

Opportunity Knocks

How expanding the Work Opportunity Tax Credit could grow businesses, help low-skill workers, and close the skills gap.



Despite an improving economy and low unemployment rates, businesses continue to struggle to find workers with the skills they need. The most recent jobs report detailed more than 6 million job openings,¹ including millions that businesses are struggling to fill because workers lack necessary skills.²

In the U.S., 53 percent of all jobs are middle skill, requiring some education beyond a high school diploma, but not a four-year degree, yet only 43 percent of all workers are trained at that level. This unmet demand for skills is a lost opportunity for businesses who can't take advantage of economic growth.

At the same time, millions of adults on public assistance programs are unemployed or underemployed in low-wage jobs without a pathway to economic security.³ In fact, fewer than 8 percent of all Temporary Assistance for Needy Families (TANF) recipients have any postsecondary education,⁴ let alone the middle-skill training necessary to fill many job openings.

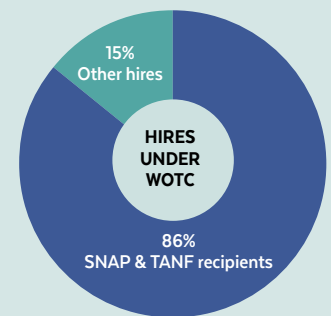
One solution both to businesses' demand for workers and public assistance recipients' skills needs is greater access to work-based learning programming for low-skill youth and adults.

Work-based learning and apprenticeship programs are a "win-win" – workers earn wages while learning new skills and businesses can customize training to their workforce needs. For companies in desperate need of new workers, these programs immediately place motivated hires on site. Because businesses are directly involved in onsite and classroom learning, they can align training with the skills they need at any moment and adjust training quickly as their

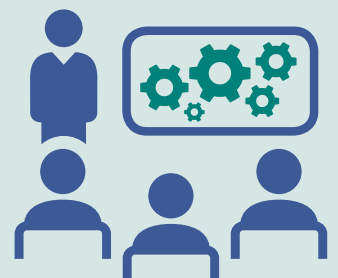
Millions of jobs are open because workers lack necessary skills



The majority of people hired under WOTC are TANF and SNAP recipients – populations that aren't getting the skills training they need.



We should improve WOTC to support businesses that **invest in TRAINING** – this would meet business demand, deliver skills training to the people who need it most, and put workers on a meaningful career pathway.



1 <https://www.bls.gov/news.release/empsit.nr0.htm>
 2 https://pages.ubuntu.com/rs/066-EOV-335/images/Canonical_Defining%20IoT%20Business%20Models_Final.pdf; <http://aedfoundation.org/wp-content/uploads/2017/01/AEDF-CollWMStudyII-Part1.pdf>; <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/manufacturing/us-pip-the-manufacturing-institute-and-deloitte-skills-gap-in-manufacturing-study.pdf>; <https://www.bls.gov/news.release/empsit.nr0.htm>
 3 https://www.acf.hhs.gov/sites/default/files/ofa/characteristics_and_financial_circumstances_of_tanf_recipients.pdf
 4 See Table 20, https://www.acf.hhs.gov/sites/default/files/ofa/characteristics_and_financial_circumstances_of_tanf_recipients.pdf





Access to work-based learning opportunities in high-wage industries like construction, manufacturing, transportation or health care leads to long term positive employment outcomes for individuals with barriers to employment.

workforce needs change.⁵ The approach has been shown to reinforce employee engagement, leading to better morale, higher retention and lower turnover.⁶

For low-skill youth and adults, work-based learning offers an on-ramp to a career pathway that includes a paying job from the start, and structured on-the-job learning enables workers to efficiently develop the skills needed to be productive. Access to work-based learning opportunities in high-wage industries like construction, manufacturing, transportation or health care leads to long term positive employment outcomes

for individuals with barriers to employment.⁷ And job training programs that include an on-the-job training component and credential attainment have been successful at improving wages and retention outcomes for TANF and other low-skill populations.⁸ In fact, even short-term work-based learning programs can have as large of an impact on low-skill workers' wages — and skill level — as a year of in-school education alone.⁹

Despite these documented benefits, low-skill and low-wage workers receive a disproportionately small amount of all

5 Robert Lerman, Lauren Eyster, and Kate Chambers. The Benefits and Challenges of Registered Apprenticeship: The Sponsors' Perspective. Table 5.1: Sponsor Views of Potential Benefits of Registered Apprenticeship. http://www.urban.org/research/publication/benefits-and-challenges-registered-apprenticeship-sponsors-perspective/view/full_report (2009)

6 Lerman (2009)

7 Andersson, Frederik, Harry Holzer, and Julia Lane. 2005. *Moving Up or Moving On: Who Advances in the Low-Wage Labor Market?* New York: Russell Sage Foundation.

8 <https://www.urban.org/sites/default/files/publication/46476/411467-Innovative-Employment-Approaches-and-Programs-for-Low-Income-Families.PDF>

9 Frazis, H., and M.A. Lowenstein. 1999. "Reexamining the Returns to Training: Functional Form, Magnitude, and Interpretation." Bureau of Labor Statistics Working Paper 325. Washington, DC: U.S. Department of Labor. <https://www.bls.gov/ore/pdf/ec030040.pdf>.

The following case studies describe work-based learning programs currently serving low-skill workers. Each program serves TANF or SNAP recipients, those for whom an employer would be eligible for WOTC for hiring. Despite success in delivering work-based learning programs leading to middle-skill jobs, leaders of these programs cite the cost of running the program as among the largest barriers to bringing them to scale.

Business fellowships for long-term unemployed adults

JVS San Francisco runs a Salesforce Administrator Training Program and paid fellowship for long-term unemployed adults with previous IT or sales experience. During the program, participants spend sixteen weeks in classroom training followed by eighty to 160 hours in a paid fellowship with host employers. The JVS IT fellowships were created in response to employer demand for workers with skills learned both in the classroom and on the job. During the classroom-based portion of JVS's program, participants receive twenty-six hours per week of training in technical Salesforce, IT business analyst, and job search skills. After completing the classroom-based portion of the program and successfully passing the Salesforce Administrator Certification exam, participants are matched with one of JVS's employer partners, earning \$20 an hour.

After their fellowship, most participants are either hired on as permanent employees of the fellowship host or offered a limited-term contract to do further work with the company. JVS Salesforce Administrator Training Program graduates earn roughly \$39 per hour in their first job placement post-fellowship.

Manufacturing apprenticeship on-ramps for the long-term unemployed

As the economy has improved, Jackson Area Manufacturers Association (JAMA) industry partners have struggled to fill skilled trades positions within their companies. Despite having production level workers who could be promoted to fill middle-skill vacancies, businesses have delayed promotions because they lack a pipeline of workers to fill vacated production level jobs. To address this problem, JAMA partnered with their local community college to develop a short-term pre-employment training program to certify individuals for open production technician positions.

JAMA restructured existing training programs to provide workers with eight to ten weeks of pre-employment training, qualifying them for the open production technician positions. Once hired, workers enter an eighteen-month production technician apprenticeship with structured on-the-job training and classroom instruction. Redesigning training to frontload some of the instruction allowed the program to serve long-term unemployed participants who lacked skills necessary to access middle-skill positions and for whom a long-term, unpaid training program was not feasible. JAMA also leverages partnerships with reentry and diversion programs within the

criminal justice system to expand the pipeline of workers with access to the apprenticeship program. During their apprenticeship participants earn between \$11-\$18 an hour. Once they have completed the apprenticeship, participants can continue to the even more highly paid skilled trades apprenticeships with their same employer.

Pathways to apprenticeship for trauma-exposed youth

Health care is one of the fastest growing industries in the U.S. As the labor market has tightened, employers in the industry increasingly struggle to identify hires with credentials and work experience, both of which are required to earn many licenses in the industry. For direct support professionals, for example, the highest paying employers require college credits and work experience. In the past, a pipeline of individuals earned work experience in helper roles, enabling a constant stream of newly licensed workers to meet middle-skill demand. With lower levels of unemployment, this pipeline no longer exists.

1199c Training and Upgrading Fund in Philadelphia, Pennsylvania, developed a direct support professional pre-apprenticeship program for trauma exposed youth in response to this increased business demand for applicants with more work experience. The program is linked to the direct support professional apprenticeship program. Working with 1199c, industry partners identified this population of young people as likely to embody a level of compassion for individuals in their care, and to have the capacity to develop into leaders in the industry.

During the pre-apprenticeship program, participants take part in postsecondary coursework and on-the-job training. Upon completion of the pre-apprenticeship program and subsequent interview process, participants enter full-time employment as apprentice direct support professionals. The four sponsoring employers of participants in the apprenticeship program meet quarterly to evaluate the pre-apprenticeship program effectiveness, including mentoring components, on-the-job learning, classroom curriculum, and success of the pre-apprenticeship and apprenticeship training programs in preparing workers to succeed in the workplace. District 1199C Training Fund helps employers leverage public and private funding to cover the costs of the pre-apprenticeship and apprenticeship programs.

Once hired as apprentices, the youth earn \$10 to \$15 per hour plus benefits and are full-time employees of the program sponsor.

on-the-job training in the U.S.¹⁰ and less than 7 percent of all TANF spending goes to help recipients earn skills that would give them access to good jobs with family sustaining wages.¹¹

Businesses may be hesitant to invest in training for low-wage workers with basic education needs or workers who have barriers to employment. Even for businesses who recognize the untapped value low-skill workers can have to meeting workforce demands, successful work-based learning programs for low-skill workers pose two major obstacles — these programs require extensive engagement from industry partners, community groups, case managers and training providers to adequately identify and tailor programs to meet business demand and workers’ needs and this engagement is both time and resource intensive.

Taking work-based learning to scale for low-skill workers: Enabling greater industry investment

The case studies highlight existing, successful programs that offer work-based learning to low-skill individuals. However, even those programs with high employer engagement and significant financial contribution often fall far short of meeting the full expenses of serving low-skill workers. To truly bring these programs to scale and allow businesses to utilize the untapped potential low-skill workers have, policymakers need to address the costs associated with delivering work-based learning to these individuals. Targeted tax credits offer one strategy to offset employers’ costs, particularly when paired with the support of an intermediary through an industry or sector partnership¹² and pre- and post-employment supports for workers.

No federal tax credit currently targets work-based learning investments businesses make in low-skill workers, however the Work Opportunity Tax Credit (WOTC) does provide tax incentives to businesses who hire low-skill workers. With strategic updates to current policy, WOTC could provide crucial tax

credits to small- and medium-sized businesses investing in work-based learning for low-skill workers.

Work Opportunity Tax Credit – current impact

WOTC provides credits of up to \$9,600—totaling nearly \$1 billion claimed by employers each year—to companies for hiring workers from certain targeted classes such as veterans, the long-term unemployed, and Supplemental Nutrition Assistance Program (SNAP) and TANF recipients.¹³ The amount of the credit an employer may claim is calculated based on a certain percentage of a portion of the target employee’s wages, typically 25 percent of wages for employees working at least 120 hours in a given year and 40 percent of wages for employees working more than 400 hours, up to categorical limits.

TABLE 1. Target populations and maximum tax credits employers may claim under WOTC¹⁴

| Target Population | Max Credit for 120-399 Hours Worked | Maximum Credit (400 Hours) |
|--|-------------------------------------|----------------------------|
| Veteran: receives food stamps | \$1,500 | \$2,400 |
| Disabled veteran hired within one year after leaving service | \$3,000 | \$4,800 |
| Disabled veteran unemployed at least six months | \$6,000 | \$9,600 |
| Unemployed veteran, unemployed at least four weeks | \$1,500 | \$2,400 |
| Unemployed veteran, unemployed at least six months | \$3,500 | \$5,600 |
| Short-term TANF recipient | \$1,500 | \$2,400 |
| Long-term TANF recipient | NA | \$9,000 (over two years) |
| SNAP recipient | \$1,500 | \$2,400 |
| Designated community resident | \$1,500 | \$2,400 |
| Vocational rehabilitation referral | \$1,500 | \$2,400 |
| Ex-felon | \$1,500 | \$2,400 |
| Supplemental Security Income recipient | \$1,500 | \$2,400 |
| Summer youth | \$750 | \$1,200 |

10 Andersson, Fredrik; Harry Holzer and Julia Lane. 2003. “Worker Advancement in the Low-Wage Labor Market: The Importance of ‘Good Jobs.’” Center for Urban and Metropolitan Affairs, The Brookings Institution, Washington DC.; Lynch, Lisa. 1994. *Training and the Private Sector: International Comparisons*. Chicago: University of Chicago Press.

11 https://www.acf.hhs.gov/sites/default/files/ofa/2014_tanf_moe_national_data.pdf?nocache=1447434621

12 Industry or sector partnerships bring together multiple employers within an industry to collaborate with colleges, schools, labor, workforce agencies, community organizations and other community stakeholders to align training with the skills needed for that industry to grow and compete. Sector partnerships can help facilitate the advancement of workers at all skill levels, including the least skilled.

13 (see table 1).

14 <https://www.doleta.gov/business/incentives/opptax/benefits.cfm>



Greater utilization of work-based learning can provide an opportunity to bridge these workers' skill levels and meet business demand, and an expansion of WOTC can help support business costs associated with this expansion.

Nearly 90 percent of WOTC-eligible hires receive either SNAP or TANF benefits, two programs serving populations with very low levels of education and for whom work-based learning could offer positive employment outcomes.¹⁵ Of the nearly 5.5 million hires for which businesses attempted to claim WOTC in 2014, this would mean millions of TANF and SNAP recipients were hired by companies that intended to claim the credit for those hires in that year alone.¹⁶

15 Fewer than 8 percent of TANF recipients have any postsecondary education. There is a large overlap between TANF and SNAP recipients. In 2013, 82 percent of TANF recipients were on SNAP benefits as well. These statistics show that 70 percent of WOTC eligible hires are certified as SNAP recipients, many of these are probably also TANF recipients who are simply certified through their SNAP agency, and 8.5 percent of recipients are certified through their TANF agency. Administration for Children & Families, TANF and MOE Spending and Transfers by Activity, FY 2014.

16 https://www.doleta.gov/business/incentives/opptax/pdf/Total_Certification_Requests_for_Fiscal_Years_2012_through_2014.pdf

Despite this broad application, WOTC is most often claimed by companies for workers who enter jobs without a pathway to higher skills or higher wages. A third of WOTC credits in 2014 were claimed for hires in retail, 20 percent for administrative support jobs, and 16 percent for food preparation jobs. Almost half of all the credits claimed under WOTC were for workers hired into jobs that paid between \$7.25 and \$8.25 an hour.¹⁷

Eligible hires under WOTC are an untapped — although often currently under-skilled — pipeline. Greater utilization of work-based learning can provide an opportunity to bridge these workers' skill levels and meet business demand, and an expansion of WOTC can help support business costs associated with this expansion.

17 https://www.doleta.gov/business/incentives/opptax/pdf/fy2013_wotc_hiringwage.pdf



Targeted tax incentives could help make it possible for companies, especially small- and medium-sized employers, to make an even greater investment in preparing low-skill workers to become their future workforce.

Recommendations: Update WOTC to better serve low-skill individuals

WOTC currently fails to address the disconnect between worker skill levels and middle-skills businesses need. Businesses invest billions in employment and training programs, but very little of this investment goes to training for the lowest skilled workers. Targeted tax incentives could help make it possible for companies, especially small- and medium-sized employers, to make an even greater investment in preparing low-skill workers to become their future workforce.¹⁸

The upcoming Congressional tax reform discussions offer an important opportunity to address this challenge. Congress should:

¹⁸ In 2014, employers spent \$177 million just on formal employer provided training. Anthony P. Carnevale, et. al, College is just the Beginning: Employers' Role in the \$1.1 Trillion Postsecondary Education and Training System (2015).

Amend WOTC to authorize a tax credit for each worker, from targeted populations, who participates in a work-based learning program

Congress should update WOTC to include financial incentives for businesses who provide registered apprenticeship or other high-quality work-based learning for targeted, disadvantaged populations. Congress should make businesses eligible for a \$9,600 tax credit, the highest currently authorized level under WOTC, for individuals who belong to any targeted population and are enrolled in an eligible work-based learning program. This credit should be in addition to the hiring credit to which a business is already entitled under the current WOTC structure. The additional credit would help offset the greater costs of training populations with barriers to employment, ensuring these workers have access to a career pathway leading to a good-paying career instead of a minimum wage, high turnover job.

Add a definition of “qualifying work-based learning program” to WOTC

Congress should add a definition of a “qualifying work-based learning program” that includes registered apprenticeship as well as other innovative learning strategies that enable workers to learn and earn on the job. The definition should require programs to meet certain standards and to be approved by the relevant local agency for purposes of administering the credit.

The definition should also enable intermediaries and other third-parties that develop paid work experience programs that provide on-ramps to employment to claim to credit. These third parties, who may serve as an employer of record during an initial employment period, often enable businesses to hire workers with a lower skill level than would normally be brought into the workplace.

Update WOTC certification process to provide for delayed certification for participants in a work-based learning program

The current WOTC certification process requires precertification of a new worker on or before the worker’s day of hire. Congress should amend this procedure to create a new certification deadline for hires participating in a work-based learning program, requiring certification within three months of the worker’s hire date. This three-month delay provides businesses the opportunity to determine if the worker is an appropriate candidate for a work-based learning program. It also provides workers an opportunity to become accustomed to a workplace culture and more accurately judge their likely success in a program that may have both on-the-job and classroom learning requirements and further exacerbate

existing issues with childcare, transportation or other responsibilities. This update would provide additional flexibility for businesses, while ensuring workers are enrolled in qualifying programs relatively soon after hire and are able to take advantage of upskilling opportunities.

Revamp WOTC to allow organizations to apply the credit to payroll taxes for work-based learning participants

In addition to the administrative burden businesses face in applying for the credit, many small- to medium-sized businesses — those that hire most workers in our country — simply don’t have much or any tax liability. Without liability, the current structure of WOTC offers these businesses no benefit. WOTC does make an exception to allow for tax-exempt organizations hiring qualified veterans to apply the credit towards payroll taxes. Fewer than 1 percent of WOTC-certified hires meet this requirement, however, meaning the credit currently has almost no applicability to tax-exempt businesses or those without liability.¹⁹

Currently, businesses may apply WOTC to payroll taxes for tax-exempt organizations hiring veterans. Congress should extend the current option to apply to businesses enrolling any WOTC-eligible hire in a work-based learning program. Under this change, a tax-exempt organization or a taxable organization without tax liability hiring an individual from any of the target populations into a work-based learning program would be able to apply the credit to payroll taxes.

¹⁹ https://www.doleta.gov/business/incentives/opptax/pdf/WOTC_Certifications_by_Target_Group_from_2002_to_2013.pdf



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