

Unlocking Payroll Tax Credits: How Local Businesses Can Save Big in 2024 and Beyond

As the new year approaches, it's a good time for local businesses to review strategies that could increase savings. One often overlooked area is **payroll tax credits**, which offer substantial financial benefits when properly utilized. This newsletter breaks down what these credits are, how they work, and how your business can take advantage of them.

What Are Payroll Tax Credits?

Payroll tax credits are incentives provided by the federal government to encourage businesses to hire individuals from specific groups that often face barriers to employment. Examples include the **Work Opportunity Tax Credit (WOTC)**, which is available to businesses that hire veterans, long-term unemployed individuals, or recipients of government assistance.

These credits can be applied against a business's income or payroll taxes, reducing overall tax liability and freeing up funds for other priorities.

Identifying Qualifying Hires

Many businesses are not aware of the specific criteria that make employees eligible for payroll tax credits. Here's how you can ensure you're identifying potential savings:

- **Pre-Screen Applicants:** During the recruitment process, include questions related to WOTC eligibility to determine whether an applicant qualifies.
- **Utilize State Workforce Agencies:** Many state agencies maintain databases of candidates who qualify for these credits, making it easier to target eligible hires.
- **Automate the Process:** Consider using HR software that screens new hires and flags potential eligibility, which can simplify compliance and increase accuracy.

Best Practices for Maximizing Payroll Tax Credits

To make the most of available credits, businesses should take a proactive approach to identifying and claiming them. Here are some best practices:

1. **Incorporate Pre-Screening:** During the hiring process, use IRS Form 8850 to identify eligible candidates. This form must be completed and submitted within 28 days of the employee's start date.
2. **Track Work Hours:** For some credits, employees need to meet a minimum number of hours worked to qualify. Accurate timekeeping ensures compliance.
3. **Review Regularly:** Conducting regular reviews of payroll data can help identify missed opportunities or potential errors in previous filings.

Why Payroll Tax Credits Matter

Payroll tax credits provide a direct financial benefit to businesses by reducing tax liabilities. This extra capital can be reinvested into growth initiatives, employee development, or operational improvements. Additionally, hiring from targeted groups can foster a more diverse and inclusive workforce.

Looking Ahead to 2025

As 2024 is nearing its end and 2025 begins, it's worth taking time to evaluate your payroll processes and ensure you're maximizing potential savings through tax credits. Even small adjustments in hiring and recordkeeping can lead to significant benefits over the course of the year.

By understanding and utilizing payroll tax credits, businesses can support both their financial goals and broader workforce development. Stay informed, stay compliant, and make the most of these valuable opportunities in the new year!