

Taxes and Unemployment

Work-based Learning Guide 2016

Employers must comply with all appropriate tax regulations for students participating in work-based learning experiences. Some significant Iowa tax benefits can accrue to employers who hire from certain populations of people, which may provide teacher-coordinators with additional selling points when approaching employers to establish training stations.

Social Security

Students in work-based learning programs must have a Social Security number. Each employer is also required to give student-learners a copy of a W-2 form which includes a statement of Social Security contributions deducted from their pay, as well as the amount of wages and other contributions. For most kinds of work, wages paid in forms other than cash – such as the value of meals or living quarters – must be included. For domestic work in a private household or for farm work, only cash wages count.

Any student who is currently receiving Social Security benefits may earn only a specific amount each year. Check with the Social Security Administration office at 800-234-5772 or on the Web at <http://www.ssa.gov> for up-to-date information on earnings limits.

Iowa Tax Benefits

Businesses in Iowa may receive a tax benefit for hiring persons with disabilities or for hiring ex-offenders. The following guidelines apply:

Businesses That Hire Persons with Disabilities. Iowa employers who meet the following criteria are allowed an additional deduction on their Iowa income tax returns for hiring persons with disabilities.

- The qualifying employee may be of any age; no restrictions apply.
- The qualifying employee must be a new hire. A current employee who becomes disabled does not qualify.
- The qualifying employee does not have to be employed full time.

This deduction is 65 percent of the wages paid in the first 12 months of employment, with a ceiling of \$20,000 per employee.

Only those employers who meet the “small business” definition can claim the deduction for employing persons with disabilities.

- A small business is one organized for profit or non-profit, including but not limited to a corporation, a sole proprietorship, partnership, joint venture, association, or cooperative, including farm operations. It does not include the practice of a profession.
- A small business cannot have more than 20 full-time equivalent employees and more than \$3 million of annual gross revenues. “Full time” means any of the following: a position requiring an average work week of 40 hours; one in which compensation is paid on a salaried full-time basis without regard to hours worked; an aggregation of any number of part-time positions which equal one full-time position.

A person with a disability is anyone who:

- Has a physical or mental impairment which substantially limits one or more major life activities, or
- Has a history of impairment, or
- Is regarded as having an impairment.

That includes, but is not limited to, physiological disorders and conditions, cosmetic disfigurement, anatomical loss, and any mental or psychological disorder. The person does not need to be certified by the Iowa Department of Vocational Rehabilitation as having a disability. However, if such certification exists, that person automatically qualifies for the deduction.

Businesses That Hire Ex-Offenders. Iowa employers who meet the criteria listed are allowed an additional deduction on their Iowa income tax returns for hiring ex-offenders. The deduction is claimed on the Iowa 1040 individual income tax return under an “other adjustments” category, or on the Iowa corporation income tax return under and “other reductions” category.

- If 65 percent of an employee’s wages does not meet the \$20,000 maximum in a single tax year, the balance may be claimed the following year, to the extent that the employee has worked fewer than 12 months.
- If a business employed an ex-offender before learning of this benefit, the employer may amend income tax returns to include the deduction. Returns can only be amended within three years from the due date of the return.
- An employer claiming the additional deduction must submit a separate sheet with the tax return showing the following information: the employee’s name, address, Social Security number, date of hiring, and total wages paid.
- The qualifying employee may be of any age; no restrictions apply.
- The qualifying employee must be a new hire. A current employee who becomes an ex-offender does not qualify.
- The qualifying person may hold more than one job and each employer may take the deduction.
- The qualifying employee does not have to be employed full-time.

To qualify for the deduction, an ex-offender must meet the criteria listed below.

- The ex-offender must pass the employer’s probationary period. If an employer does not have a written employment probation policy, the probationary period is six months for the purpose of this deduction.
- The ex-offender must not be hired to replace another employee who was terminated within the previous 12 months, unless that employee was terminated for misconduct in connection with employment. If the employee left voluntarily, the ex-offender will qualify for the deduction.

An ex-offender is defined as someone who:

- Has been convicted of a felony in this or any other state or the District of Columbia, or
- Is on parole, or
- Is on probation for an offense other than a simple misdemeanor, or
- Is in a work-release program, or
- Qualifies under the interstate probation and parole compact.

Unemployment Tax / Unemployment Compensation Insurance

Employers are not required to pay unemployment tax during the periods in which students are enrolled in the work-based learning program – from the first day of the school year to the last day of the school year, but they are required to file for periods when the student is not enrolled in the program, such as during the summer months. Likewise, students are not eligible to claim unemployment benefits while enrolled in the program.

The training agreement should contain a statement of fact concerning the mutual understanding that the employer will not be obligated to contribute to the unemployment tax. An example statement is:

The student and employer mutually understand that the employer is not obligated to pay any unemployment compensation tax during the specified school term / training period. Unemployment compensation cannot be claimed by the student.

For More Information...

Social Security Administration
800-234-5772
<http://www.ssa.gov>

Iowa Department of Revenue and Finance
515-281-3114
800-367-3388
<http://www.state.ia.us/tax.index.html>

Internal Revenue Service
800-829-1040
<http://www.irs.gov>

Iowa Workforce Development – Unemployment Tax Information
515-281-4199
Unemployment Information Service Center
877-891-5344
800-JOB-IOWA (800-562-4692)
<http://www.iowaworkforce.org/ui>