

Right Problem, Wrong Solution

How the *Work Opportunity Tax Credit* (HB 1372) Falls Short

HB 16-1372 is motivated by the best intentions. By providing a tax credit to employers who hire members of targeted groups—including public assistance recipients, veterans, and ex-offenders— this bill attempts to promote economic growth by facilitating new employment opportunities.

However, despite these laudable aims, research shows that the Work Opportunity Tax Credit (“WOTC”) does NOT effectively accomplish these goals. In many fundamental respects— especially compared to more successful alternatives, such as direct wage subsidies— the WOTC falls short.

Research Shows The WOTC Has Only A Marginal Impact On Employer Hiring Or Retention

- In a study commissioned by the U.S. Department of Labor, researchers found that “the tax credits play little or no role in [...] recruitment policies,’ suggesting that employers would have hired members of the target groups even if the programs were not available.”¹
- Similarly, a 2011 report reiterated the view that the WOTC “has little effect on hiring choices or retention,” concluding that “the WOTC is a well-intentioned program that has little, if any, effect on its desired outcomes.”²

The WOTC Is Primarily Claimed For Jobs With Lower Wages And Limited Career Pathways

- As of 2014, nearly 42% of [WOTC] certifications were for jobs paying between \$7.25 and \$8.25 an hour. Less than a quarter led to jobs that pay more than \$10 an hour.³
- A 2011 CLASP report concluded, “There is no evidence that the WOTC improves participants’ long-term outcomes, which is not surprising, as most placements are in the types of high turnover, low quality jobs that disadvantaged workers are typically able to obtain on their own.”⁴
- In one study of the WOTC, researchers found that “Two-thirds of the total credit claimed went to large companies, with gross annual receipts of \$1 billion or more, and more than half of the total credits went to employers in retail trade.”⁵

Alternatives Such As Direct Wages Subsidies Are More Effective At Creating New Economic Opportunities

- A report by the Wharton School compared the WOTC with direct wage subsidies and held that “employment subsidies appear to be the best approach” at promoting the hiring of targeted populations.⁶
- Similarly, the CLASP report recommends “redirecting the cost of the WOTC into formula grants to states to support subsidized jobs, modeled on the experience under the TANF Emergency Fund. Such a transformation could increase both short- and long-term employment of disadvantaged workers, assist small businesses, and reduce the windfall benefits going to low-wage, high turnover employers.”⁷ In Colorado, this program is called ReHire. Renewal is pending through HB1290-Extend Transition Jobs Program.

¹ Christine Scott, “The Work Opportunity Tax Credit,” Congressional Research Service, Feb. 2013, <https://www.fas.org/sgp/crs/misc/RL30089.pdf>

² Elizabeth Lower-Basch, “Rethinking Work Opportunity: From Tax Credits to subsidized Job Placements,” CLASP, Nov. 2011

³ WOTC National Statistics FY 2013-2014, https://www.doleta.gov/business/incentives/opptax/pdf/fy2013_wotc_hiringwage.pdf

⁴ Basch, *Supra Note 2*

⁵ Id.

⁶ Peter Cappelli, “Assessing the Effect of the Work Opportunity Tax Credit,” Wharton School, Univ. of Penn., 2011,

https://www.adp.com/~media/Reference%20PDFs/Cappelli_Study_2011.ashx

⁷ Basch, *Supra Note 2*