

Work Opportunity Credit

▶ Attach to your return.

Name(s) shown on return

Identifying number

Part I Current Year Credit (Members of a controlled group, see instructions.)

1 Enter the total qualified first-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who are certified as members of a targeted group and:			
a	Worked at least 120 hours but fewer than 400 hours . . . \$ × 25% (.25)	1a	
b	Worked at least 400 hours \$ × 40% (.40)	1b	
2 Current year credit. Add lines 1a and 1b. You must subtract this amount from your deduction for salaries and wages		2	
3 Work opportunity credits from pass-through entities	If you are a—	Then enter total of current year work opportunity credit(s) from—	
	a Shareholder	Schedule K-1 (Form 1120S), lines 12d, 12e, or 13	
	b Partner	Schedule K-1 (Form 1065), lines 12c, 12d, or 13	
	c Beneficiary	Schedule K-1 (Form 1041), line 14	
d Patron	Written statement from cooperative		3
4 Total current year work opportunity credit. Add lines 2 and 3. (S corporations, partnerships, estates, trusts, cooperatives, regulated investment companies, and real estate investment trusts, see instructions.)		4	

Part II Tax Liability Limit (See Who Must File Form 3800 to find out if you complete Part II or file Form 3800.)

5 Regular tax before credits:			
• Individuals. Enter the amount from Form 1040, line 40		}	5
• Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return			
• Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return			
6 Alternative minimum tax:			
• Individuals. Enter the amount from Form 6251, line 28		}	6
• Corporations. Enter the amount from Form 4626, line 15			
• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 39			
7 Add lines 5 and 6.		7	
8a	Foreign tax credit	8a	
b	Credit for child and dependent care expenses (Form 2441, line 9)	8b	
c	Credit for the elderly or the disabled (Schedule R (Form 1040), line 20)	8c	
d	Education credits (Form 8863, line 18).	8d	
e	Rate reduction credit (Form 1040, line 47)	8e	
f	Child tax credit (Form 1040, line 48)	8f	
g	Mortgage interest credit (Form 8396, line 11)	8g	
h	Adoption credit (Form 8839, line 14)	8h	
i	District of Columbia first-time homebuyer credit (Form 8859, line 11)	8i	
j	Possessions tax credit (Form 5735, line 17 or 27)	8j	
k	Credit for fuel from a nonconventional source	8k	
l	Qualified electric vehicle credit (Form 8834, line 20)	8l	
m	Add lines 8a through 8l.	8m	
9 Net income tax. Subtract line 8m from line 7. If zero, skip lines 10 through 13 and enter -0- on line 14.		9	
10	Tentative minimum tax (see instructions)	10	
11	Net regular tax. Subtract line 8m from line 5. If zero or less, enter -0-	11	
12	Enter 25% (.25) of the excess, if any, of line 11 over \$25,000 (see instructions)	12	
13 Enter the greater of line 10 or line 12		13	
14 Subtract line 13 from line 9. If zero or less, enter -0-		14	
15 Work opportunity credit allowed for the current year. Enter the smaller of line 4 or line 14 here and on Form 1040, line 50; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 4a; Form 1041, Schedule G, line 2c; or the applicable line of your return		15	

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Changes To Note

- The Job Creation and Worker Assistance Act of 2002 (the "Act") extended the work opportunity credit to include wages paid to members of a targeted group who began work for you after December 31, 2001. As a result, we have issued this revision of the 2001 Form 5884. If you already filed your tax return and did not include credits that are now allowed as a result of these changes, you must file an amended return.
- The Act also extended the work opportunity credit to include qualified wages paid to New York Liberty Zone business employees. However, the New York Liberty Zone business employee credit has a different tax liability limit and is figured separately on **Form 8884**, New York Liberty Zone Business Employee Credit. **Do not** include wages paid to New York Liberty Zone business employees on Form 5884.

Purpose of Form

Use Form 5884 to claim the work opportunity credit for qualified first-year wages you paid or incurred to targeted-group employees during the tax year.

You can claim or elect not to claim the work opportunity credit any time within 3 years from the due date of your return on either your original return or on an amended return.

How To Claim the Credit

To claim the work opportunity credit, the employer must request and be issued a certification for each employee from the state employment security agency (SESA). The certification proves that the employee is a member of a targeted group. The employer must receive the certification by the day the individual begins work or must complete **Form 8850**, Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits, by the day the employer offers the individual a job.

If the employer completes Form 8850, it must be signed by the individual and the employer and submitted to the SESA by the 21st calendar day after the individual begins work. If the SESA denies a certification request, it will provide a written explanation of the reason for denial. If a certification is revoked because it was based on false information provided by the worker, wages paid after the date the employer receives the notice of revocation do not qualify for the credit.

An employee is a member of a targeted group if he or she is a:

- Qualified recipient of Temporary Assistance for Needy Families (TANF),
- Qualified veteran,
- Qualified ex-felon,
- High-risk youth,
- Vocational rehabilitation referral,
- Qualified summer youth employee,
- Qualified food stamp recipient, or
- Qualified SSI recipient.

See Form 8850 and section 51(d) for details and restrictions.

Specific Instructions

Note: If you only have a credit allocated to you from a pass-through entity, skip lines 1 and 2 and go to line 3.

Lines 1a and 1b

Enter on the applicable line the total qualified first-year wages paid to employees certified as members of a targeted group, based on the number of hours that employee worked for you. Multiply the wages you enter on each line by the percentage shown on that line.

Qualified first-year wages are qualified wages for work performed during the 1-year period beginning on the date the individual begins work for you. The following rules apply in determining **qualified wages**.

- Only the first \$6,000 of wages paid or incurred during the tax year for each employee are taken into account.
- Wages qualifying for the credit generally have the same meaning as wages subject to the Federal Unemployment Tax Act (FUTA). For agricultural employees, if the work performed by any employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$6,000 of that employee's wages subject to social security and Medicare taxes are taken into account. For a special rule that applies to railroad employees, see section 51(h)(1)(B).
- More than half the wages received from you must be for working in your trade or business.
- You may not claim a credit on wages that were paid to any employee during any period for which you received payment for the employee from a federally funded on-the-job training program.
- Any work supplementation payments you received under the Social Security Act reduce the amount of wages qualifying for the credit.
- The employee cannot be your relative or dependent. See section 51(i) for other restrictions.
- The employee must not have worked for you previously.
- The employee must have worked for you for at least 120 hours. For employees who have worked at least 120 hours but fewer than 400 hours, the credit rate is 25%. For employees who have worked at least 400 hours, the credit rate is 40%.
- The wages cannot be for services of replacement workers during a strike or lockout.
- For each qualified summer youth employee, wages are limited to those paid or incurred for any 90-day period between May 1 and September 15 and may not exceed \$3,000. You cannot claim a credit for an employee who was your employee in a prior period.
- You cannot include wages paid or incurred to a high-risk or qualified summer youth employee for services performed while the employee lived outside an empowerment zone, enterprise community, or renewal community.
- You cannot claim a credit on Form 5884 with respect to the wages of any employee that you use to figure the welfare-to-work credit or the New York Liberty Zone business employee credit.

Special instructions for controlled group members. The group member proportionately contributing the most first-year wages figures the group credit in Part I and skips Part II. See sections 52(a) and 1563. On separate Forms 5884, that member and every other member of the group should skip lines 1a and 1b and enter its share of the group credit on line 2. Each member then completes lines 3, 4, and 5 through 15 (or Form 3800, if required) on its separate form. Each member must attach to its Form 5884 a schedule showing how the group credit was divided among all the

members. The members share the credit in the same proportion that they contributed qualifying wages.

Line 2

In general, you must reduce your deduction for salaries and wages by the amount on line 2. This is required even if you cannot take the full credit this year and must carry part of it back or forward. However, the following exceptions to this rule apply.

- You capitalized any salaries and wages on which you figured the credit. In this case, reduce your depreciable basis by the amount of the credit on those salaries and wages.
- You used the full absorption method of inventory costing that required you to reduce your basis in inventory for the credit.

If either of the above exceptions applies, attach a statement explaining why the amount on line 2 differs from the amount by which you reduced your deduction.

Line 3

Enter the amount of credit that was allocated to you as a shareholder, partner, beneficiary, or patron of a cooperative.

Line 4

If you have a credit from a passive activity, stop here and go to Form 3800.

S corporations and partnerships. Allocate the credit among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner. Electing large partnerships, include this credit in "general credits."

Estates and trusts. The credit on line 4 is allocated between the estate or trust and the beneficiaries in proportion to the income allocable to each. On the dotted line next to line 4, the estate or trust should enter its part of the total credit. Label it "1041 Portion" and use this amount in Part II (or Form 3800, if required) to figure the credit to claim on Form 1041.

Cooperatives. Most tax-exempt organizations cannot take the credit; but a cooperative described in section 1381(a) takes the credit to the extent it has tax liability. Any excess is shared among its patrons.

Regulated investment companies and real estate investment trusts. Reduce the allowable credit to the company's or trust's ratable share of the credit. For details, see Regulations section 1.52-3(b).

Who Must File Form 3800

Complete **Form 3800**, General Business Credit, instead of completing Part II of Form 5884 to figure the tax liability limit if for this year you have:

- More than one of the credits included in the general business credit listed below,
- A carryback or carryforward of any of the credits,
- A credit from passive activity, or
- General credits from an electing large partnership (Schedule K-1, Form 1065-B).

The general business credit consists of the following credits.

- Investment (Form 3468).
- Work opportunity (Form 5884).
- Welfare-to-work (Form 8861).
- Alcohol used as fuel (Form 6478).
- Research (Form 6765).
- Low-income housing (Form 8586).
- Enhanced oil recovery (Form 8830).

- Disabled access (Form 8826).
- Renewable electricity production (Form 8835).
- Indian employment (Form 8845).
- Employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Orphan drug (Form 8820).
- New markets (Form 8874).
- Contributions to selected community development corporations (Form 8847).
- Trans-Alaska pipeline liability fund.

The empowerment zone employment credit (Form 8844) and New York Liberty Zone business employee credit (Form 8884), while components of the general business credit, have special tax liability limits and are never carried to Form 3800.

Line 10

Although you may not owe alternative minimum tax (AMT), you generally must still compute the tentative minimum tax (TMT) to figure your credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete **and** attach the applicable AMT form or schedule. Enter on line 10 the TMT from the line shown below.

- Individuals: Form 6251, line 26.
- Corporations: Form 4626, line 13.
- Estates and trusts: Form 1041, Schedule I, line 37.

Line 12

See section 38(c)(4) for special rules that apply to married couples filing separate returns, controlled corporate groups, regulated investment companies, real estate investment trusts, and estates and trusts.

Line 15

If you cannot use part of the credit because of the tax liability limit (line 14 is smaller than line 4), carry it back 1 year then forward up to 20 years. See the Instructions for Form 3800 for details.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping** 7 hr., 39 min.
- Learning about the law or the form** 1 hr.
- Preparing and sending the form to the IRS** 1 hr., 9 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

