely on the Government to support themselves and their families. They have been able to enter the workforce and learn the job training skills they need to be successful in today's workforce. Last year, the Ways and Means committee and the Congress extended the Work Opportunity Tax Credit for 2½ years. I am proud to say this is the longest extension since its creation in 1996. That is so important. We need that long-term extension if you are going to encourage more employers to participate so they have the confidence that the tax code is not going to change if it is going to have a tax consequence for their bottom line. It is my understanding that prior to the extension, more than 20 of our Nation's governors and 400 employers contacted the Ways and Means Committee in support of a multiyear extension of the program.

At this time, supporters of the Work Opportunity Tax Credit are discussing possible ways to improve the existing program. One suggestion I have heard recently would lift the 18- to 24-year age restriction to qualify for the program if a family is receiving food stamps. While revenue estimates are not complete, this may be a way to include more people in the successful program at this program's relatively low cost. Mr. Chairman, Mrs. McCarthy, the Work Opportunity Tax Credit represents a powerful public-private sector partnership designed to encourage businesses to help individuals enter the workforce and leave the welfare rolls. This takes these hard-to-place individuals off the public welfare rolls, and places them into the working labor pool. Once they enter the workforce, individuals are trained by employers in basic skills to make them more employable in the future.

I would note, Mr. Chairman, one thing I have learned in talking with those that are trying to move off the welfare rolls is that just

by getting a chance, they have the opportunity to learn some of the basic skills. Of course thanks to this program, they have the opportunity to gain those basic skills, enter the job market, and then of course frankly be more attractive to other employers who are working looking for workers in this good economy today because they have the skills, they have a work record, and of course thanks to this public-private partnership, we give them that opportunity.

I want to thank you and the members of this committee for the opportunity to speak about this worthwhile initiative which has proven to be a success. I do want to note that Congressman Amo Houghton of New York as well as Congressman Charlie Rangel, we have all worked together in a partnership that has been a bipartisan effort, one of those success stories we are all proud to talk about.

[Mr. Weller's statement may be found in appendix.]

Chairman MANZULLO. Thank you, Congressman Weller. Could you explain to us technically how it works?

Mr. WELLER. The way the program essentially works is you have somebody that qualifies, so you have a qualified candidate. The employer hires them. Of course there is an approval process, and the employer has to apply for the actual tax credit. There is a form they need to fill out. Of course one of the issues we have been working to resolve for the Work Opportunity Tax Credit is to make it user friendly. Over the last several years we have tried to improve this program, minimizing the paperwork and reducing the red tape in order to encourage more employers to participate.

If an employer hires someone who falls into the various categories that qualify, they then can hire this individual. Of course, there is a minimum number of hours this individual must be on the payroll working for this employer before they qualify for the tax credit. As I pointed out in my testimony, for employees working with a company from 120 to 399 hours, the employer can claim a 25 percent credit and for those that are working over 400 hours, the employer can claim a 40 percent tax credit on the first \$6,000 earned in the first year.

Now, that threshold was one of the changes we made to the program in the last budget, or in the last tax package. The reason that was important, we found in many cases this program has been successful; and one thing I have found is sometimes there is a little hesitation by an employer to hire someone off of welfare. They are concerned about the cost of training this individual; they are concerned about the work ethics or work habits, if this person does not have any work experience. Of course with this incentive, we are encouraging them to hire these individuals. At the same time employers say, you know, I have helped train this individual and given them the experience, in many cases they work less than 400 hours but the business across the street sees they are a good worker and offers them a job at a little bit higher wage.

Chairman MANZULLO. So an employer can essentially pay \$2,400 less in corporate taxes or personal income taxes if it is a sole proprietorship based upon 40 percent of the \$6,000. Is that correct?

Mr. WELLER. That is correct. If they work over 400 hours, the employer can have 40 percent of the tax credit on the first \$6,000 in wages. And 40 percent would be about \$2,400 in relief, means

that they would pay \$2,400 less on their taxes as a result of that tax credit.

Chairman MANZULLO. Is there still, Congressman, a need for a program like this in light of the low unemployment rate across the Nation?

Mr. WELLER. Mr. Chairman, I think we can all agree we want this good economy to continue growing. Since 1991, we have been enjoying a very strong economy over the last 9 years as a result of our efforts to balance the budget and reduce the tax burden, particularly on employers as well as on working families. That has kept our economy moving forward. I believe there is a continued need to the Work Opportunity Tax Credit, because regardless of how strong the economy is, there are still those on welfare. There are still those who need the opportunity. And because of welfare reform, we have seen almost 7 million Americans who have gone from the welfare rolls to the employment rolls. The Work Opportunity Tax Credit has helped make that success.

I would point out that many of those who are hired through the Work Opportunity tax Credit have no previous job experience, so essentially this is an incentive for an employer to give that individual a chance to get off of welfare and develop some work skills and a work history which helps them move up the economic ladder. I strongly believe that this program should continue. But I would also point out that we should also consider some other ideas.

As I mentioned, one idea that we should consider is lifting the age ceiling for food stamp recipients and individuals who reside in empowerment zones and enterprise communities. Right now that age ceiling is only 18- to 24-year-olds, of those who can currently participate in this program if they receive food stamps. Recognizing food stamps are an income supplement, is a program for those who are in need. This may be a way of providing help for more individuals to move up the economic ladder.

Chairman MANZULLO. The experience that we have seen in our congressional district is that welfare rolls have plummeted by 87 percent. In one county, McHenry county, which has 250,000 people there are seven families on welfare. In Winnebago County, another county I represent, Rock Valley College, a community college, has an office within the welfare office so that there is a hand-off as people come off welfare. They are immediately working in contact with Rock Valley Community College. Then that college makes the contacts with the employers. It makes it a lot easier because I could imagine one of the big problems with people going on employment for the first time is saying would you hire me and then you have to ask, well, are you an ex-felon, are you on welfare. I don't even know if an employer can ask those questions legally. But with the bridge that the community colleges are providing, that appears to be working extremely well in our district. Do you have the same experience in yours, Jerry?

Mr. WELLER. I am pretty proud that welfare reform has been working in Illinois. We have seen statewide in Illinois, welfare rolls have been cut well over in half. My home county of Grundy County—and I, of course, live in the county seat of Morris—we have seen about an 85 percent reduction in the welfare rolls. Clearly the Work Opportunity Tax Credit has contributed to that success. I

think as I noted earlier, as we debated welfare reform emphasizing work, family and responsibility, while giving States flexibility to design welfare programs that meet the needs of individual communities and individual States, recognizing that North Dakota and South Dakota are different than New York or Illinois, by giving that kind of flexibility, we have succeeded. I am very proud of that. It took us three times. We passed that legislation three times before we signed it, but the bottom line is it is working. I believe that the Work opportunity Tax Credit helped contribute job opportunities for, in this case, well over 600,000 individuals who now are working rather than receiving a welfare check.

Chairman MANZULLO. Thank you. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman. I thank you for calling this hearing. I thank Congressman Weller for his testimony. One of the things that I had heard is that, most States when they are going through the work process for the opportunity tax credit certification, they can complete that usually in 30 days, but yet we have heard in some States there is a backlog of anywhere from 6 months to 2 years. Could you briefly discuss the processing backlog problem with the Committee. Specifically, what are the costs that a business experiences when processing is delayed? And if you know, how many States are experiencing significant backlogs? And is there anything we can do on the Federal level to help alleviate this problem?

Mr. WELLER. Mrs. McCarthy, what I would like to do is get back with you on some of the details. We can provide that to your Committee, some of the details. I am proud to say Illinois is one of the States that is leading in ensuring the timeliness of the processing of the paper, paperwork. Let me get back with you some statistics. There has been an analysis done of the various States. The bottom line is what we can do here in the Congress is to minimize the paperwork, to listen to the employers who want to participate about the potential roadblocks that have been there. Of course, paperwork has been one of them. The timeliness of the processing of the paperwork has been another. I will be happy to provide to the Committee essentially a ranking of the various States and of course where they compare.

Mrs. MCCARTHY. I thank you. I think it is important especially for the small businesses. Since I have been here 3½ years, I can't believe the amount of paperwork we ask of our people, things that we mandate our businesspeople to respond to. We are doing a better job, but we have to even do a better job than what we have been doing. I thank you for that. I will look forward to the information.

Mr. WELLER. Mrs. McCarthy, and this is a small business Committee, of course the more paperwork and more red tape roadblocks that stand in the way, the harder it is for a smaller employer to participate. The large employers have plenty of people to fill out paper, but the small employers do not. By minimizing the paperwork, by reducing the red tape wherever we have the opportunity to, we make it easier for a small employer to step forward and give that welfare recipient down the street an opportunity through the Work Opportunity Tax Credit.

Mrs. MCCARTHY. I thank you for your testimony.

Chairman MANZULLO. Congressman Hinojosa.

Mr. HINOJOSA. Thank you, Chairman Manzullo. Thank you for coming to visit with us, Congressman. I would like to ask you about that last point you made, that some of the businesses talk about the vast amount of paperwork that has to be filled out to participate in this WOTC. Will allowing the electronic filing of the IRS form 8850 help, and should we be considering reducing the business form to something much shorter?

Mr. WELLER. From my personal perspective, I think, Congressman, that as we move to e-filing of all tax forms, it simplifies the process, and more and more taxpayers have taken advantage of that opportunity as are small businesses. We have wrestled with the issue of electronic filing of Federal Government-related documents and particularly in the small business community over the last several years as they have worked, become more online, as they have worked to be able to participate more in e-commerce. But I believe that is the direction that we should head towards, because it does simplify the process.

Mr. HINOJOSA. The second option, should we consider a shorter form? And you understand, some people just don't find the computer as friendly as you and I; but for those people, wouldn't it be advisable to look at a shorter form?

Mr. WELLER. I think any way to minimize the amount of paperwork and bureaucratic red tape is a step in the right direction.

Mr. HINOJOSA. I agree with you. Thank you, Mr. Chairman. That is the only question I had.

Chairman MANZULLO. I have another question. I am at this point opposed to the bill and will vote against it based upon the fact that it would allow nonprofits, 501(c)(3)'s, to participate in the program. Nonprofits pay no income tax. Essentially, it would allow nonprofits the ability to pay less in Social Security taxes. Somebody is shaking their head back here; maybe this is wrong.

Mr. WELLER. Mr. Chairman, currently nonprofits such as your community hospitals or your community colleges do not participate in the Work Opportunity tax Credit. One of the things we have looked at in the Ways and Means committee is finding ways to enlist the nonprofits in a way that they could also provide work opportunities for those that are currently on welfare. In communities like my hometown of Morris, our largest employer in town is Morris Community Hospital. Joliet Junior college is a major employer in Joliet, as well as the two hospitals there.

Chairman MANZULLO. How do you extend the tax credit to people who don't pay taxes?

Mr. WELLER. The approach that has been looked at is some way to essentially syndicate the tax credit so that the employers could use it but they would then sell that to a private sector employer who could use the tax credit because they do pay taxes. That is an option that we have explored. However, the Committee has not approved that idea yet, but it is something that has been—

Chairman MANZULLO. It is presently in the bill. I am just really troubled because of where this is going to lead. The earned income tax credit has enough problems in terms of fraud; I think the GAO has estimated fraud is close to 20 percent in the EITC program. In terms of what is happening here, I just have some very serious

problems. Perhaps the next panel—I think we have not-for-profits that may be testifying—would be able to clear it up.

Mr. WELLER. I would point out that the current provision in the current law is in effect for a period of 2½ years. So in about another 2 years this provision will expire; we will consider extending it. At that point there will be changes made. What we are discussing today, of course, Mr. Chairman, is, in fact, law. As for the prospect of nonprofits participating in a greater way, that is an idea that is being considered. We would certainly welcome as a member of the Ways and Means Committee—I can't speak for Chairman Archer—but as a member of the Committee, I would welcome the input of the Small Business Committee on what role you feel that nonprofits can play in participating in the Work Opportunity Tax Credit and recognizing in many communities they are the largest employer in town.

Chairman MANZULLO. I think our largest employer is the school district, and that is followed by the three hospitals. So I could understand that. I will take a fresh look at it. We obviously have time to work on it. Mrs. McCarthy, did you have a follow-up question on that?

Mrs. MCCARTHY. No, actually what you were referring to was a follow-up question that I was going to have, but I figured we did have time to try and work it out. I also have a lot of nonprofits in my district. But I think we are looking at the larger scope of things, but we have the time to do it. I would appreciate if we could work on this committee with our suggestions.

Mr. WELLER. I know I would welcome them. I look forward to working with you. It has been a bipartisan effort with Chairman Houghton, Mr. Rangel, myself and others have been actively involved in this issue. The bottom line is we want to give those who are on welfare an opportunity to move up the economic ladder. It should be a bipartisan priority. This program works. If there are new ideas, new approaches that we can be using to better the program, simplify the program, reduce red tape, remove the barriers that discourage employers from enlisting in the program, we would love to hear your ideas and look forward to working with the Small Business Committee.

Chairman MANZULLO. Congressman, as a follow-up to my question, park districts, municipalities, school districts presently cannot avail themselves of any revenue benefits as a result of this statute in its present form. Is that correct?

Mr. WELLER. That is correct.

Chairman MANZULLO. That is the reason for trying to experiment with the not-for-profits. That would include local governments, I presume.

Mr. WELLER. There are other programs that provide economic opportunity that are utilized by municipalities and local governments and park districts. Summer jobs program is one example.

Chairman MANZULLO. Of course that got wiped out.

Mr. WELLER. That is an issue every year. I have always been a supporter of the summer jobs program. But it is one program which is important to Chicago and the suburban area that I represent. When you think of the nonprofits, the nonprofits that I have looked at in playing a role in trying to find a way where they

can participate in the Work Opportunity Tax Credit are the hospitals as well as our institutions of higher learning, such as St. Francis or Lewis University or Olivet Nazarene University, which are three nonprofit universities in the district that I represent.

Chairman MANZULLO. I appreciate it very much. Thank you for coming, Congressman.

Mr. WELLER. Thank you, Mr. Chairman and Mrs. McCarthy.

Chairman MANZULLO. If we could have our next panel please take a seat at the table.

Good morning. On our next panel is Roger Littlejohn. He is the coordinator of the Work Opportunity Tax Credit program of the Tennessee Department of Labor and Workforce Development from Nashville, Tennessee. I am sure will answer the question I just posed the last time. Rodney Carroll is the chief operating officer of the Welfare to Work Partnership here in Washington, D.C. Ron English is the owner of a small business franchise of the Burger King Corporation in Abilene, Texas. Finally, Fred Kramer, director of community employment and training at Marriott International in Bethesda, Maryland will testify.

Let's start first with Mr. Littlejohn. We are going to get the clock going to 5 minutes for your testimony. Please stick to that as much as possible. If you would like to read your statement or better yet please just like to paraphrase it. Mr. Littlejohn.

STATEMENT OF ROGER LITTLEJOHN, COORDINATOR, WORK OPPORTUNITY TAX CREDIT PROGRAM OF THE TENNESSEE DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT, NASHVILLE, TN

Mr. LITTLEJOHN. I appreciate being here this morning. I would like to paraphrase it a little bit. I am a little bit nervous this morning but not for the normal reasons. I am just not usually surrounded by so many people that have a different accent than I do.

I think we have been very successful in Tennessee because we have seen an increased usage of the WOTC program since day one. In my prepared statement, which you are more than welcome to read, we quote some of those figures. Employers use of the program increases from 5,000 to 7,000 each year. We anticipate receiving about 32,000 requests for the tax credit this year. Last fiscal year we finished sixth in the Nation in terms of the number of tax certifications that we got out the door, and we are proud of that.

For a State the size of Tennessee to finish sixth in the nation for tax certifications issued does not mean we have the market cornered on welfare recipients. We think it is because we have done a good job of marketing the program to the employment community. That is one of the things I wanted to focus on with you today.

We mass market the program to all 105,000-plus employers in Tennessee through a quarterly newsletter that is tied to our unemployment insurance program. Although Tennessee employers are being notified, each month we will get a call from someone who is just learning about the program for the first time. You are always going to have that problem. We are finding that small business employers know about the program, but do not utilize it because of a reluctance for increased government involvement. That is a problem that I think we have perpetuated over the years, but is a big

drawback to this program. The only way to overcome the reluctance is to go out and meet with employers one on one. That is something we try to do when we have time.

There are some things, the paperwork burden. I don't think that it is a burden. There are two forms to fill out, IRS form 8850 and ETA form 9061. They are pretty much a check-the-box kind of form. I was around in the old TJTC days. Now, that was a nightmare. I don't know how much simpler the current process could be. An employer fills out two forms and sends it to us. In Tennessee, we are lucky, we have computer access to almost everything. We prove that the person is a target group member or not. I tell employers all the time, if you spent more than 5 minutes perfecting a tax application under WOTC, you need to give me a call, I can help shorten just walking you through the process and making some suggestions.

We do feel there needs to be some changes to the program in the future, particularly in the ex-felons target group. Right now the ex-felons, must also be economically disadvantaged. Well, if you have been locked up for a year, that is almost a no-brainer. However, I have to spend an inordinate amount of time proving a negative. Eliminating the economically disadvantaged criteria from this target group would speed up the process for us. In the areas of the EZ/EC enterprise zones, and Empowerment Communities the age criteria does not present a problem. Should Congress want to adjust the age limits, we have no opinion.

We are having problems with the HUD EZ EC locator system, which is the computer system we use to prove that the person's address is within an empowerment zone. We would like to see the locator system enhanced because we often know that a person's address is in an enterprise zone, but we can't get confirmation from the HUD locator system. Although HUD has made great improvements to the locator system, we experience the most trouble with addresses in the rural areas. Hopefully they will continue to work to improve the system, and that will help. I know I am running out of time, but, we would like to see a longer or permanent extension of the tax credit, because the stop-and-go legislation causes a lot of problems. Employers hear that the program is over, but they don't necessarily hear when it is extended. The last extension was signed off on December the 27th. We started off with a 6-month backlog and tax time for most employers was right around the corner. That is a problem.

Some States may be reluctant to invest in computer and data systems that help make the certification process go faster because maybe of the inconsistency in funding. If the program is extended here for a year, a year and a half, some States are reluctant to make the necessary long-term commitments. This reluctance also crosses over into the staffing patterns at the State level. The program has been successful in Tennessee, it is going to continue to be successful in Tennessee because we are going to continue our marketing efforts. However, we hope that Congress would address some of the issues we have raised. With that, I will be happy to answer any questions you have. I was sitting in the back earlier wanting to jump up and answer questions.

Chairman MANZULLO. Thank you.

[Mr. Littlejohn's statement may be found in appendix.]
Chairman MANZULLO. Mr. Carroll.

STATEMENT OF RODNEY CARROLL, CHIEF OPERATING OFFICER, WELFARE TO WORK PARTNERSHIP, WASHINGTON, DC

Mr. CARROLL. Thank you. Good morning Mr. Chairman and members of the Subcommittee. My name is Rodney Carroll. I am honored and delighted to be here. I was a UPS manager for 22 years, but I am on loan to the Welfare to Work Partnership. Soon after the legislation was passed in 1996, there began this partnership with five companies: United Parcel Service, United Airlines, Monsanto, Burger King, and Sprint. The objective of these companies was first of all to recruit more companies, all surrounded by the idea of hiring people from welfare to work without displacing the current workers. Now there are currently over 12,000 companies throughout the country hiring people from welfare to work as a part of this partnership. The partnership is a nonpartisan not-for-profit organization. It is primarily funded by the private sector through grants to engage this effort. I was a UPS employee and part of the deal was that UPS would provide a loaned executive. My job is primarily to talk to businesses, business to business, and tell them why it is a good idea for them to get involved in hiring people from welfare to work. There are several reasons that I tell them. The first reason I tell them is that hiring people from welfare is a smart solution for their business. I tell them about the employees and how they will have a greater retention rate when they are hiring people from welfare and how they will find that a lot of the stereotypes and myths are just that, stereotypes and myths.

And also I talk to employers about how they can receive the tax credit. I am always amazed that I get two responses. If it is a large company, they kind of say, okay, tax credits, what else can you tell me? But the smaller companies are more interested in the tax credit because sometimes I tell them that it is true that people that have been on welfare for some time in some cases need more training or some education and may need to do something to bring them up to the standard you are used to. Of course they say, who is going to pay for all this? How am I going to be able to afford that? Sometimes you are only talking a few hundred dollars, depending on what the trainee may need. I say, well, you might be able to take advantage of this tax credit, because what that would do, you would be able to invest in the employee, the human capital, in this case human resources. So it is always an effective tool.

We are not happy as a partnership of how this has been going as far as small businesses. About 75 percent of the 12,000 companies I mentioned have less than 250 employees and almost 50 percent have less than 50 employees. So a lot of the companies are, even though I named a lot of big companies, are small businesses. We send them out a fax every week and we talk to them. We are not as happy as we would like to see people taking advantage of it. I go out and say, why not? Why aren't you? I am getting a lot of answers. Some of them are that it is perceived that the form is more difficult than it is; and as the speaker just before me said, that is not necessarily the case when you really educate them.

One of the barriers might be because when you hire for example UPS, a person comes in, this is a large human resources department, people talk, the person comes on Monday, they might not get hired until the next Monday or the following Monday. A lot of processes, background checks and so on. Part of the checks might be if they were on welfare, an ex-felon, et cetera. And the form could be filled out at that time. A person being hired from a small business could be on the spot. One of the parts of this form is you have to have that, it almost has to be immediately done, it can't work for a while and then come back and say, oh, by the way such and such was a welfare recipient, take advantage of the tax credit. That is one of the issues.

Also being on welfare, although we have talked about it for several years, it is still a sensitive topic for employees and employers. It really has to be a shrewd employer interview in order to be able to get around that topic at that particular first interview and find out indeed whether the person was on welfare or not. We would like to see this continue. We think that although we have made a lot of progress in the country as far as reducing the rolls, we still have quite a ways to go. We think that any incentive that we can give for the business community would be great, and we perceive this as that, an incentive to hire people from welfare to work.

There are all kinds of extraordinary programs around the country that people are doing; they are thinking out of the box and the tax credit just allows them one more way to be able to think out of the box and also sell their stockholders in some cases or even partners and say well, look, besides getting good employees, we are getting this tax credit. That is why I think this is a good idea. The Welfare to Work Partnership continues to move on. We are out in the communities now. We have started five offices throughout the country in major cities. But our small businesses are still our primary objective and anything we can do to help small businesses hire people from welfare to work, we will certainly agree with that. Thank you very much.

Chairman MANZULLO. Thank you.

[Mr. Carroll's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Ron English. Mr. English.

STATEMENT OF RON ENGLISH, FRANCHISE OWNER, BURGER KING, ABILENE, TX

Mr. ENGLISH. Good morning, Mr. Chairman, Congressman McCarthy, and members of the Committee. My name is Ron English, and I am a small business owner from Abilene, Texas, which is an all-American city about 3 hours west of Dallas. I am also one of the 12,000 business partners of the Welfare to Work Partnership. We employ approximately 370 people in our Burger King restaurants. In my community and in the fast food industry nationwide, I am a vocal advocate for welfare to work programs because I believe they work for the employee and the employer. I applaud your efforts to reform welfare. From my vantage point as an employer and taxpayer, welfare reform has plugged the drain on a failed program that depleted our communities of trained workers and customers.

The welfare system also depletes our Nation of children who grow up with a healthy respect for the value and dignity of work, education, business and labor. I had a more selfish interest in the welfare to work programs initially. The motivation was not incentives like WOTC. However, I have quickly learned that the WOTC is a vital part of any successful welfare to work program for small businesses like mine. At the beginning, my primary interest was simply finding employees, employees that I desperately needed in my business and I know are needed nationwide in the restaurant industry. In the fast food business, turnover often runs as high as 300 percent. A new source of potential employees is extremely necessary.

I soon learned that the biggest challenge to participating in the welfare to work program was not the paperwork but the workforce, the quality of the workforce. It takes a lot of time and expense to turn a typical WOTC eligible person into a productive employee. When we hire former welfare recipients, we have to do much more than train them in the nuances of having it your way because they lack skills and workplace experience. We must also teach them how to keep a job. Our training includes how to find reliable child care, how to practice necessary personal hygiene for the workplace, how to use the public transportation system, and how to budget from one paycheck to the next, to name a few.

Teaching these skills is expensive and has a direct effect on my bottom line and my ability to expand and create more jobs. Even so, we believe the investment is worthwhile, and we have developed some excellent employees. Marie is a good example. Marie is a single mother raising three children. She has an eighth grade education and before welfare reform she had never been employed. We had to teach and Marie had to learn, the basic job survival skills. Now Marie is a manager. She is teaching her own kids the importance of employment and of education. She talks about no longer being embarrassed when checking out at the grocery store because instead of using a welfare card, she now writes a check, something she had never done. Marie is a great success story. Marie went through our self-funded, five 2-hour sessions job survival training course, and it made a difference. Employees like Marie will stay on the job 45 to 50 percent longer than traditional hired employees if they get the training. Were it not for the WOTC, we could not afford the extra effort needed to train, educate, and work with employees like Marie.

If you were to ask any of the 12,000 business partners of the Welfare to Work Partnership, they would tell you that job survival training is a critical component in a successful welfare to work program. Unfortunately, more small employers don't have the stories to tell because accessing WOTC sometimes is difficult. The paperwork seems overwhelming, the minimum hours requirement oppressive, and the future of the program uncertain. That is why it is so critical to make the WOTC program more small business friendly.

I hope we can rewrite the program requirements to reward companies who take the added risk. Only about 20 percent of those we hire and train actually make it to the 120-hour threshold. Eliminating or significantly reducing the 120-hour requirement would, in

my opinion, have an immediate impact on small business participation. Second is the uncertainty of the program. While reauthorization wanes from one Congress to the next, employers like me continue to recruit, hire, and train employees not knowing whether the tax credits will exist to offset the higher costs. The uncertainty discourages employers from participating. Most small businesses cannot afford to employ a human resources manager. So for the small employer and his limited staff, the administration of WOTC is a cumbersome and time-consuming investment for a minimal financial return.

I would be unlikely to participate if it weren't for a vendor to whom I outsource the paperwork. Of course that service comes at a fee and reduces the net reimbursement advantage of the tax credit. Our purpose today is to encourage you to put some Congressional muscle behind a program that works. Give the Work Opportunity Tax Credit the clout it deserves by making it permanent, eliminating the administrative headaches as much as possible and reducing the minimum hours requirement. Small business owners like myself will respond affirmatively. Those are my thoughts. I hope you find them useful. I appreciate your listening.

Chairman MANZULLO. I appreciate that very much. I notice you put in your statement "Have it your way." That is pretty subtle, isn't it?

Mr. ENGLISH. Thank you.

[Mr. English's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Fred Kramer. Mr. Kramer.

STATEMENT OF FRED KRAMER, DIRECTOR OF COMMUNITY EMPLOYMENT AND TRAINING, MARRIOTT INTERNATIONAL, BETHESDA, MD

Mr. KRAMER. Thank you, Mr. Chairman, members of the Committee. My name is Fred Kramer, and I am the director of community employment and training programs for Marriott International. Although I work for a large employer, I am here on behalf of small businesses that use the work opportunity and welfare to work tax credits. Specifically, I am here to ask you to consider a permanent extension of these tax credit programs. The fact that these programs continue to be extended, although for a short period of time, shows the Congress supports these initiatives because they do work.

They offer an incentive for businesses to consider hiring individuals who do not necessarily possess the requisite skills needed. These individuals require extra training to enable them to become work ready. This extra attention requires time and costs money. The problem exists when the program expires and there is a hiatus between expiration and renewal. When the hiatus occurs, State agencies often reassign the staff that was once dedicated to the certification process. This slows down the paperwork process and in some instances may stop it completely. Once renewal occurs, the States may have to train new employees to start up the certification unit once again.

A company the size of Marriott has the infrastructure in place usually through its human resources function to handle the paper-

work and procedures to participate in this program. These requirements are extensive and time consuming. Think of the small businesses that participate in these tax credit programs. The unit managers handle the interviews and paperwork, follow the procedures and in some cases are offered incentives by the home office. When the program expires and the certification is delayed or never materialize, the unit manager loses motivation to participate in the program. They followed the established procedures, offered the extra attention and time to the individuals, but did not receive the tax credit.

Fair or not, this gives the impression that Congress is not fully committed to the program and makes it difficult for small businesses to continue with it. A permanent extension would go a long way toward solving these issues as well as keeping unit managers and small businesses motivated to continue participation in these important initiatives. The Work opportunity Tax Credit program which Congress established has been very successful and opened up the doors of employment opportunity for thousands of individuals. A permanent extension would build upon these successes and result in employment opportunities for thousands more.

If I may, I would like to just share a few numbers and statistics within our corporation, with Marriott. Since the WOTC program began, we have hired over 9,000 individuals through the program and another 2,000 through the welfare to work tax credit program. After they have maxed out on their tax credits, just under 50 percent of those individuals are still with us. And after a full year of employment, it is around 20 percent that are still with us. If you think about those numbers for people, this is their first job, those are very good numbers, because people tend to job hop in their first few jobs. So we are very proud of those numbers.

I also wanted to share a few success stories. I had put together seven different ones. Unfortunately, three of those folks left Marriott for higher paying jobs with other companies. I am not going to brag on that but good for them. All these individuals I am going to give you a little blurb about have maxed out on the credit. They have been with Marriott for well over a year.

One individual is a female who completed the tax credit and the special training that we put some of our welfare recipients through, has been awarded the Associate of the Month for her excellent performance in food service at her hotel. Another individual has been nominated as the associate of the Corridor, which is a very high honor for outstanding performance in housekeeping. She actually maxed out on the welfare to work tax credit. So she has been with us for a very good period of time.

Another individual, and this is a gentleman, was awarded the Rookie of the Year Award in their hotel for outstanding performance in food service. So the extra training, it does cost some money; but it definitely—we do get some very, very good associates out of the program. It does require some extra time on behalf of the managers. But these success stories go a long way for spreading the good word about the advantage of hiring people off welfare.

So I want to thank you for allowing me to address the issue today. I believe that WOTC is essential in motivating employers to hire and train individuals with barriers to employment. Thank you.

Chairman MANZULLO. Thank you very much.

[Mr. Kramer's statement may be found in appendix.]

Chairman MANZULLO. We welcome Congressman Napolitano with us. We are going to start first with questions from Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman; and thank you, everyone, for your testimony. I found it very interesting and certainly have written down your ideas. Mr. Littlejohn, one of the things that I was curious on, what you had said as far as felons coming out of prison and then trying to come into the workforce and proving that they obviously have no money. That is common sense. One of the things that I know happens an awful lot of time, obviously when you come out of prison, I am sure a small businessperson depending on what the crime was would be reluctant to hire that person, anyhow. Yet if we don't have some sort of an incentive to hire that person, most likely they will go into crime or whatever they were doing to survive again before they go back to prison. How can we, besides going through HUD, not HUD; but how can we encourage businesses, because I would find it very hard. If someone told me someone came out with a violent felony, I would be reluctant to hire them, to take that chance; and I am liberal.

Mr. LITTLEJOHN. Obviously, some employers because of the products that they have, they can't hire ex-felons. My comment is more related to the administrative burden of getting the tax credit back to the employer, because the target group, why do we want to make them a target group, it is because their barrier is that they are an ex-felon. Why put the economically disadvantaged criteria on top of it which slows down the paperwork and costs additional administrative dollars for me to prove a negative? When OIG comes in after the program and wants to start looking around, we prove that a person is what they say they are before we issue the tax certificate.

So if it was Congress' intent to identify this target group and their barrier being that they are an ex-felon, then making the requirement that they also be economically disadvantaged makes it extremely cumbersome, and many times it delays getting the tax certificate to the employer for many months because one of the ways we verify in a negative way that the person has had no income is through our unemployment insurance wage records which run generally about 5 months behind. So it just delays the process, and we wind up trying to prove a negative.

Mrs. MCCARTHY. I thank you. The Chairman just showed me something on what you have to do for someone that is just coming out of jail. Pay stubs. How can you come up with a pay stub? Employment contacts. You are not going to have any of those.

Mr. LITTLEJOHN. In Tennessee, we check the unemployment wage record files and if no employers have shown that they paid wages to that individual, that is a negative confirmation with us. We don't fool with the pay stubs. We go for the negative confirmation, because it is something that we can do and don't put the burden on the employer of trying to get some pay stub. If they have worked, it is going to show up on the UI system, anyway. It can be very cumbersome if a State doesn't have access to—let's say the

State coordinator doesn't have access to the UI records and things like that.

Mrs. MCCARTHY. I thank you for that. Going back, when you said you were sitting in the back and ready to jump up because you wanted to answer some questions, I have been in that situation many times.

Mr. LITTLEJOHN. I was told to restrain myself once I got out of town.

Mrs. MCCARTHY. I am going to give you an opportunity on what you felt you needed to make a comment because sometimes those that are sitting there—and I know you only have 5 minutes time and we only have 5 minutes at a time. I would be interested in what comments you wanted to make.

Mr. LITTLEJOHN. One of the things I wanted to comment on was the backlogs that the States have. I would venture to say that a majority of the States are working on a backlog. I think we are about as efficient as most States, and we are running probably 3 to 4 months back into 1999, and those employers, they have already needed to fill out their 1999 returns. We just simply—because in our situation it is a staffing problem—can't get them out the door. But that backlog was created by the break in the legislation from July of 1999 till it was reauthorized in December. I couldn't process them.

So I started off right after Christmas with an automatic backlog that went to July of 1999. Again, a permanent extension of the legislation or extensions that are longer in nature certainly helps us. We are going to get the backlog straightened up, but it takes awhile because all of a sudden it is dumped in your lap when you start out 6 months behind.

Mrs. MCCARTHY. What backlogs are you actually talking about, though, as far as paperwork?

Mr. LITTLEJOHN. Processing and issuing tax certifications for hires that were made since July of 1999.

Mrs. MCCARTHY. Thank you very much, and I appreciate that. We will see what we can do. That obviously leads back to having permanent status.

Mr. LITTLEJOHN. That would be one of the things, yes.

Chairman MANZULLO. Thank you, Mrs. McCarthy. We have your testimony here. What I would like you to do on the recommendations that you make is to send us a letter on your stationery to explain very succinctly the things that you would like changed. Try to keep it to one page. For example, on the ex-felon issue asking for pay stubs, that is great. To verify an ex-felon, all you should have to do is to make a phone call and just verify it with within a matter of a very short period of time. But if you could examine each of your recommendations. For example, eliminating the economically disadvantage for felons, completely do away with that, put that in the letter, and explain why. Also you had—

Mr. LITTLEJOHN. I hope I don't have to spend a lot of time trying to explain that one, though.

Chairman MANZULLO. No, that is self-explanatory. Why would the felon even be applying unless he was economically disadvantaged? Being without employment for some time might presume that you don't sit there with a lot of money.

Mr. LITTLEJOHN. They have to be within a year of release or conviction, whichever is later. In most cases they have been locked up for at least a year. Again, we are proving a negative.

Mrs. MCCARTHY. Something just hit me. I don't know anything about this; but when someone, maybe within the last 3 months before they are going to be released, are they going through any process to say, all right, we have these kind of jobs lined up for you out there?

Mr. LITTLEJOHN. I think the Department of Paroles, they tell them about the WOTC program. And when a person is in a transition period like that, they oftentimes try to utilize the program by telling employers when they go for job interviews. I know in Tennessee, I think that is part of their release package. They take them through these things, tell an employer you are an ex-felon, there may be a tax credit available to them if they hire them. They are incorporating that. We get a lot of calls. We would like to be able to respond to the employers by getting the tax certificates back to them in a more timely fashion because they have made the commitment and hired these individuals. This little glitch, if we could eliminate it, would speed that process up a great deal.

Chairman MANZULLO. Is there a way when the employer applies for the tax credit that he can't do the self-verification as you do all the time when you file your income tax is that you check the boxes, et cetera? Is there a way to make it a lot easier to eliminate a lot or most of the paperwork that we are talking about?

Mr. LITTLEJOHN. From an employer's standpoint in Tennessee—and it varies from State to State—the employer submits those two forms.

Chairman MANZULLO. To you.

Mr. LITTLEJOHN. To me. We verify—I have no trouble verifying a person's ex-felon status. That is as easy as getting on the computer or verifying that they are receiving AFDC or food stamps. What causes me the problem is when I have to wait for 5 months to get verification of a negative, no wages being paid by going to the UI system in order to prove the economic status of an ex-felon. I can prove he is an ex-felon in 4 or 5 minutes. That is not the problem with that particular target group.

Chairman MANZULLO. Maybe this law should be written so that if there is proof given to the employer that this person has not had a job within a certain period of time then the employer does not have to contact a government agency to verify the information. There has to be an easier way for small businesses to be able to do this without contacting a government agency. Anybody have any thought on that? What does Marriott do on that, Mr. Kramer?

Mr. KRAMER. We actually have a vendor that we utilize. I think the gentleman from Burger King also utilizes that.

Chairman MANZULLO. A regular employment agency?

Mr. KRAMER. It is a group out of Indianapolis that specializes in the tax credit program. If I remember back to TJTC, as an employer, as a recruiter, I would interview folks that I am going to consider to hire; and once I have hired them, then I would ask them to bring in some information to me, various IDs, paycheck stubs and things like that. Then I would physically take them to

the local job service. I would present the paperwork to the job service.

Chairman MANZULLO. There must be an easier way. That is why small businesses are not involved in it. That is precisely the point. I would welcome any comment in your letters to us as to any creative way that you can come up with to bypass the Government on a certification document or something. I hate to eliminate some of your jobs up here, but you have more important things to do than sit around waiting to see whether or not somebody has received unemployment benefits from the past 4 or 5 months. My brother has a restaurant business, and it is rough for him getting employees. When you have half a dozen employees, the WOTC is not worth it, it is not worth it to make the phone call. Even though these forms may be minimal, for Marriott and for Burger King, my brother Frank has 10 or 15 employees. Ron, you have 370 employees and you have somebody that does the WOTC application process full time. My brother doesn't. So he would just bypass the program, which is unfortunate because teaching somebody to be a good Italian cook is a real profession. That is true. Mrs. Napolitano.

Ms. NAPOLITANO. Thank you, Mr. Chairman. In thinking about what you just said in regard to finding a way to be able to make this easier, I have always felt that the Department of Corrections should have a release form to give to every felon they are releasing, with some of that information to be able to assist the felon. Unfortunately, they don't talk to Department of Employment—Corrections doesn't; and so you have kind of a situation where there is no communication for the need, either by the Department of Employment—and I call it the Department of Employment because I am used to being in California, to anybody else. Sometimes agencies do not communicate as to what would be helpful to the interviewers at the time of being able to do referrals. If they were able to standardize something to every single individual, even the felon could fill it out upon release and have it verified by somebody in the Department of Corrections. Because then they would be assisting not only an employer but the felon to be able to get back without having to go through a whole period of suspense, if you will, trying to figure out what you do next. That would be easier to verify it.

Then I have other questions.

I was looking at this instruction form, and I dare anybody to read it with any expediency. The words are run in together. I looked down here, and it is just unbelievable the way this form has been set out. Mr. Carroll, could you address that? The words—there is hardly any spacing between any of the language in this form.

Mr. CARROLL. Sure. You would like me to disagree with that?

Ms. NAPOLITANO. Is this standard? This is what goes out to an employer?

Mr. CARROLL. I believe so, yes. Is that the 8850?

Ms. NAPOLITANO. Employers, any comments on the form?

Mr. KRAMER. If that is the 8850, that is the standard form, yes.

Ms. NAPOLITANO. I am sure most of you already have read it. What about the employer who is going to try to utilize this and try to figure out what the world it says?

Mr. KRAMER. They won't read it. They will put it somewhere else.

Ms. NAPOLITANO. Have you noticed the form?

Chairman MANZULLO. Mrs. Napolitano, look on the second page, the words are all bundled together.

Ms. NAPOLITANO. That is what I am referring to. Everything is run in together. Look at it. The front and back.

Chairman MANZULLO. That is a lousy printing job.

Ms. NAPOLITANO. I think first I would suggest we start at home trying to figure out what is a better and—facilitate this for the new employer who may want to at least read it and take part in it.

I am very interested in comments in regard to felons. Right now I have a program in California for the women and infants. There are four pilots set up. One of them is in my district. The women who are ready to be released with their infant children are looking for jobs but they are felons, they cannot find employment; and there is no employment office saying, here, we will help you. How do we go about that, Mr. Carroll? What would be the most expedient way for us to be able to find this felon a job with an employer by trying to get them to fill out these forms?

Mr. CARROLL. We had a conference in New York just a couple of months ago based on just that, having employers consider ex-felons. A very interesting conference, very touching. Part of the concern is you have to educate the employers on who these ex-felons are. Most of us have this impression of something we see in the movies or something and 70 percent of them are nonviolent. That is the first thing.

Ms. NAPOLITANO. This program is women who have abused drugs or alcohol. When I asked this woman what she did, she says, I sold. But she has got 25 years facing her; and she is not going to do it again. At least this is what she is professing.

Mr. CARROLL. When we talk about that, we educate the employers on who this population is; and then we say in addition to that, we encourage the employers to get a relationship with some kind of service provider to help the ex-felon make the transition. Part of it—we might not want to admit it or not—but we don't necessarily agree that ex-felons are being rehabilitated. So once they go—

Ms. NAPOLITANO. They are not.

Mr. CARROLL. Once they go through some process, we have a certification provider join on board to help in training, then the employers are more willing to take this opportunity. Now, the tax credit as Mr. Littlejohn said, needs to be, number one, we shouldn't have to worry about whether it is in or out or expired or not. That should probably be ongoing. That is the very least we can do. We are paying, what, 50—some thousand dollars to house a felon, and it is like \$3,000 or so if we can get them into a job. So we need to put our energies toward that.

Ms. NAPOLITANO. Wouldn't it make sense then to try to establish a program directly with the department of Corrections and have employers come in and actually provide some of the on-site training so when they are released, somebody is going to go to a job?

Mr. KRAMER. May I comment?

Ms. NAPOLITANO. Yes.

Mr. KRAMER. I was actually—when I was in the hotels, I had gone to Lorton penitentiary and done job training with the inmates that were going to be released over a certain period of time. Lorton at that point had a culinary skills program. The population that was involved in that were actually separated from the general population because these guys were trying to do something with their lives.

If you want an employer to consider hiring someone coming out of prison, that training needs to take place while they are in prison, and you are going to need at least 3 to 4 months. You may be surprised how many employers may be willing to come out and do some job training because it is in their own interest as well. The one big barrier that exists in hiring ex-felons is the difference between nonviolent and violent offenders. Because with violent offenders, you run the risk of a negligent hiring liability lawsuit. But with nonviolent, drug offenders and things like that—and they are ready to come out and they have learned their lesson—they want a second chance as we all do at one point or another. An effective training program with a partnership with various employers in that area could definitely work.

Mr. ENGLISH. One other thing I would add to that is that in the State of Texas, we have what we call halfway houses, people who are about to be released. They are released during the day to go and work, and then they go back at night. We have participated in that program for a couple of years and found it quite useful for us. As the gentleman on my left had said, part of the problem that we have is a concern about violence in the workplace. Bringing those people into the workplace sometimes creates a problem for us even if it is just someone who sold drugs before. We are concerned because drugs, as you probably are aware, run rampant. With the kids that we work, we just don't want them associated with that as well.

Ms. NAPOLITANO. Anybody else? Thank you, Mr. Chairman. Maybe we ought to consider a program to be able to assist employers finding a way to work with prisons.

Chairman MANZULLO. I appreciate that. I had a question back at the beginning about not-for-profits. Did anybody here want to comment on that? Sir, you were nodding as though you would know the program. Would you mind taking a seat up here and introducing yourself.

Mr. SIGNER. Sure. My name is Bill Signer; and I am general counsel to NEON, the National Employment Opportunities Network, which represents the consultants and a number of the companies that are involved in the Work Opportunity Tax Credit. The proposal on the not-for-profits that was put forth by Congresswoman Lowey and Congresswoman Johnson and which Mr. Houghton has actively supported was one which basically says that in a lot of inner city and rural communities, the largest employers are not-for-profits. The thought was, how do you encourage those employers to participate in hiring entry-level workers, especially since hospital and universities have a lot of entry level workers. The proposal, specifically, was to allow them to take a credit against their payroll tax liability, which is a tax that they do pay. Mr. Houghton

has been very articulate on the fact that payroll taxes are a tax employers are paying to the Federal Government.

Chairman MANZULLO. Would that be Social Security?

Mr. SIGNER. Social Security and unemployment insurance. That was what the proposal was at that point.

Chairman MANZULLO. Has anybody scored that with the CBO?

Mr. SIGNER. With the Joint Committee on Taxation. It came out to be about \$40 million a year.

Chairman MANZULLO. That would be solely Social Security or Social Security and unemployment?

Mr. SIGNER. I included all payroll taxes.

Chairman MANZULLO. Do you see a problem with that? Your name again is?

Mr. SIGNER. Bill Signer. S-i-g-n-e-r.

Chairman MANZULLO. Do you see a problem with that, Mr. Signer, or is there another way to allow for non-profits to participate in the WOTC. For example, someone had mentioned being able to take a certificate and exchange it with a private employer for reimbursement but at a discounted rate.

Mr. SIGNER. Congressman Weller talked about syndication of tax credits. There are a lot of problems with that. Basically you are paying middle people a lot of money and the value to the employer goes down very, very much. In terms of grants, which is what the administration it testified in favor of when they say that they have money for welfare to work for grants, the problem, especially for small businesses and small companies, is they don't want to go through the whole process of applying for a grant. They don't have anyone on staff who can do a grant proposal. They don't want to participate in that and the odds of them receiving a grant is very, very low. The advantage of the tax incentive is everybody pays payroll taxes; it is universally available. If you want to participate in the program, you can do it that way.

Chairman MANZULLO. I guess I would have to think that one through. Does anybody else have any other suggestions as to how we could include colleges, universities, local government units, libraries besides this tax credit bill?

Mr. SIGNER. One other point, that bill did not go to local governments. Some local governments don't pay payroll taxes. They aren't in the Social Security system. Also it was felt that one government should not be giving another government a tax incentive.

Chairman MANZULLO. But on the other hand, the government should set the standard, for example, in the hiring of ex-felons. If a government agency doesn't do that, why would they expect the private employer to do that? First of all, I appreciate your shaking your head over there and serving as an indication that your insight is extremely valuable. I think I speak on behalf of the members here in saying that this program is not being used to its maximum, if at all, by most small businesspeople. I am convinced that unless you have somebody who does full-time payroll, whether it be a government compliance officer or somebody in accounting, that this program simply is not going to be utilized by small business. Small businesses comprise over half of the employment. Is that correct, Mrs. McCarthy?

Mrs. MCCARTHY. It sounds pretty close.

Chairman MANZULLO. It is a huge figure. I am not saying this obviously in criticism of the tremendous efforts that all of you are doing, but I am just really dismayed that we have made it so difficult for small employers to get involved. I would appreciate if you want to make it part of your letter. Rodney, as you have reached out to the different groups, I think you hit it right on the head. You just can't seem to break through. It is the little people that have the most difficult time getting the employees because they don't have the recruiting staff, they don't pay the benefits, et cetera.

Mr. English, in your letter you stated that about 20 percent of the people will stay with you for up to 299 hours. And most of that, at least in my experience after talking with our agencies back home and verified through Mr. Kramer, is because they are moving up the economic ladder and going to other jobs. But your point is that you are doing all the training. The money that you receive through the tax credit, is spent by you, anyway. So it is not as though you are getting a bonus. In fact I found out after was talking to one of your employees, is that Marriott has an English program for people that are struggling with it, and also they have a Spanish program to teach people different languages. This is valuable especially in Washington, D.C., working with people that have the incredible language backgrounds.

If you could work on your letters, try to keep them as short as possible. You are practitioners; you understand this better than Members of Congress who are theoreticians, but that is the reason why we have these committee hearings. In all of your letters to us, if you could work either collectively or individually and let us know if there is a whole new way to go about opening this up to small employers, we would make that recommendation to the Ways and Means Committee as part of the extension of the credit so that more and more businesses could avail themselves of it.

Mr. LITTLEJOHN. Mr. Chairman, I would like to add one comment. The instruction page that I believe you had for the IRS form 8850, the IRS wrote that. What happens at the State levels is that, particularly in Tennessee, we broke it down into a little Southernese and it made it—the print is a lot larger, and it is a lot simpler; but it is something that the States had to do in order to make it function. The State coordinators that are out there are doing things such as rewriting the instruction manual so people can understand it.

We have our own instruction manual for this program. The instruction package that you were looking at, that scares me. I don't think I have ever read the thing before—I have seen it—but we had to rewrite our own to make it user friendly for the employers. I understand why the IRS had to put all the bureaucratic-ese in there; but when it gets down to where the rubber meets the road, we have made it a lot simpler; and most of the States that I am in contact with, I know Texas, Georgia, we have all issued our own instruction manual that is much easier to follow.

Chairman MANZULLO. I have a final question. I guess this would be to you, Rodney. When any of your agencies or groups see an ad in the paper, with a request for help to find employers in a particular business or industry, does your agency sometimes contact the employer?

Mr. CARROLL. Sure.

Chairman MANZULLO. Tell us how that works.

Mr. CARROLL. We have several ways. One, a lot of it depends on the employer and how they are advertised. For example, when I was at UPS, I would have agencies contact me directly all the time wanting to know about the specific requirements for the job and so forth.

Chairman MANZULLO. I know it would be very difficult, because the want ad pages are tremendous. But does anybody contact those employers and say, look it, we may have something here that we can help you with? Or that is just too much?

Mr. SIGNER. Mr. Chairman, what is going out there is that the management assistance corporations have done an extensive job of contacting all the groups that work with ex-offenders, work with welfare recipients and do training. What they have done is put in their computer database the location of groups involved with people who are eligible for the Work Opportunity Tax Credit. So that when a Marriott wants to hire somebody, they will place a job order with their consultant. The consultant will then go out and say, here is what the job is, here are what the requirements are, please refer people to us. That is going on extensively. That has really happened extensively bit since WOTC came into effect because only a narrow pool of people are eligible and employers need people. So there has been a partnership going on between the employers and the consultants, and they have been engaging in extensive outreach.

The other comment I wanted to make was on the ex-offenders. The reason you have to provide all those pay stubs in to prove income. There was a belief on the Committee on Ways and Means that if you did not require proof of income, you would have somebody like Michael Milken, qualify. It is an incredible burden. What ends up happening is that employers say they don't want to hire in the ex-offender—they have enough problems with hiring an ex-offender in the first place. But they are told, okay, hire somebody and get a tax incentive for doing it, and then they don't get it or it is 5 or 6 months down the road. The intersection between the act by the employer and when they get rewarded from it is so long, and it is not the fault of the job services. It is the fault of the system. The system really needs to be changed in that area.

Chairman MANZULLO. Mrs. McCarthy.

Mrs. MCCARTHY. Just out of common sense—and I know we are in the Government—but the average salary starting off when you take these people into the programs I don't think would quite live up to his life style.

Mr. SIGNER. I understand that. We explained that to them, but they wouldn't listen.

Mrs. MCCARTHY. Maybe we will have—

Chairman MANZULLO. That is the difference between Ways and Means and Small Business Committees.

Mr. SIGNER. There are other areas here where I think you could make some major improvements and as a result you would get more small businesses to participate in it.

Chairman MANZULLO. Please.

Mr. SIGNER. Congressman Weller talked about the 18- to 24-year-old category. It applies both to EC, empowerment zones and enterprise communities, as well as to the food stamp category. If you are over 24 years old, you don't qualify. What that means is and what we are seeing now is predominately women are qualifying for their tax incentives. Eighty percent of the people who qualify now in WOTC are women on welfare. So if you are a small businessperson and people coming through your door, the only ones you are going to get qualified for WOTC are women. If you only have a couple of jobs a year, and you hire a man and he doesn't qualify, yet he is from a poverty household, the employee learns very quickly not to make that mistake again. If you expanded the number of people who were eligible so that more people coming through the door with have very similar characteristics to the people who are on welfare, quality you would see more small employers participating. The irony here is that the mother of a child on welfare qualifies but the father from the same household does not.

Very few States have unemployed parent programs. So the husband doesn't qualify. There are about 12 million people on welfare. Of that, about 600,000 are men. So what you are finding is a very small pool of men. If you expanded WOTC to cover men, you would end up having more small businesses participating because more of the people coming through the door would qualify. The other problem is—

Chairman MANZULLO. Back up a second on that, Bill. Is that because the 18 to 24 age category?

Mr. SIGNER. It is because it is a very small category of 18- to 24-year-old individuals qualify. So what you have is a woman on welfare who is 30 years old—

Chairman MANZULLO. This is a single mom?

Mr. SIGNER. Or she could be married. Her husband or the father of the child may be living in the household, but they are not on welfare, so they don't qualify. They are 30 years old; the family is on food stamps, but it is only the 18- to 24-year-old on food stamps or 18 to 24-year-olds and living in an EZ or an EC that qualify. They are living in the household, they are on food stamps, but they are not qualifying for the program. So the employers who are going out and recruiting and getting people are not looking for those men. They are looking for the women on welfare.

So what you end up having is that very few men are qualifying in this program. Small businesses are saying, wait a second, I am hiring only a couple of people a year, maybe one out of the five people I hire is eligible, yet if I hired a man from the same household or a similar household, he doesn't qualify. Yet he has got problems in terms of his ability to work. I was looking at a statistic the other day that were in Time magazine. One in nine African Americans age 20 to 39 are in prison. The reason they are in prison is—

Chairman MANZULLO. Is that males?

Mr. SIGNER. Males. What they were saying is the reason they are in prison is because they don't have any other opportunities to get a job. We are seeing welfare moms come off of welfare and go into work. We are not seeing African American males going to work. It is 1 in 25 Hispanic Americans age 20 to 29 are in jail. Yet only 1 in 65 white men in the same group are incarcerated. We are giving

no opportunity for those people to get a job. We have succeeded in welfare. Why can't we succeed in the other areas?

Chairman MANZULLO. Bill, if you could also be so kind as to submit a letter on your letterhead. This has been very interesting. I guess the missing witness here is somebody like my brother, but we could understand that. Rodney, I think you are totally frustrated with the fact that you have worked so hard but been unable to bring them into the fold. We will take your letters. We will work with the Ways and Means Committee. Apparently we do have time to put more effort into this. What I would like to see—I don't know if it is going to happen—is a permanent extension of the present law. You can always tweak the present qualifications to be more expansive, as Mr. Signer had requested.

Thank you all for coming here. We appreciate your taking the time. This Subcommittee is adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

CAROLYN MCCARTHY, NEW YORK
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
100th Congress
Committee on Small Business
Subcommittee on Tax, Finance, and Exports
8-365 Rayburn House Office Building
Washington, DC 20515-6520

OPENING REMARKS OF CHAIRMAN DONALD A. MANZULLO

**“MAKING THE WORK OPPORTUNITY TAX CREDIT A SUCCESS FOR
SMALL BUSINESS”**

May 4, 2000 10:00AM in 2360 Rayburn HOB

First, let me welcome those who may be listening to this hearing “on-line” over the Internet. This is the first Small Business Tax, Finance, and Exports Subcommittee hearing to be broadcast live. I trust that this will prove to be a positive experiment for those interested in public policy.

Today, the Subcommittee will focus on making the Work Opportunity Tax Credit a success for small business. This tax credit is one important tool in helping people move from welfare dependency to work.

I am proud of the fact that since Congress passed the historic welfare reform initiative in 1996, 82 percent of welfare recipients worked their way off welfare in Winnebago County, which is the largest county in the district I represent and home to the second largest city in Illinois – Rockford. This story is repeated in district after district across the country. The WOTC continues to play a key role in welfare reform.

Because the WOTC is a temporary tax credit, periodic disruptions in its availability hinders its effectiveness. In addition, many small businesses are not aware of this tax credit, even in this tight labor market. Some small businesses have justifiable fears about filling out more forms and paperwork for the federal government to qualify for this credit. The purpose of this hearing is to highlight the good work of my friends, Representatives Rangel, Weller, and Houghton in trying to make the WOTC permanent and to find ways to make this tax credit more user-friendly for small business owners.

I look forward to the testimony of our witnesses. I particularly appreciate the willingness of two of our guests to travel a great distance to be with us this morning.

I yield for an opening statement from the ranking minority Member, my good friend, Mrs. McCarthy of New York.

**House Committee on Small Business
Subcommittee on Tax, Finance and Exports**

"Making The Work Opportunity Tax Credit A Success For Small Business"

May 4, 2000

Opening Statement of the Hon. Carolyn McCarthy of New York

Thank you Mr. Chairman for scheduling this hearing to explore the various options small businesses can pursue when applying for the Work Opportunity Tax Credit. I would also like to thank Congressman Rangle and Congressman Weller, as well as our second panel of guest witnesses, for taking time out their busy schedules to be with us today.

As you know, the Work Opportunity Tax Credit is a complement to the welfare reform effort and can be used as an incentive for employers to help people move from welfare to work. Since its inception, this tax credit has been modified several times and was recently extended in November of last year until December 31, 2001.

It's difficult to dispute the benefits of the Work Opportunity Tax Credit. Statistics show an increase in hiring former welfare recipients up from 19% in August 1998 to its current figure of 27%. In addition, 60% of businesses report some promotion of welfare hires. Clearly, the incentives provided by the Work Opportunity Tax Credit for businesses to hire from the eight eligible categories is working.

Moreover, businesses are finding, that in many cases, former welfare recipients make better employees because they often perform better and stay with the companies longer. In fact, a study done over the past year showed, on average, that 79% of welfare recipients, hired by Welfare to Work Partnership businesses, are seen as productive and good employees.

Finding and retaining workers to fuel America's economic growth is a big concern for business owners and managers across the United States.

In a growing economy, businesses in virtually every industry are experiencing labor shortages and high employee turnover rates -especially in entry-level positions.

To fill their labor needs, businesses are accessing new labor pools that include- people on welfare rolls; former prison inmates; and people with disabilities; to name a few. Contrary to old stereotypes, businesses of all sizes and in every industry are finding that these new labor pools yield dedicated workers.

The Work Opportunity Tax Credit is benefitting employers and employees alike. I look forward to the testimony from our distinguished witnesses to determine how Congress can help spread the awareness of this tax credit to small business owners.

Thank you Mr. Chairman.

**Testimony of Charles B. Rangel
Hearing on the Work Opportunity Tax Credit
Before the House Small Business Committee
Subcommittee on Tax, Finance and Exports
May 4, 2000**

I am pleased to be here today to testify on the work opportunity tax credit (WOTC.) The WOTC continues to be an extremely important incentive for employers to hire workers from disadvantaged groups.

The WOTC has longstanding, broad bipartisan support. A bipartisan majority of the Ways and Means Committee are cosponsors of H.R. 2101 which would permanently extend the WOTC and make improvements to the credits. I am pleased to be the lead Democratic co-sponsor of H.R. 2101 that was introduced last year by my good friend, Congressman Amo Houghton.

Time and time again, I hear from workers in my Congressional District and throughout the country about how the WOTC provided them with the opportunity to learn marketable job skills. These individuals have moved from the first rung of the employment ladder to positions of experience and success.

Employees hired under the WOTC are proud of what they have accomplished and the skills they have achieved. These individuals are providing for their families and, importantly, serving as role models for those in difficult situations and trying to enter the workforce.

The key to the WOTC is not the first weeks of employment but rather the long-term benefits that come

from promotions, job training, and self-confidence in success. While some of the targeted teenagers would obtain jobs without the WOTC, many would not. Either way, the WOTC keeps employers focused on the "targeted" groups. It is the high-risk youth, the low-income family, and others that have traditionally had difficulty in the private sector workforce. The WOTC keeps them in the forefront of many employers' minds.

The WOTC continues to be a meaningful hiring incentive for large and mid-sized companies. For example, in fiscal year 1998, more than 285,000 individuals were certified by state agencies as WOTC-eligible employees. This is more than double the number of certified individuals in 1997. Why have these numbers increased so dramatically? Because the WOTC is a proven and effective worker training program for much of our entry level workforce. Worker growth, training, and long-term employment potential are what the targeted employee groups need and, proudly I must say, the WOTC provides these opportunities.

The continued success of the WOTC depends on a strong public-private sector partnership. The WOTC helps those most in need to find and retain jobs. More importantly, the WOTC provides on-the-job experience and allows workers to acquire enhanced job skills. This benefits our society as a whole. Without question, the WOTC has the effect of increasing America's economic growth and productivity.

Making the WOTC permanent tax law is critical to continuing the message we have been sending employers and future WOTC workers. Hundreds of thousands of individuals have been certified under the WOTC program to date, and many more are ready to begin the process this year. We must pay attention to their needs and give them the chance to get valuable training, experience, and wages for which they can be proud.

The WOTC program has been allowed to lapse in the past which causes unnecessary disruptions to employee and employer work plans. Permanent extension of the WOTC would eliminate this problem and allow the program to operate with stability and efficiency.

The legislation I have co-sponsored, H.R. 2101, would make the WOTC a permanent tax credit; expand the wage base eligible for the WOTC to include employer costs for employee benefits such as health insurance, educational assistance, and dependent care assistance for purpose of measuring compensation; merge the welfare-to-work tax credit into the WOTC with minor modifications; and, extend the WOTC to tax-exempt charitable organizations.

Under the bill, eight targeted groups would be eligible for the WOTC. They are: (1) families eligible to receive benefits under the Temporary Assistance for Needy Families ("TANF") Program; (2) families receiving food stamps; (3) ex- felons; (4) high-risk EZ/EC youths; (5) summer EZ/EC youth employees; (6) vocational rehabilitation referrals; (7) Veterans; (8) and persons

receiving certain Supplemental Security Income ("SSI") benefits.

Currently, a significant percentage of WOTC employees are coming from the families who have been on welfare or receive Food Stamps. For example, about 3/4 of New York's WOTC participants are from these groups. Workers who have experienced life on welfare or Food Stamps are searching out opportunities to join the workforce in a productive and long-term way. The WOTC is designed to bring these potential employees into the private sector job market and give them a chance to succeed. These are fathers, mothers, and kids who want to learn useful job skills and have untapped abilities. They will be proof, once again, that the WOTC program is a successful one.

In closing, the WOTC is where we should seek accomplishments through bipartisanship. There are many issues on which the political parties have different views on goals and methods. There are more than enough of these issues for the campaigns this year. Providing employment opportunities by making the WOTC permanent and improving the program should be an area where we seek bipartisan accomplishment--not defining differences.

JERRY WELLER
 11TH DISTRICT, ILLINOIS
 COMMITTEE ON
 WAYS AND MEANS
 SUBCOMMITTEE ON
 OVERSIGHT
 SUBCOMMITTEE ON
 SOCIAL SECURITY



UNITED STATES
 HOUSE OF REPRESENTATIVES

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 HOUSE REPUBLICAN
 POLICY COMMITTEE
 VICE CHAIRMAN
 ASSISTANT MAJORITY WHIP

Testimony of Congressman Jerry Weller
 before the Tax, Finance and Exports Subcommittee
 May 4, 2000

Mr. Chairman:

Thank you for allowing me to testify before this Subcommittee on the Work Opportunity Tax Credit. I appreciate the opportunity to discuss this important program which has helped many Americans make the transition from welfare to meaningful employment.

As you may know, the Work Opportunity Tax Credit (WOTC) was created in 1996 as a part of the Small Business Job Protection Act. The program offers employers a tax credit for hiring employees which are part of the following groups:

- families receiving AFDC or TANF benefits
- veterans participating in the food stamp program

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- 18-24 year old members of families receiving food stamps
- high risk youth (18-24 year olds living in empowerment zones or enterprise communities)
- at risk summer youth
- SSI recipients
- economically disadvantaged ex-felons trying to find work soon after prison release

Once employees in these categories work 400 hours with a company, employers can claim a 40% tax credit on the first \$6,000 earned in the first year; for employees working with a company 120-399 hours, the employer can claim a 25% credit.

I am proud to report to the Subcommittee that WOTC has been a great success since it was implemented in 1996. According to the Department of Labor, over 600,000 individuals have been hired under WOTC thus far.

Over 80% of these individuals had been on public assistance in the form of welfare or food stamps. In 1999, the Department of Labor issued more than 335,000 certifications for WOTC hires. This was 50,000 more than 1998.

In my home State of Illinois last year, 23,419 individuals were taken off the public assistance rolls and put into meaningful employment through the Work Opportunity Tax Credit. These 23,419 individuals will no longer rely on the government to support themselves and their families. They will be able to enter the workforce and learn the job training skills they need to be successful in today's workforce.

Last year, Congress extended the Work Opportunity Tax Credit for 2½ years, the longest extension since its creation in 1996. It is my understanding that prior to the extension, more than 20 of the nation's governors and 400 employers contacted the Ways and Means Committee in support of a multi-year extension of the program.

At this time, supporters of WOTC are discussing possible ways to improve the existing program. One suggestion I have heard recently would lift the 18-24 age restriction to qualify for the program if a family is receiving food stamps. While revenue estimates are not complete, this may be a way to include more people into this successful program at a low cost.

Mr. Chairman, the Work Opportunity Tax Credit represents a powerful private-public sector partnership designed to encourage businesses to help individuals enter the workforce and leave public assistance. This takes these hard-to-place individuals off the public welfare rolls and places them into the working labor pool. Once they enter the workforce, individuals are trained by employers with basic skills that make them more employable in the future.

Mr. Chairman, again I want to thank you and the members of the Subcommittee for the opportunity to speak about this worthwhile tax credit.

Congress of the United States
House of Representatives
Committee on Small Business
Subcommittee on Tax, Finance and Exports
Thursday, May 04, 2000
10:00 AM
Rayburn House Office Building
Room 2360
Attn: Phil Eskeland

Subject: WORK OPPORTUNITY TAX CREDIT (WOTC)

Testimony Outline For:

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OPENING STATEMENT

As the Coordinator of the Work Opportunity Tax Credit & Welfare to Work Tax Credit Programs in the State of Tennessee, I am honored to have the opportunity to address this committee on the success we have experienced with the WOTC/W2W Program, and its impact on both the employer community and the affected target groups.

EMPLOYER USE OF THE WOTC PROGRAM

Since the program's inception, the Tennessee Department of Labor & Workforce Development has directed a great deal of effort toward informing employers and service providers of the availability of the Work Opportunity Tax Credit. Those efforts include but are not limited to:

Program presentations have been made to all Job Service Employer Committees (JSEC) within the state.

As an ongoing effort, WOTC presentations are made to such groups as local Chambers of Commerce, Rotary Clubs, etc., and other employer related groups. In addition, presentations are made to target group service agencies such as the Department of Human Services, Vocational Rehabilitation, JTPA service providers, etc.

Press releases are periodically released to statewide media outlets when changes occur in the program, as well as specific television promotions and radio public service announcements.

The department utilizes "Dateline" which is a quarterly Unemployment Insurance (UI) newsletter to publicize WOTC program announcements. This publication is sent to all Tennessee employers (approximately 105,000) who are subject to UI tax liabilities.

We have experienced continued growth in the number of tax credit requests received by our department each program year as represented by the following figures:

Program Year 96/97 (10-01-96/09-30-97)	15,179 IRS Form 8850's received
Program Year 97/98 (10-01-97/09-30-98)	21,716 IRS Form 8850's received
Program Year 98/99 (10-01-98/09-30-99)	29,273 IRS Form 8850's received
Current Year 99/00 (10-01-99/03-31-00)	16,107 IRS Form 8850's received

Based on national figures released by the U.S. Department of Labor for Program Year 98/99, which ended on September 30, 1999, the State of Tennessee finished 6th in the nation for the largest number of WOTC/W2W tax certifications issued. Only the states of California, Illinois, Michigan, New York, and Texas posted higher numbers.

All businesses, both large and small can benefit equally by participating in the WOTC program. Eligible target group members benefit by being employed and ultimately less-dependent on social service assistance (TANF, Food Stamps, etc.). Taxpayers, local communities, state government, and the federal government benefit when employers are creating jobs and social service roles are being reduced.

OVERCOMING THE EMPLOYER PAPERWORK BURDEN MYTH

Despite our best efforts to bring the WOTC program to the attention of all Tennessee employers, we still receive inquiries on a regular basis from employers who are learning of the program for the first time. Many employers acknowledge that they were aware of the program, but being a small employer did not think they would qualify, etc. Some employers are simply reluctant to have any further involvement with the government, especially the Internal Revenue Service.

We feel that part of our success in Tennessee is directly related to being able to present the WOTC program to employers in a way that demonstrates its simplicity. Employers are routinely reminded that, if applying for the tax credit adds more than five minutes to their normal hiring sequence, they should call me so we can discuss their approach to the WOTC application process. In Tennessee, the employer paperwork burden is more of a myth than a reality. After having been the state coordinator for the Targeted Jobs Tax Credit (TJTC) Program for many years, the simplicity of the WOTC program is refreshing. Certainly, there are programmatic changes we feel would enhance the effectiveness of the program. For example, the elimination of the economically disadvantaged criteria that is associated with the eligibility of Target Group "C" (Ex-Felon's). This one simple change would greatly enhance our ability to process this group.

PERMANENT LEGISLATIVE EXTENSION

I would urge this committee to give serious consideration to a permanent extension of the WOTC/W2W legislation. Based on my years of experience with the TJTC and WOTC programs, many employers are reluctant to participate in programs that appear to be short lived. This reluctance to participate and/or take advantage of the tax credit is more wide spread within the small employer community. The start and stop legislative authority of this program serves to re-enforce the often times negative stereotypical image of government. In addition, some states may be reluctant to make long term data and system upgrades for a short-term program with an unstable funding base. This reluctance may also be reflected in a state's WOTC staffing pattern. Periodic breaks in legislative authority also create enormous paperwork backlogs for states. Delays in passing the latest WOTC legislative extension created an immediate six-month backlog for states at a time when a majority of employers needed their tax certifications for year-end tax filing purposes.

AGENCY COORDINATION

I would be remiss if I did not recognize and thank the Internal Revenue Service for assigning Mr. Robert Wheeler (Office of Associate Chief Counsel) as a technical contact for state WOTC coordinators. Tennessee, as well as the other seven states in Region 3, benefit from the U.S. Department of Labor's assignment of Ms. Rosa Crowley, as our federal representative. The cooperation between states for the exchange of WOTC eligibility data has also contributed greatly to the effectiveness of the program. While we have accomplished much in the past three years, much remains to be done. We will continue to build on our successes, and learn from our failures.

CLOSING

Let me again express my appreciation for the opportunity to discuss the Work Opportunity Tax Credit (WOTC) program with you. I will be happy to answer any questions you may have.



The Welfare to Work
P A R T N E R S H I P

STATEMENT BY

RODNEY CARROLL
CHIEF OPERATING OFFICER, THE WELFARE TO WORK PARTNERSHIP
AND
OPERATIONS DIVISION MANAGER, UPS

BEFORE THE

HOUSE COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS
MAY 4, 2000

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The Welfare to Work Partnership is a not for profit corporation, organized under the laws of the District of Columbia.

STATEMENT BY RODNEY CARROLL
CHIEF OPERATING OFFICER, THE WELFARE TO WORK PARTNERSHIP
AND
OPERATIONS DIVISION MANAGER, UPS

Good morning Mr. Chairman and members of the subcommittee:

Thank you for inviting me to participate on this panel. I am pleased to be here today to discuss welfare to work, small business and tax credits -- specifically the Work Opportunity Tax Credit (WOTC).

My name is Rodney Carroll. I am the Chief Operating Officer of The Welfare to Work Partnership, and an Operations Division Manager for UPS.

When the Congress passed and the President signed the landmark welfare reform bill in August of 1996, America was challenged to "end welfare as we know it." It was clear then that in order to accomplish this ambitious goal, the nation's business community would have to take a leading role.

That is why The Welfare to Work Partnership was created: To energize the business community to hire and retain people off public assistance without displacing existing workers.

We've come a long way in just three years. The rolls have been slashed in half from over 12 million to less than 6.9 million. The Welfare to Work Partnership has grown from five companies -- United, UPS, Sprint, Burger King and Monsanto -- to more than 12,000 businesses joined in a common mission: To move people from welfare to work.

Our companies are doing more than just signing their name to a form -- they are hiring welfare recipients, more than 650,000 of them, in fact, since 1998.

Welfare recipients have proven that when given a chance, they can make the successful transition from welfare to work and businesses have proven that welfare to work is as good for the bottom line as it is for the community.

According to an independent survey of The Partnership's Business Partners, eight out of ten executives who have hired former welfare recipients found that their new hires are "good, productive employees." And two-thirds report that welfare to work hires have the same or better retention rates than standard-hire employees.

We no longer need to debate the effectiveness of welfare to work. We know it is working. We've seen it work in small towns and large cities. We've seen it in the retail industry, in financial services, in high tech. We've seen it in Fortune 100 companies and in small businesses. In fact, of the businesses from coast to coast who have joined The Partnership and committed to hire former welfare recipients, 75 percent have less than 250 employees and nearly half have less than 25 employees.

But it is these small companies that need the most help as we move forward. Perhaps the most important aspect in the future of welfare to work will be training. There are still 2.5 million adults on the welfare rolls who can make dedicated and reliable workers. But training employees takes time and resources, and not every company has a full-scale human resource department like UPS.

As you'll hear in a few moments from one employer, the prospect of finding, hiring, training, and supporting former welfare recipients can seem daunting for small businesses, and the fear of incurring added costs may discourage them from trying.

That's why accessing tax credits is such an important step. As you know, tax credits such as the Work Opportunity Tax Credit (WOTC) offer both large and small companies a way to offset the start-up costs of a welfare to work program. And that is especially important for small companies with limited resources. A credit that reduces a small business owner's tax liability by *up to \$2,400 per employee* can make the difference in helping a former welfare recipient stay on the job and advance in the company.

The credit can help defray other costs, such as extra training, mentoring, or support services –like a transportation voucher or child care subsidy – that a former welfare recipient might need to succeed on the job.

But independent surveys of our Business Partners show that many business owners don't take advantage of tax credits. In fact:

- ♦ Fewer than a quarter (22%) of ALL our members say they have ever accessed WOTC or other tax credits;
- ♦ Among small businesses who've hired welfare recipients, the results are even more limited. The survey shows that only 19% of businesses with fewer than 250 employees – and just 14% of the smallest companies, those with fewer than 50 employees – report having applied for tax credits.

The survey results show that the main obstacle seems to be a definite perception that qualifying for and processing tax credits involves a complicated procedure. And, small business owners have a general lack of knowledge about the credits and whether they're even eligible to receive them. Moreover, among the minority of employers who are familiar with the credits, periodic expiration of the credits has led to more confusion and reluctance to bother applying.

For our part, The Partnership is trying to educate employers— especially small ones— about this valuable benefit. For example, we have joined forces with several leading tax-processing firms to help “get the word out.” Working with the National Employment Opportunity Network (or “NEON”), we launched a toll-free number (four different ones, actually) available to any member of The Partnership with fewer than 250 employees. They can simply call one of the numbers for tax credit forms, instructions, or answers to any questions about the tax credits and receive a prompt and accurate response.

Attached to my written testimony is a fact sheet about the tax credit hotline service, as well as an easy five step guide to accessing tax credits – information given to every business that joins The Partnership. We also tell our small businesses about this free service through our

weekly news updates, our Web site and in almost every forum where we work to get businesses involved in welfare to work.

The informational campaign appears to be paying off. According to The Partnership's most recent poll, small businesses are now more interested than ever in receiving information about tax credits.

You're about to hear from two employers we work with closely. Both use the WOTC in their hiring efforts. Both will give a unique perspective into how the tax credit works.

I look forward to working with this subcommittee in any way that will make this process easier on employers, especially small businesses. Again, I thank you for your invitation to testify today.



The Welfare to Work
PARTNERSHIP

Show Me the Money

Receive Federal Tax Credits in Five Simple Steps

If you are involved in welfare to work efforts, you may be missing out on easy money. There is a large misconception that taking advantage of federal tax credits is a tortuous and paper-heavy process. Not true. Thousands of companies, large and small, are earning tax credits—up to \$8,500 per employee—by taking advantage of the Work Opportunity Tax Credit (WOTC) and the Welfare to Work Tax Credit.

It is not as complicated as you may think. By following these five easy steps, your business can earn easy money. Why not give it a try?

Step 1. Fill out and sign the certification request form for all job applicants. The form is officially called Form 8850—Pre-Screening Notice and Cer-

tification Request for the Work Opportunity and Welfare-to-Work Credits. Step 1 can be as simple as incorporating the form into your standard application process. The form requires little more than the applicant's name, address and the answers to four simple questions.

Please don't forget to sign the form. Form 8850 can be easily obtained by calling the U.S. Department of Labor's (U.S. DOL) fax on demand service at 703-365-0768 or from their website at www.dola.gov/employer/wotc.htm.

Step 2. Mail Form 8850. If a job applicant checked "yes" to any of the four questions on Form 8850, you have 21 days to mail it to your State Employment Security Agency (SESA). State-by-state phone numbers are on the back of this sheet and addresses for your SESA can be obtained by calling them or from U.S. DOL's fax on demand service or website (this information is available in Step 1).

Step 3. Fill out and sign Form 9061. This is the Individual Characteristics Form and is available from the U.S. DOL's fax on demand service or website (this information is available in Step 1). It is the responsibility of the SESA to verify your new hire as meeting the eligibility requirements. However, some states may require an informal Release of Information letter to obtain information to verify eligibility. Simply include a piece of paper, signed by the employee that authorizes a representative of the SESA to obtain information from your employee's official records. Form 9061 must be returned to your SESA as soon as possible. There is no set deadline, but the sooner you get it back to the SESA, the sooner you get the certification, and the sooner your company can access the tax credits.

TALE OF THE TAX			
	Work Opportunity Tax Credit	Welfare to Work Tax Credit	
Maximum Tax Credit	\$2,400	\$8,500	
Number of employees	100	100	
Requirements	Minimum of 120 hours of work	Minimum of 120 hours of work	
NOTE: If employees qualify for both the Welfare to Work Tax Credit and the WOTC, employers may claim only one of the tax credits within any given year.			

fied and reaches the required hours/ days worked, you will be able to receive the tax credit.

Step 5. Claim your credit when you file your company's taxes. Use IRS Form 5884 for the Work Opportunity Tax Credit and IRS Form 8861 for the Welfare-to-Work Tax Credit. They are as easy to fill out as any other form necessary for your standard taxes. These forms can be obtained by calling the IRS at 1-800-829-3676 or it can be downloaded at www.irs.ustreas.gov/prod/forms_pubs/forms.html.

Step 4. Now for the easiest part. Wait for certification from state. This can take anywhere from three weeks to six months, depending on your state's workload. Don't worry if you haven't heard back in awhile—if your employee is certi-

Frequently Asked Questions

Q: What is the purpose of the WOTC?
A: The purpose of the WOTC is to encourage employers to hire disadvantaged workers by providing a tax credit for the wages paid to these workers during their first 90 days of employment.

Q: Who is eligible for the WOTC?
A: The WOTC is available to employers who hire certain disadvantaged workers, including: veterans, ex-felons, recipients of public assistance, and long-term unemployed individuals.

Q: How much is the WOTC?
A: The WOTC is a non-refundable tax credit that can range from \$2,400 to \$8,500 per employee, depending on the employee's status and the employer's size.

Q: How do I claim the WOTC?
A: To claim the WOTC, you must first obtain a certification from your state's Department of Labor. Once you have the certification, you can claim the credit on your federal income tax return using IRS Form 5884.

Q: Can I claim the WOTC for multiple employees?
A: Yes, you can claim the WOTC for up to 100 employees per year.

Q: What if I don't have time to fill out the WOTC forms?
A: You can hire a professional tax preparer or accountant to help you fill out the forms and claim the credit.

Q: Are there any other benefits to hiring disadvantaged workers?
A: In addition to the WOTC, employers may be eligible for other federal and state tax incentives, such as the Research and Development Credit and the Energy-Related Tax Expenditures.

Q: How can I learn more about the WOTC?
A: You can visit the U.S. Department of Labor's website at www.dola.gov/employer/wotc.htm or call the U.S. DOL's fax on demand service at 703-365-0768.

