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Executive Decision Making  
Report: WOTC Extension  
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## **The Case for U.S. Work Opportunity Tax Credit Extension: Understanding Why WOTC Is Important to the American Economy**

### **Abstract**

Walton Management Services administers the federal Work Opportunity Tax Credit (WOTC) for hundreds of companies nationwide. WOTC is scheduled to expire on December 31, 2001 and could face a number of different fates in the Congress, including:

- permanent extension,
- multi-year extension,
- single-year extension,
- no action (hiatus),
- or a vote against extension (termination).

As the Governmental Affairs Specialist at Walton Management, I have a vested interest in monitoring and affecting the legislative fate of WOTC. Indeed, the lifeblood of our business - billing from WOTC revenue - is dependent upon extension of the program. As part of my job, I make regular visits to the Hill to solicit Congressional support for WOTC, as well as participate in a legislative advocacy group of WOTC management consultants, called the National Employment Opportunities Network (NEON).

WOTC finds itself in the spotlight of recent legislative actions. House Resolution 1238 and Senate Resolution 636, respectively, each have multiple co-sponsors and call for permanent extension of WOTC. At the same time, the recently approved House version of the Economic Stimulus Package recommends extending WOTC for two years. The Senate will begin debating the Economic Stimulus Package next week, and outcomes range from incorporation of S. 636 to erasure of the line item House extension.

Needless to say, this report about WOTC is of great timeliness and pertinence. We will look at the various alternatives to permanent extension of WOTC (permanent extension is the optimal outcome for Walton Management, as it shores up our long-term business viability). We will examine the mix of crucial considerations that are central to any decision about WOTC extension, including the relative costs, benefits, and popularity of each alternative to each of the different key stakeholders in WOTC.

Ultimately, we will find that a 2.5 year extension of WOTC is the most acceptable common ground for the stakeholders, because it achieves the best balance of costs, benefits, and popularity.

**Overview: Walton Management Services, Inc.**

Since 1980, Walton Management Services has been helping companies of all sizes and in all 50 states participate in federal and state tax incentive programs designed to reduce their tax liabilities. In short, we are specialists in administering tax incentive programs. Our staff of 18, including geographically dispersed salespeople, provides the labor-intensive processing associated with revenue recovery programs such as the federal Work Opportunity Tax Credit (WOTC), the Welfare to Work Tax Credit (WtW), the Empowerment Zone Tax Credit (EZ), and the Enterprise Community Tax Credit (EC). We maintain an operational headquarters in Ocean Township, NJ and a branch office in Friendship Heights, MD. Before starting Walton Management 21 years ago, our president spent many years of his career in human resource management. The balance of our staff consists of three vice presidents for, respectively, operations, state and local taxes, and sales; several account representatives and salespeople; and myself. I develop and manage the firm's strategic alliances and governmental affairs initiatives.

Walton Management specializes in helping companies take advantage of the tax incentives available for hiring new employees or establishing new locations. Virtually every company qualifies for these tax credits, but the programs are sufficiently complex that companies often leave money on the table. Most of the tax incentive programs that we deal with award companies tax savings whenever they hire individuals from underprivileged backgrounds or communities, such as government assistance dependents, vocational rehabilitation participants, the disabled, former felons, EZ/EC residents, and Native Americans and veterans living below the poverty line.

Over the past twenty years, Walton Management has perfected the procedures and systems for maximizing its clients' tax savings. Our time-tested approach is streamlined and can be easily integrated into any client's operation. Simply put, companies that use Walton Management to participate in government tax credit programs maximize their savings and stay with us for the long term. Our successful service process is built upon satisfying the customer's specific preferences, using proprietary database systems for recording and storing information, and attentively reporting information to the client on a quarterly basis. Internally, our operations have succeeded from maintaining low overhead costs, having an accessible and cooperative president, adhering with discipline to the core business model, and offering services with clearly tangible financial value.

### **Overview: The Work Opportunity Tax Credit**

The Work Opportunity Tax Credit (WOTC), enacted in 1996, has already proven its worth, having helped over 1.5 million underprivileged Americans enter the workforce. WOTC gives businesses financial incentives to hire previously government assistance dependent individuals. Tax credits of between \$1000 to \$8500 are available for every new individual the company employs who meets one of eight socio-economic target categories:

- A recent short-term welfare recipient
- A recent food stamp recipient
- A Native American who recently received welfare assistance
- A veteran who recently received welfare assistance
- A resident of Empowerment Zone or Enterprise Community
- A former felon who recently received welfare assistance
- A summer youth living in an Empowerment Zone or Enterprise Community
- A disabled person or rehabilitation program participant who recently received welfare assistance

WOTC is not only a good way of offsetting recruiting, retention, and training costs, but can also help companies meet Equal Employment Opportunity Provider and affirmative action compliance regulations.

However, WOTC is scheduled to expire on December 31, 2001, unless Congress renews the program before the end of the year. WOTC has experienced periods of hiatus in the past, when the program was left to expire until, belatedly, it was extended. The WOTC program administrators in all 50 states encounter massive paper backlogs when the program returns to life after a period of hiatus, because companies may retroactively claim tax credits accrued during the hiatus. The slow paper processing that ensues following a hiatus discourages some businesses from participating in WOTC.

My company, Walton Management Services, administers WOTC for mid- to large-sized companies nationwide. Collectively, our clients employ over 25,000 individuals each year through the WOTC program. As the firm's Governmental Affairs Specialist, over the last several months I have been responsible for advocating Congressional co-sponsorship of H.R. 1238 and S. 636 on the Hill. These concurrent resolutions move to permanently extend WOTC and lift the eligible age ceiling on male food stamp recipients from 24 to 50. For the sake of simplicity in this report, and since the relative priority of the two legislative goals are vastly disproportionate to one another, I will focus solely on the permanent extension proposition. After all, without extension, the program would terminate, and a lifting of the age ceiling on food stamps would cease to be relevant.

The Economic Stimulus Package being deliberated in Congress this month will use up most of the remaining legislative days left in the year. Many diverse interests are seeking funding for their causes at this time because Members appear to be generously opening up their wallets to help resuscitate the economy and support the war on terrorism. Each interest lobbying for funds purports that its cause will stimulate the economy in some way. Three weeks ago, the Chairman of the House Ways and Means

Committee marked up WOTC for a two year extension in the Economic Stimulus Package. This version of the Package was adopted by the House on strict partisan lines, with an emphasis on helping business. The package now moves to the Democratically-led Senate, where it, and WOTC, are likely to undergo significant modifications to scale down its size and make it more friendly towards individuals, rather than businesses.

President Bush, in his FY 2002 Budget presented to Congress in the spring, specifically earmarked WOTC for a two year extension. Potential obstacles to WOTC funding are the recent multi-billion dollar tax rebates; the projected allocations towards a missile defense shield and perhaps Arctic drilling; and the vigorous federal allocations to assist with disaster relief, intelligence preparedness, and military actions in the wake of this September's tragedies.

## **The Purpose of This Report**

### *Why Conduct This Report?*

The most important objective of this report is to demonstrate how WOTC, and ideally its permanent extension, could be of meaningful value to each of the five key stakeholders:

- employers;
- disadvantaged individuals;
- federal coffers;
- the support of a Member's constituency;
- and the White House Administration.

WOTC forms a vital component of the economic stimulus package in light of several economic factors that are presently concurrently colliding with one another:

- 1) Hundreds of thousands of lower waged or lesser skilled Americans have recently lost their jobs because of lay offs resulting from the general slow down of the economy and/or the September tragedies. Particularly hard hit have been the service, retail, hospitality, tourism, technology, and transportation industries.
- 2) The unemployment rate is forecasted to rise to as high as 8% over the next year or two.
- 3) Businesses are hiring more selectively because of the constricting economy and the resultant multiple number of applicants applying to each available position.
- 4) The five year cap is approaching next month on welfare assistance to individuals who began receiving benefits in 1996.

WOTC extension will give businesses an incentive to hire individuals that they otherwise might not consider and who are suffering the most from the faltering economy. WOTC helps the American economy overall as an effective counter cyclical tool. Financially, tax credits are an attractive alternative to the Government. Paying out welfare benefits is less beneficial to Federal coffers than awarding a small tax credit and realizing greater productivity from the nation's workforce.

The title of this report, "The Case for WOTC Extension," signifies that, ultimately, any extension of WOTC will be positive news. Realistically, it is expected that Congress will choose to extend WOTC at some intermediate point between a permanent and a one year extension. Since Walton Management would be pleased with a compromise of 2.5 years, the WOTC alternative of a 2.5 year extension is included in this report.

### *How Was This Report Conducted?*

To evaluate the relative weights of different goals of, and alternatives to, WOTC permanent extension, I chose to use Expert Choice (EC) software. The purpose of this software is to assist us with complex decisions which otherwise would be difficult to attain because of human bounded rationality. Bounded rationality holds that humans lack the ability to make decisions involving many complex dimensions in a manner compatible with economic notions of rational behavior. It supposes we have cognitive limitations such as short-term memories and limited channel capacities to discriminate between shades and tones of decisions.

The software measures the relative importance of the different alternatives and objectives entered by the user by asking him or her various questions that place each of the objectives and alternatives against one another. The software processes the information inputted and will assign a weight to each alternative and goal. The higher the weight (i.e. number) assigned to a objective or alternative, the greater is its value relative to the other objectives or alternatives. EC functions as an analysis to break up complex issues into parts, and as a synthesizer to put pieces back together.

Expert Choice software is a multi-objective decision support tool based on the Analytic Hierarchy Process (AHP), a mathematical theory first developed at the Wharton School of the University of Pennsylvania by one of Expert Choice's founders, Thomas L. Saaty. The 'A' in AHP refers to Analysis, which is breaking the complex into parts. The 'H' refers to Hierarchy, which structures the complexity by dividing and subdividing the different units of information. The 'P' refers to Process, or simply something which repeats itself on an ongoing basis.

The AHP is a powerful and comprehensive methodology designed to facilitate sound decision making by using both empirical data as well as subjective judgments of the decision-maker. The AHP assists with the decision making process by providing decision-makers with a structure to organize and evaluate the importance of various objectives and the preferences of alternative solutions to a decision.

The following are the steps used in AHP and EC:

- Brainstorm and structure a decision as a hierarchical model
- Pairwise compare the objectives and sub-objectives for their importance in the decision
- Pairwise compare the alternatives for their preference with respect to the objectives, or assess them using one of the following:
  - Utility curves, Ratings or Step function, or enter priorities directly
  - Synthesize to determine the best alternative
- Perform sensitivity analysis

Expert Choice has a unique method of using pairwise comparisons to derive priorities that can more accurately reflect perceptions and values than many other ways. Expert Choice synthesizes or combines the priorities that the user derives for each facet of the problem to obtain the overall priorities of the alternatives. By performing "what-if" and sensitivity analyses, the user can quickly determine how a change in the importance of an objective would affect the alternatives of choice.

If the results of the decision model differ from the user's intuition; the user can modify the model and/or judgments until the model incorporates his or her intuition. Then the model results will either change to conform to the user's "gut" feeling, or his or her intuition will change based upon the modeling. In the former case, the user will not only have verified his or her "gut" feeling, but will have a detailed justification, if one is required. In the latter case, the user will have learned something and avoided a costly mistake.

*Where Was This Report Conducted?*

This report was carried out in Washington DC, because of the location's proximity to each of the key stakeholders in WOTC (as well as the fact that this is where I live). To determine the scope of alternatives, objectives, and preferences that were entered into this model, I drew upon several experiences. First, my numerous advocacy meetings with Congresspeople for and opposed to WOTC. Second, my understanding of what is important to a Hill staffer derived from my tenure working in a Congressional office. Third, my degree in political science and comprehension of self interest in American politics. Fourth, my fellowship at the Department of State and resulting understanding of the inter-agency process and what are and are not budget priorities. Fifth, my participation in the NEON advocacy group, which informed me about the ins and outs of the entire WOTC legislative process. Finally, my numerous conversations with employers about what WOTC means (or does not mean) to their businesses.

*When Was the Report Conducted?*

This report was begun in September 2001. In September, I learned about the utility and functions of the EC and AHP. In October, I began structuring my EC model and then submitted it to an EC software developer for technical feedback. Later, I developed a Power Point presentation (which you may find attached) summarizing the results of my modeling. Finally, at the end of October I prepared this final analysis of my work. As soon as possible, I hope to submit parts or all of my findings to interested stakeholders in WOTC, at least including my office supervisors.

*For Whom Was This Report Conducted?*

This report was completed for a seminar about how EC software could be utilized in the executive decision making process. As I was producing the report, I had in mind a target audience who knows little about the EC but who could intuitively decipher simple figures and measures. The primary audience for this report is staff on the Hill, because with this audience the report can make the biggest difference – that is, if the choices and weights of information in the model are seen by Hill staff as reliable and credible, and the staff is not already immovably fixed to a specific position on WOTC.

## The Findings of the Expert Choice Model

### What Information Was Included in the Model?

The primary goal of this model was to evaluate the Costs, Benefits, and Popularity of WOTC Permanent Extension. Alternatives to WOTC Permanent Extension are shown below in Figure 1, with Permanent Extension clearly showing itself to be the most preferred option (with the highest number), followed by 2.5 Year Extension, and so on<sup>1</sup>:

### Alternatives

• Extend WOTC Permanently	Extend WOTC for 2.5 Years	.217
• Extend WOTC for 2.5 Years	Extend WOTC as 1-year Extendor	.100
• Extend WOTC for 1 year	Make No Decision on WOTC	.049
• Make No Decision on WOTC	Vote Against Any WOTC Extension	.032
• Vote Against Any WOTC Extension	Permanently Extend WOTC	.602

Figure 1: Alternatives

### Objectives

I chose to evaluate Costs, Benefits, and Popularity because I viewed these aspects to be the most fundamental considerations for making a decision about WOTC. The meaning of Cost is understood as to what extent will business employers and the disadvantaged, or federal coffers and the support of a Member's constituency, be adversely impacted by each of the WOTC extension alternatives? The meaning of Benefit is to what extent each of the stakeholders in WOTC will be benefited by each alternative. The meaning of Popularity is to what extent will each alternative be popular with each stakeholder? We can see in Figure 2 that the most important objective to consider with WOTC permanent extension is Benefit, followed by Cost, then Popularity.



Figure 2: Objectives

### Stakeholders

From my legislative experience, the five groups shown below in Figure 3 have the greatest vested interest in WOTC (the numbers are irrelevant in this figure):

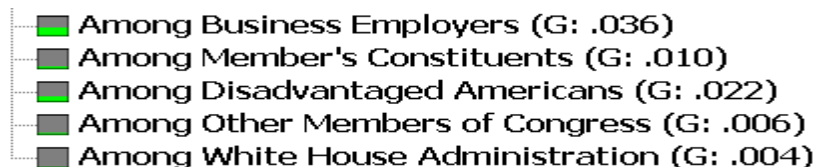


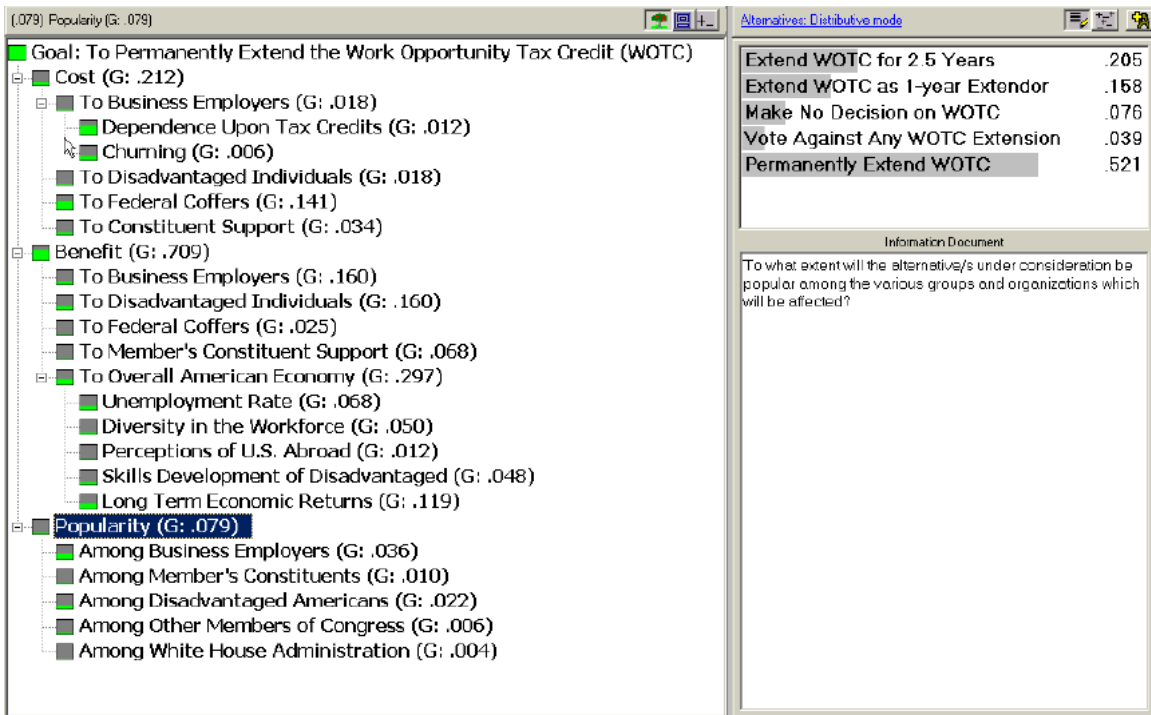
Figure 3: Stakeholders

<sup>1</sup> All figures in this report were extracted directly from my EC model



*Model Overview*

The EC model, as presented in Figure 4, shows a three-section window with the large left-hand screen displaying the goal and objectives; the upper right-hand screen displaying the alternative goals; and the lower right-hand screen showing information about any of the specific line item “nodes” clicked. The higher the number assigned to any piece of information, the more it is valued against other data in the same category.



**Figure 4: Model Overview**

*The Dominance of Permanent Extension As a Preferred Option*

The Performance Sensitivity Graph in Figure 5 clearly demonstrates the much higher preference for Permanent Extension above all other WOTC alternatives:

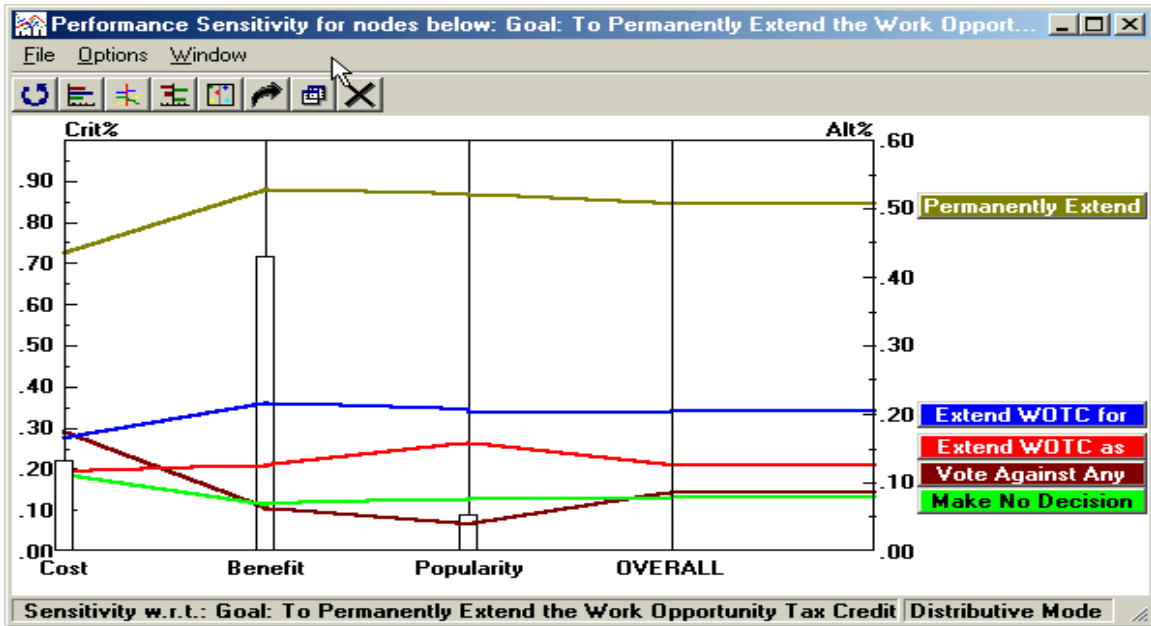


Figure 5: Performance Sensitivity Graph

Another similarly easy way to view this same data can be seen below in a Dynamic Sensitivity Graph, Figure 6. Like in the graph above, Permanent Extension and Benefits are shown to be winners in their categories, respectively, Alternatives and Objectives:

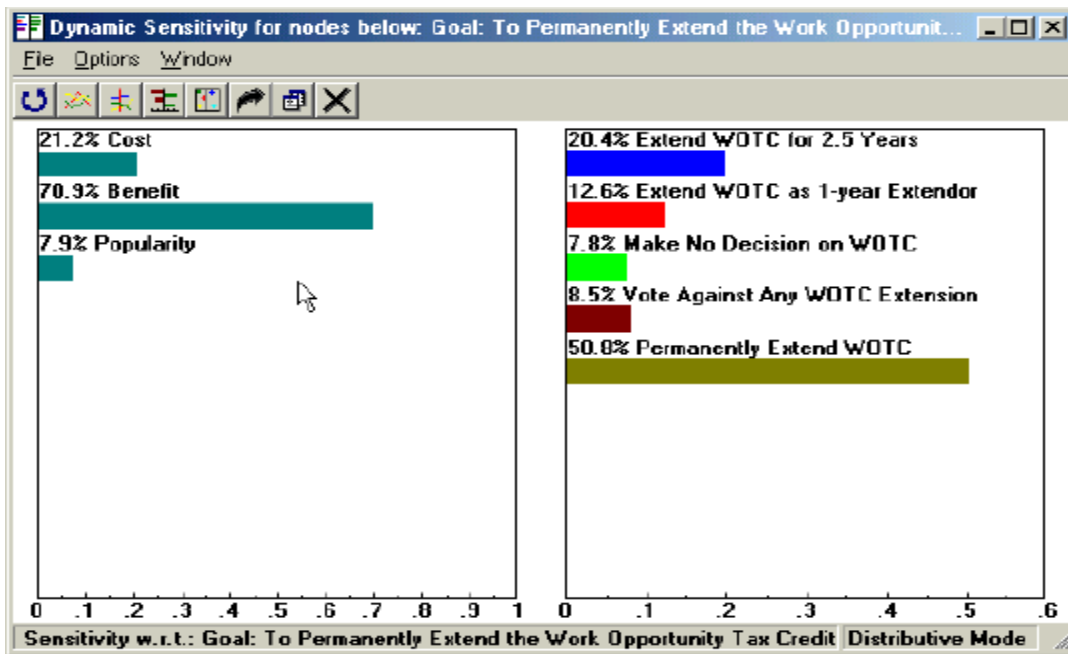


Figure 6: Dynamic Sensitivity Graph

*The Cost of Permanent Extension*

As shown below in Figure 7, Permanent Extension is not an inexpensive proposition. In fact, the yearly price tag for the program is over \$400 million. Measured in tangible dollar amounts, Permanent Extension is far and away the most expensive WOTC alternative. However, there would be tremendous intangible costs to striking down WOTC as a program, such as the impact upon the economy of people in the workforce remaining unemployed, and the consequent reduced levels of national productivity, prosperity, and even literacy. For this reason, Voting Against Any WOTC Extension is second in Cost. Making no decision on WOTC also incurs significant intangible costs from the impact it will have upon not helping the disadvantaged; diminishing business support of this program, as well as others like it; and slowing down the states' paper process if the program is renewed after hiatus.

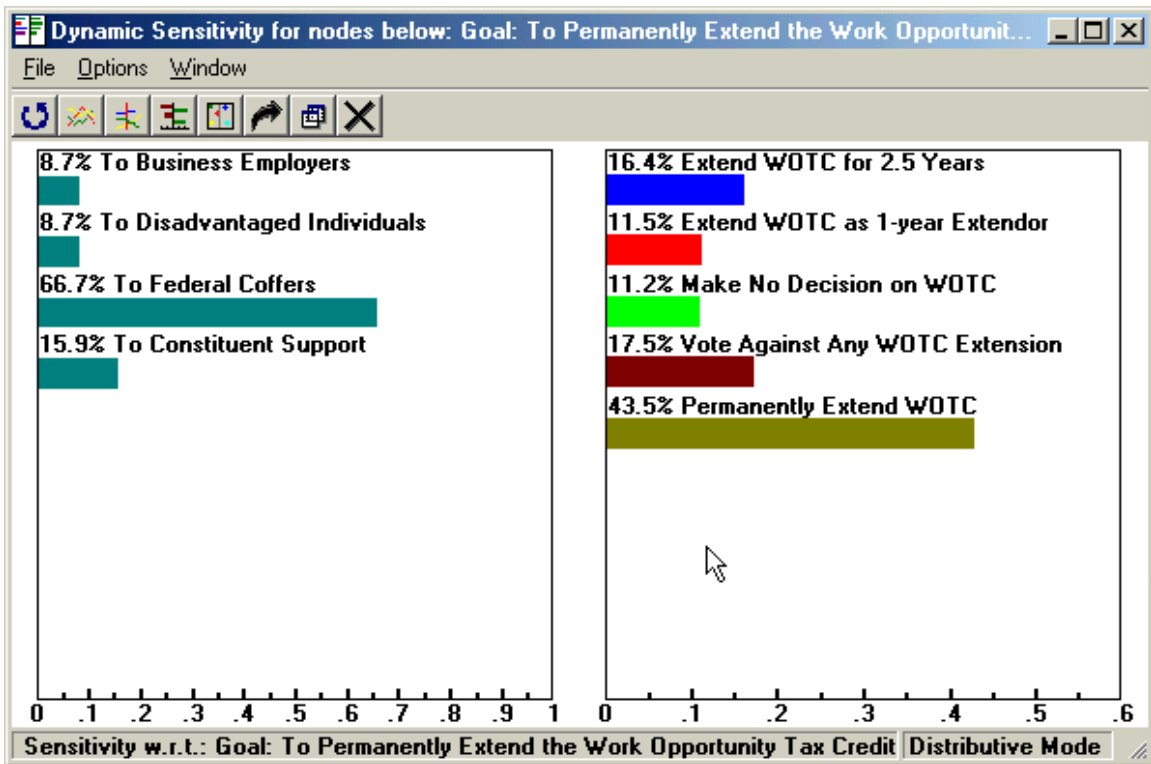
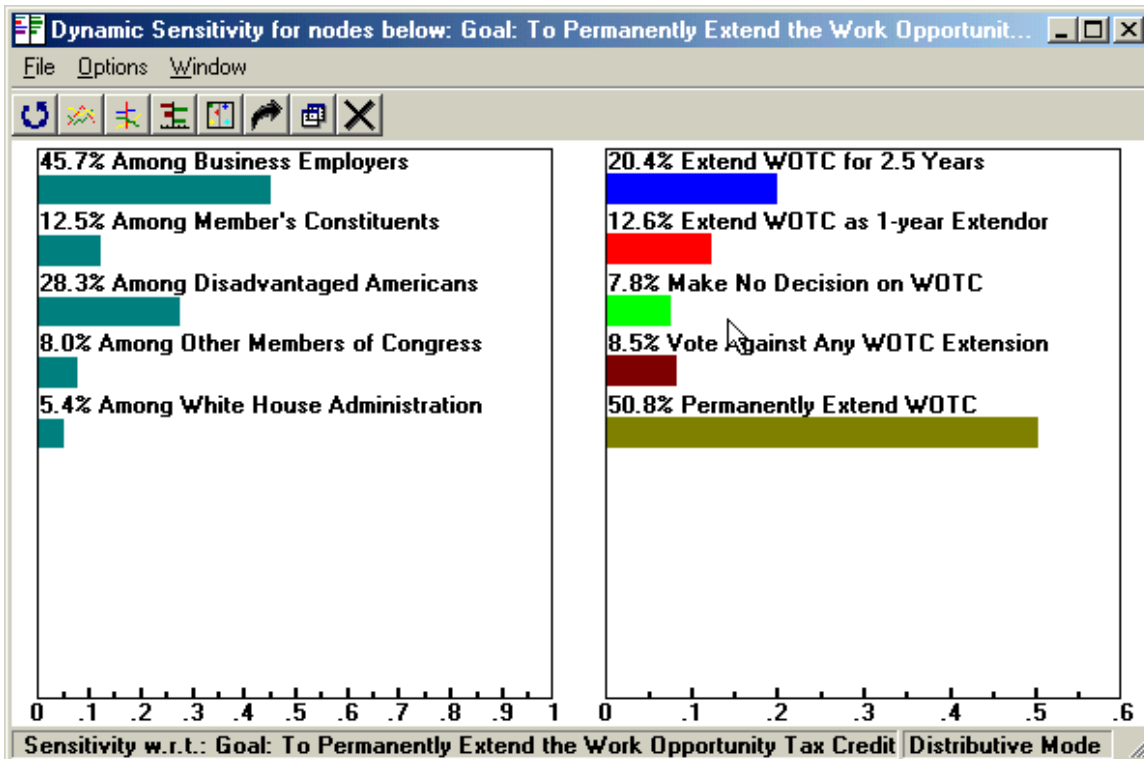


Figure 7: The Cost of Permanent Extension

*Conclusion: Who Favors Permanent Extension?*

Figure 8 shows that Permanent Extension is, overall, the most favored option among the stakeholders in WOTC. Business Employers and Disadvantaged Americans favor Permanent Extension the most, because they will accrue exceptionally high benefits from Permanent Extension, whereas the downsides are few.<sup>2</sup> Congressional Constituents favor permanent extension somewhat, depending on whether the program will have an impact upon their District and/or they would like to see their Member's capital committed to other priorities. Because Congress holds widely disparate views about WOTC Permanent Extension, only a relatively small amount of support is shown for Permanent Extension. Finally, given that we know the White House has thrown its support behind a two year extension (as opposed to any other kind of extension), and owing to its large number of expensive tax, oil, military, and recovery financial commitments, Permanent Extension is unlikely to be the President's preferred option.

[Note how, as in other graphs, a 2.5 Year Extension usually is second in preference, and is then trailed much further behind by the other alternatives. This suggests how a 2.5 Year Extension is generally considered the acceptable compromise of the stakeholders].



**Figure 8: Who Favors Permanent Extension**

<sup>2</sup> The Government Accounting Office reports that “churning,” or the process of deliberately displacing workers after they have worked the minimum number of hours to qualify for a tax credit, was not a practice occurring amongst employers.

Bibliography

Forman, Ernest and Mary Ann Selly. Decision By Objectives (How to convince others that you are right). World Scientific Press, 2001.

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