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Report to Congressional Committees

December 2002

BUSINESS TAX INCENTIVES

Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact

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GAO-03-39

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Highlights

Highlights of GAO-03-39, a report to the Chairman and Ranking Member, Senate Committee on Finance and the Chairman and Ranking Member, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

More than 17 million working-age individuals have a self-reported disability that limits work. Their unemployment rate is also twice as high as for those without a work disability, according to recent Census data. In the Ticket to Work and Work Incentives Improvement Act of 1999, the Congress mandated that GAO study and report on existing tax incentives to encourage businesses to employ and accommodate workers with disabilities. This report provides information on (1) the current usage of the tax incentives, (2) the incentives' ability to encourage the hiring and retention of workers with disabilities, and (3) options to enhance awareness and usage of the incentives.

www.gao.gov/cgi-bin/getrpt?GAO-03-39.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Robert E. Robertson (202) 512-7215 or robertsonr@gao.gov.

What GAO Found

Business Tax Incentives to Encourage the Hiring, Retention, and Accommodation of Workers with Disabilities

Business incentive	Purpose	Maximum amount	Reported in 1999
Work opportunity credit	To encourage the hiring of economically disadvantaged workers, including those with disabilities.	$2,400 per eligible employee	$254 million
Disabled access credit	To help small businesses provide accommodations to customers and employees.	$5,000 per year	$59 million
Barrier removal deduction	To make businesses and transportation vehicles more accessible.	$15,000 per year	Unknown

Note: Usage information on the barrier removal deduction is not available from IRS's databases.
Source: GAO's analysis of estimated usage from IRS's Statistics of Income programs for 1999.

A very small proportion of corporate and individual taxpayers with a business affiliation use the two tax credits that are available to encourage the hiring, retention, and accommodation of workers with disabilities, according to IRS data. Taxpayers in the retail and service industries accounted for the largest share of the work opportunity credits reported in 1999, while providers of health care and social assistance services accounted for the largest share of the disabled access credits.

Information on the effectiveness of the incentives is limited and inconclusive. Only the work opportunity credit has been studied and these studies, along with those of a prior hiring credit, showed that some employers revised their recruitment, hiring, and training practices to increase the number of disadvantaged workers hired and retained, but that credits have also have been claimed by employers for workers they would have hired anyway. However, these studies have not focused on workers with disabilities and data limitations preclude conclusively determining their effectiveness for these workers.

To increase the awareness and usage of the tax incentives, business representatives and experts on disability issues and tax incentives suggested (1) improving government outreach and education efforts; (2) increasing the maximum dollar amount of the incentives; and (3) expanding the types of workers, businesses, and accommodations that are eligible for the incentives. While these options may increase incentive usage, it is uncertain whether the potential loss in tax revenues would be offset by improvements in the employment of workers with disabilities.

Commenting agencies generally concurred with GAO's findings.

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Abbreviations

ADA	Americans with Disabilities Act of 1990
DI	Social Security Disability Insurance
DOJ	Department of Justice
DOL	Department of Labor
EEOC	Equal Employment Opportunity Commission
ETA	Employment Training Administration
IRS	Internal Revenue Service
ODEP	Office of Disability Employment Policy
SOI	Statistics of Income
SSA	Social Security Administration
SSI	Supplemental Security Income
TWWIIA	Ticket to Work and Work Incentives Improvement Act of 1999
WOTC	Work Opportunity Tax Credit

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United States General Accounting Office
Washington, DC 20548

December 11, 2002

The Honorable Max S. Baucus
Chairman
Committee on Finance
United States Senate

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable William M. Thomas
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Charles B. Rangel
Ranking Member
Committee on Ways and Means
House of Representatives

Recent U.S. Census data show that more than 17 million working-age individuals have a self-reported disability that limits work.[1] These data also show that the unemployment rate for those who have a work disability is more than twice as high as for those without a work disability.[2] Recognizing the many barriers to employment faced by people with disabilities, the Congress and the administration have had a long-term and continuing interest in ensuring that people with disabilities fully participate in society and become self-sufficient. Numerous federal

[1]These data are based on information from the U.S. Census Bureau, March 2001 Current Population Survey report entitled *Disability Labor Force Status—Work Disability Status of Civilians 16 to 74 Years Old, by Educational Attainment and Sex: 2001*. In this survey, those respondents reporting that they or a member of their household has a health problem or disability that prevents them from working or that limits the kind or amount of work that they can do are designated as having a work disability.

[2]We designated individuals between the ages of 16 to 64 to be of a "working age." Furthermore, reported data on the employment rate for individuals with a work disability is about 50 percent less than for those without a work disability.

programs and incentives support these goals and are designed to encourage those with disabilities to prepare for and participate in the workforce, including three tax incentives to encourage businesses to hire, retain, or accommodate workers with disabilities.

The federal tax incentives for businesses include not only a tax credit to encourage the hiring of economically disadvantaged workers but also a tax credit and a tax deduction to offset the expenses made to remove barriers preventing a business from being accessible to individuals with disabilities. The credits and deduction allow the following:

- The Work Opportunity Tax Credit (WOTC) Program allows businesses to claim a tax credit when hiring and employing economically disadvantaged workers, such as those who receive welfare and food stamp benefits and those with disabilities who receive veterans or state-administered vocational rehabilitation services or Supplemental Security Income benefits.[3]
- The disabled access credit allows small businesses to claim a maximum credit of $5,000 for certain eligible expenditures to provide access to individuals with disabilities when such accommodations are required to comply with the Americans with Disabilities Act (ADA) of 1990.[4]
- The architectural and transportation barrier removal deduction (the barrier removal deduction) allows businesses to deduct up to $15,000 for the cost of making their facilities or transportation more accessible to and usable by the elderly and individuals with a disability.[5]

[3]Individuals with disabilities who receive benefits from the Social Security Disability Insurance Program are not specifically designated as eligible for this program. However, some may be eligible for the program if they meet the qualifications for other eligibility categories, such as recipients of Temporary Assistance for Needy Families.

[4]Under the ADA, a person is considered to have a "disability" if he or she has a physical or mental impairment that substantially limits one or more major life activities (such as walking or hearing), has a record of such impairment, or is regarded as having such impairment. The ADA requires businesses to make reasonable accommodations for otherwise qualified employees unless the accommodation would impose an undue hardship on the business. With regard to the public, the ADA similarly prohibits discrimination on the basis of disability and generally requires businesses to make reasonable modifications to ensure access to their goods, services, and facilities by patrons with a disability.

[5]Small businesses may use both the disabled access credit and the barrier removal deduction together, if the expenses incurred are eligible under both incentives. For example, if a business spent $12,000 for access adaptations, it would qualify for a $5,000 tax credit and a $7,000 tax deduction.

The Ticket to Work and Work Incentives Improvement Act (TWWIIA) of 1999 directed GAO to study these incentives. This report provides information on (1) the extent to which the tax credits have been used and characteristics of those using the credits; (2) the ability of the three tax incentives to encourage businesses to hire, retain, and accommodate workers with disabilities; and (3) options that could enhance businesses' awareness and use of these tax incentives to encourage the employment and accommodation of workers with disabilities.

To provide information on the usage of the tax credits, we obtained and analyzed information from the Internal Revenue Service's (IRS) Statistics of Income programs for corporations and for individuals for tax year 1999, the latest year available. In analyzing the database for individuals, we identified the individual tax returns with a business affiliation, such as those with a sole proprietorship or interest in real estate property because only individuals with a business affiliation would be expected to use the credits. These databases provide information on the tax credits reported, but IRS databases do not have information on the barrier removal deduction.[6] For additional information on the usage and effect of the three incentives, we reviewed studies of these incentives and related disability studies on the employment and accommodation of workers with disabilities. We also conducted interviews with six federal government agencies and state agency officials from New York and California;[7] academic researchers from four major universities involved in disability and rehabilitation research; representatives of three leading business groups, including the U.S. Federation of Small Businesses and the U.S. Chamber of Commerce; eight individual businesses representing various industries; five disability organizations representing individuals with physical and mental disabilities; and two tax preparer groups. Furthermore, we discussed possible changes to improve businesses' awareness and use of these incentives with those knowledgeable about them. We conducted our work between October 2001 and September 2002 in accordance with generally accepted government auditing standards. For more details on our approach, see appendix I.

[6]To determine the extent of the usage of the deduction would require obtaining and reviewing the actual tax returns.

[7]Among all the states, California and New York had two of the largest WOTC programs and individually accounted for the two largest allotments of WOTC administrative funds from the Department of Labor in fiscal year 2001. Together, they accounted for $3.7 million or approximately 18.3 percent of the total administrative budget for the program.

Results in Brief

A small proportion of corporate and individual taxpayers use the work opportunity credit and the disabled access credit, and a large share of the credits reported are from taxpayers with businesses within a few industries. IRS data show that in 1999, about 1 out of 790 corporations and 1 out of 3,450 individuals with a business affiliation[8] reported the work opportunity credit on their tax returns. Of the estimated $254 million in work opportunity credits reported in 1999, corporations accounted for $222 million, and corporations in the retail and service industries accounted for the largest share of the corporate credits.[9] Similarly, about 1 out of 680 corporations and 1 out of 1,570 individuals with a business affiliation reported the disabled access credit on their tax returns for 1999. Of the $59 million in disabled access credits reported in 1999, individual taxpayers with a business affiliation accounted for an estimated $51 million. Individual and corporate taxpayers associated with the providers of health care and other social assistance services accounted for the largest share of the disabled access credits. Although we can provide information on the credits' use and characteristics of users, we cannot determine the amount of the credits used to hire, retain, and accommodate workers with disabilities. This information is not available from tax data because tax returns provide only the total amount of credits reported, and employers can also claim the work opportunity credit for employing other types of workers and claim the disabled access credit for expenditures made to accommodate customers with disabilities. Moreover, information regarding the usage of the barrier removal deduction for providing transportation or architectural accommodations is not available in IRS databases.

Little information is available regarding the effectiveness of the incentives on encouraging the hiring, retention, and accommodation of workers with disabilities, and data limitations preclude conclusively determining their effectiveness. Studies and information provided by disability researchers and others knowledgeable about the incentives indicated that some

[8]Individual taxpayers with a business affiliation are those whose individual tax returns show they had a sole proprietorship, partnership, farm, or interest in rental property, an estate, a trust or an S corporation. S corporations are entities designed to pass through their tax credits to individual shareholders to be reported on individual tax returns.

[9]The estimated $222 million reported by corporations excludes the dollar amount reported by S corporations, which pass through their credits to individual shareholders. The total amount of credits reported by non-S corporations and individuals with a business affiliation, $254 million, is based on the dollar value reported for this credit by taxpayers on their tax returns, as indicated in IRS's Statistics of Income programs.

employers considered tax incentives in recruiting and hiring disadvantaged workers. For example, the studies of the work opportunity credit showed that some employers revised their recruitment, hiring, and training practices to increase the number of disadvantaged workers hired and retained, but did not specifically address how this credit impacted the employment of workers with disabilities. Studies of this credit and a prior and similar hiring credit indicate, however, that employers could also be receiving credits for employees they would have hired anyway. Unlike the work opportunity credit, we did not find any specific studies of the disabled access credit or the barrier removal deduction. However, other research on disability employment issues and comments from interviewees indicated that various factors, such as employers' lack of familiarity with the incentives, may limit the usage of these business tax incentives. While all these studies provide some information on awareness, usage, or effectiveness of the incentives, limitations in the studies' research methods and lack of data for further assessment preclude conclusively determining the incentives' effectiveness.

Academic disability researchers, businesses, disability groups, and other interested parties we interviewed proposed various options to increase the awareness and usage of the incentives, including (1) expanding and improving federal outreach through better coordination and clarification of incentive requirements; (2) increasing the maximum amount allowed to be claimed; and (3) expanding eligibility to cover more workers with disabilities, businesses, and types of accommodation. Those we interviewed noted that enhancing federal outreach efforts could address employers' lack of familiarity with the incentives and their concerns regarding their use of the incentives and the potential costs of employing workers with disabilities. Some interviewees suggested that the federal government clarify the requirements for claiming the credits and improve coordination of efforts to provide businesses with comprehensive information about the availability and use of the incentives. Many of those interviewed also suggested increasing the maximum amount allowed to be claimed and broadening the eligibility requirements of the incentives such as allowing larger businesses to use the disabled access credit. They noted that this might stimulate usage and allow the incentives to benefit a broader spectrum of businesses and workers with disabilities. While these options could increase usage, they could also result in a reduction in tax revenues. However, it is not known whether the costs of these changes would be offset by improvement in the employment and access to the workplace for those with disabilities because the impact of incentives on the employment and accommodation of workers with disabilities is uncertain.

In their comments to our report, agencies generally agreed with our findings. The Department of Education, the Department of Labor, the Internal Revenue Service within the Department of the Treasury, and the Equal Employment Opportunity Commission provided us with comments of a technical nature that we incorporated in the report as appropriate. The Social Security Administration provided us with both general and technical comments that we also incorporated as appropriate.

Background

Workers with disabilities frequently face special challenges and disincentives when entering or maintaining a place in the workforce. To help those with disabilities overcome these challenges, the federal government has designed a wide variety of programs and incentives. Most of these federal efforts, as described in appendix II, are targeted to persons with disabilities and can include job placement and training programs from state-administered vocational rehabilitation agencies and other service providers as well as extended medical and benefit coverage for Social Security disability beneficiaries to encourage their return to work. Recognizing that businesses may also face some challenges when hiring, retaining, or accommodating individuals with disabilities, the Congress designed some programs and incentives for businesses. These include the three federal tax incentives reviewed in this report as well as several other federal efforts, such as Office of Disability Employment Policy's (ODEP) Business Leadership Network to link the employers who have jobs to the local agencies who have workers with disabilities to fill these jobs (see table 1).

Table 1: Federal Employment Efforts Targeted to Employers to Hire, Retain, and Accommodate Workers with Disabilities

Efforts (Department, Office)	Purpose
Business Leadership Network (Labor, ODEP)	Network of employers, state and local-level support organizations engaged in activities to improve the employment of qualified candidates with disabilities. Examples of these activities include sharing information on disability employment issues and providing work opportunities for job seekers with disabilities.
Disability and Business Technical Assistance Centers (Education, National Institute on Disability and Rehabilitation Research)	Assistance centers to provide information, training, and technical assistance to employers, persons with disabilities, and others with responsibilities under the ADA using 10 regional centers that work with local business and other networks.
Employer Assistance Referral Network (Labor, ODEP in partnership with the Social Security Administration (SSA))	Referral service to assist employers with recruitment by connecting them to agencies that have individuals with disabilities who are job ready and by providing information on disability-related issues.
Job Accommodation Network (Labor, ODEP)	Network providing information on employers' responsibilities under the ADA, job accommodation, technical assistance, funding, education, and other services related to the employment of individuals with disabilities.
Project EMPLOY (Labor, ODEP)	Resources, ongoing support, training, and technical assistance to employers and others to increase the recruitment, hiring, and retention of employees with significant disabilities.
Projects with Industry (Education, Office of Special Education and Rehabilitative Services)	Partnership with private industry to create and expand job and career opportunities for individuals with disabilities in the competitive labor market.
Ticket to Hire (SSA, Office of Employment Support Programs (OESP) in partnership with Labor)	Free national referral service for employers to hire qualified job candidates with disabilities from SSA's Ticket to Work Program. See appendix II for more information on the Ticket to Work Program to encourage individuals with disabilities who are receiving disability benefits to return to work.
Workforce Recruitment Program (Labor, ODEP)	Recruitment program providing employers, by request, with a database of pre-screened college students with disabilities to fill summer or permanent hiring needs from more than 160 colleges and universities.

Source: Federal agency Web sites and other federal information sources.

The oldest of the three tax incentives, the barrier removal deduction, was enacted in 1976 to encourage the more rapid modification of business facilities and vehicles to overcome widespread barriers that hampered the involvement of people with disabilities and the elderly in economic, social, and cultural activities. Administered by IRS, it allows taxpayers to claim expenses for the removal of eligible barriers as a current deduction rather than as a capital expenditure that is gradually deducted over the useful life of the asset. Internal Revenue Code and corresponding regulations delineate the specific types of architectural modifications that are eligible,

such as providing an accessible parking space or bathroom.[10] In 1990, legislation reduced the maximum amount of the barrier removal deduction from $35,000 to $15,000 and created the disabled access credit. The disabled access credit may be taken for expenditures made by eligible small businesses to comply with the requirements of the Americans With Disabilities Act of 1990. The credit defines small businesses as having no more than (1) $1 million in gross receipts or (2) 30 full-time employees. The credit is equal to 50 percent of eligible expenditures made during the year, not including the first $250 and excluding costs over $10,250, resulting in a maximum yearly credit of $5,000.[11] Along with their responsibility to enforce the ADA, the Equal Employment Opportunity Commission (EEOC) and the Department of Justice (DOJ) provide information and promote the use of the disabled access credit and other related tax incentives.

In addition to these incentives for accommodation, the work opportunity credit provides businesses of any size with a hiring incentive for employing economically disadvantaged individuals, including those with disabilities. Established with the enactment of the Small Business Job Protection Act of 1996 (P.L. 104-188), the Work Opportunity Tax Credit Program provides employers with an incentive to provide jobs and training to economically disadvantaged individuals, many of whom are underskilled and undereducated. Of the nine eligibility categories of

[10]The standards for eligible architectural modifications set forth in Internal Revenue guidance for the barrier removal deduction were adapted from the "American National Standard Specifications for Making Buildings and Facilities Accessible to, and Usable by, the Physically Handicapped" (1971) from the American National Standards Institute.

[11]General business credits, including the disabled access credit, are subject to an overall dollar limitation and cannot exceed net income tax minus the greater of (1) the tentative minimum tax or (2) 25 percent of the net regular tax liability above $25,000. Excess amounts of the disabled access credit are not refundable, but can be claimed by carrying excess amounts from a tax year back 1 year and forward 20 years.

disadvantaged workers,[12] two categories specifically include workers with disabilities–the vocational rehabilitation referrals and Supplemental Security Income recipients.[13] The method for determining the amount of work opportunity credit to be claimed has two tiers: (1) for newly hired eligible employees working at least 400 hours, the credit is 40 percent of the first $6,000 in wages paid during the first year of employment, for a maximum amount of $2,400 for each employee and (2) for eligible workers with 120 to 399 hours on the job, a lesser credit rate of 25 percent is allowed.[14] No credit is available for eligible workers who do not remain employed for at least 120 hours.

Federal and state agencies share responsibility for administering the work opportunity credit. The IRS is responsible for the tax provisions of the credit. The Department of Labor (DOL), through the Employment and Training Administration (ETA), is responsible for overseeing the administration and promotion of the program. DOL awards grants to states to determine and certify workers' eligibility and to promote the program. As part of the certification process, for each new person hired, employers must submit two forms to the state employment agency within 21 days of

[12]The nine categories of WOTC-eligible workers include (1) individuals in families currently or previously receiving welfare benefits under the Temporary Assistance for Needy Families program or its precursor, the Aid to Families with Dependent Children program; (2) veterans in families currently or previously receiving assistance under a food stamp program; (3) food stamp recipients—aged 18 through 24 years—in families currently or previously receiving assistance under a food stamp program; (4) youth—aged 18 through 24 years—who live within an empowerment zone or enterprise community; (5) youth—aged 16 and 17 years—who live within an empowerment zone or enterprise community and are hired for summer employment only; (6) ex-felons in low-income families; (7) individuals currently or previously receiving Supplemental Security Income; (8) individuals currently or previously receiving vocational rehabilitation services; and (9) workers for businesses located in the New York Liberty Zone or for businesses that relocated from that zone to elsewhere within New York due to physical destruction or damage of their workplace caused by the terrorist attack on September 11, 2001.

[13]WOTC eligibility requirements for workers with disabilities do not currently include Social Security Disability Insurance recipients or other individuals with impairments who are not Supplemental Security Income recipients or vocational rehabilitation referrals. However, a provision included in HR 4070, which was passed by the House, and as amended by the Senate, would have expanded WOTC eligibility to those Social Security Disability Insurance recipients who are working with employment networks and have individualized work plans under the Ticket to Work Program. The 107th Congress adjourned without taking further action on this bill.

[14]The work opportunity credit is subject to the overall dollar limitation of general business credits. Excess amounts are not refundable, but can be carried back 1 year or forward 20 years.

the hiring. For a fee, consultant businesses can assist the hiring business with the program's administrative requirements. Employers must also determine the appropriate amount of credit to claim and maintain sufficient documentation to support their claim.

Small Proportion of Taxpayers Use Business Tax Credits

In 1999, a small proportion of corporate taxpayers[15] or individual taxpayers with a business affiliation[16] reported the work opportunity credit and the disabled access credit on their tax returns. Whereas taxpayers in the retail and service industries accounted for most of the dollar amount of work opportunity credits, those providing health care and other social assistance services accounted for most of the dollar amount of the disabled access credits. Although we can provide information on the credits' use and characteristics of users, we cannot determine the amount of credits used to hire, retain, and accommodate workers with disabilities. This information is not available from tax data because tax returns provide only the total amount of credits reported, and employers can also claim the work opportunity credit for employing other types of workers and claim the disabled access credit for expenditures made to accommodate customers with disabilities. Moreover, information is not readily available regarding the usage of the barrier removal deduction for providing transportation or architectural accommodations because IRS's databases commingle this deduction with other deductions.[17]

[15]The number of corporate taxpayers reporting the credits include for-profit corporations, such as S corporations that report tax information to the IRS, but are designed to pass their income, losses, and credits through to individual shareholders for reporting on their individual tax returns.

[16]Individual taxpayers with a business affiliation are those whose individual tax returns show they had a sole proprietorship, partnership, farm, or interest in a S corporation, rental property, estate, or trust.

[17]Although not available from IRS databases, individual and corporate tax returns might contain additional information on reported deductions that might allow for an estimation of the number of taxpayers and dollar amount reported for the barrier removal deduction. However, identifying, obtaining, and reviewing a sufficient number of tax returns would be a substantial undertaking.

A Small Proportion of Taxpayers Use the Work Opportunity Credit

In 1999, a small proportion of taxpayers reported the work opportunity credit on their tax returns. In that year, about 1 out of 790 corporations[18] and 1 out of 3,450 individuals with a business affiliation[19] reported this credit.[20] Corporations, excluding those that pass their credits through to individual shareholders,[21] accounted for an estimated 87 percent ($222 million of $254 million) of the total work opportunity credits reported for 1999. These corporations also had an estimated average credit of about $106,000, an amount more than 25 times greater than the estimated average credit for individual taxpayers. Table 2 shows the estimated amount of work opportunity credits reported for 1999.

Table 2: Work Opportunity Credits Reported for 1999

Taxpayers	Total amount[a]	Sampling error[b]	Average amount[a]	Sampling error[b]
Corporations[c]	$221,677,723	+/-$67,578,709	$106,265[d]	+/-$43,260
Individuals with a business affiliation	32,196,911	+/-8,602,357	3,795[e]	+/-1,360
Total	$253,874,634	+/-$68,034,341	$24,020f	+/-$8,988

[a]Figures provide point estimates from sample data.

[b]The sampling errors provide the values from which 95 percent confidence intervals can be computed for each estimate.

[c]Figures exclude the credits reported by S corporations, which pass credits through to individual shareholders.

[d]This figure is based on an estimated 2,086 corporations, excluding S corporations, reporting the credit.

[18]We estimated that 1 out of 791 corporations reported the work opportunity credit based on an estimated 6,243 corporations (+/- a sampling error of 1,845 corporations) out of a total of 4,935,904 corporations filing tax returns for 1999.

[19]We estimated that 1 out of 3,455 individuals with a business affiliation reported the work opportunity credit based on an estimated 8,483 individuals (+/- a sampling error of 2,868 individuals) out of a total of 29,307,023 individuals with a business affiliation filing tax returns for 1999.

[20]The expiration and reinstatement of this credit may have affected its usage and the extent to which it operated as a hiring incentive during 1999, according to IRS. The credit expired on June 30, 1999. From July to December of this year, the Internal Revenue Code specified that the credit was unavailable to individuals hired after June 30, 1999. The Congress retroactively reinstated the credit under Public Law Number 106-170 on December 17, 1999.

[21]To avoid overestimating the total amount of credits reported by corporate and individual taxpayers with a business affiliation, the credits reported by S corporations have been excluded.

[e]This figure is based on an estimated 8,483 individuals with a business affiliation reporting the credit.

[f]This figure is based on an estimated 10,569 individuals with a business affiliation and corporations, other than S corporations, reporting the credit.

Source: GAO's analysis of IRS's Statistics of Income data.

Corporate credits reported were concentrated in a few industries.[22] Corporations in retail trade, hotel and food services, and nonfinancial services accounted for an estimated $170 million,[23] or about three-quarters of corporate work opportunity credits in that year. Interviews with those knowledgeable about this credit, including federal and state government officials, told us that retail and service businesses participate in this program because they have high employee turnover and need a large number of the low-skilled workers that this program targets. Table 3 provides an industry distribution of the estimated amount of work opportunity credits reported by corporations for 1999.

Table 3: Industry Distribution of Work Opportunity Credits Reported by Corporations for 1999

Industry	Amount[a]	Sampling error[b]
Retail trade	$102,451,974	+/-$62,908,341
Hotel & food services	38,412,798	+/-15,292,680
Nonfinancial services[c]	29,118,167	+/-11,779,669
Manufacturing	19,296,238	+/-9,594,716
Other[d]	32,398,545	+/-12,593,123
Total	**$221,677,723**	**+/-$67,578,709**

[a]Figures provide point estimates from sample data, and exclude the credits reported by S corporations, which pass credits through to individual shareholders. Figures in the amount column do not sum to the total because of rounding.

[b]The sampling errors provide the values from which 95 percent confidence intervals can be computed for each estimate.

[c]Nonfinancial services include administrative, professional, educational, and other service categories from the North American Industry Classification System.

[d]Other industries include the remaining 12 industry categories, such as agriculture and real estate from the North American Industry Classification System. None of these industries accounted for more than 12.2 percent of the estimated dollar amount of credits reported.

Source: GAO's analysis of IRS's Statistics of Income data.

[22]Corporate credits reported exclude those reported by S corporations.

[23]Corporations in retail trade, hotel and food services, and nonfinancial services accounted for an estimated $169,982,939 (+/- a sampling error of $65,756,603) of work opportunity credits for 1999.

Furthermore, large corporations, those with $1 billion or more in total receipts,[24] accounted for most of the work opportunity credits.[25] These large corporations accounted for an estimated $177 million, or about 80 percent of corporate credits for 1999. Interviews with those knowledgeable about this credit, including federal and state government officials, told us that these larger businesses are more likely to know about and use this credit because their large hiring needs make it financially beneficial to learn about and develop procedures to use the credit. Data support this view, as the estimated average credit for corporations with $1 billion or more in total receipts was about $540,000.[26] Those interviewed also noted that larger corporations are more likely to have the needed human resources to manage the administrative requirements of this program or they can, for a fee, use consultants to meet these requirements. Table 4 shows the estimated distribution, by total receipts, of work opportunity credits reported by corporations for 1999.

Table 4: Distribution, by Total Receipts, of Work Opportunity Credits Reported by Corporations for 1999

Total receipts	Amount[a]	Sampling error[b]
Less than $1 million	[c]	[c]
$1 million to less than $10 million	$2,219,502	+/-$1,060,706
$10 million to less than $100 million	4,955,427	+/-1,564,019
$100 million to less than $1 billion	32,769,709	+/-7,517,665
$1 billion and greater	177,465,992	+/-66,848,655
Total	**$221,677,723**	**+/-$67,578,709**

[a]Figures provide point estimates from sample data, and exclude the credits reported by S corporations, which pass credits through to individual shareholders. The total provides an estimate of all credits reported by these corporations, including corporations with less than $1 million in total receipts.

[b]The sampling errors provide the values from which 95 percent confidence intervals can be computed for each estimate.

[c]A reliable estimate cannot be provided due to limited sample data.

[24]IRS's computation of a corporation's total receipts varies by type of tax return filed and whether a net gain or loss was reported. The computation generally includes the amount of a corporation's total income, cost of goods sold, and tax exempt interest and subtracts the amount of taxable income or dividends from foreign-related corporations.

[25]Credits reported exclude those reported by S corporations.

[26]Corporations with $1 billion or more in total receipts had an estimated average work opportunity credit of $544,374 (+/- a sampling error of $196,775) for 1999.

Source: GAO's analysis of IRS's Statistics of Income data.

Although we can provide estimates on the amount reported for the work opportunity credit, we cannot accurately determine the amount of credits associated with hiring and employing workers with disabilities. This amount cannot be precisely determined because tax returns only include the total amount of the credit reported for all disadvantaged workers eligible for the credit.

A Small Proportion of Taxpayers Use the Disabled Access Credit

In 1999, a small proportion of taxpayers reported the disabled access credit on their tax returns, and the dollar amount of credits reported were concentrated in the health care and other social assistance services. In that year, about 1 out of 686 corporations[27] and 1 out of 1,570 individuals with a business affiliation[28] reported this credit. Most of the disabled access credits were reported by individual taxpayers with a business affiliation ($51 million of the total $59 million reported). Furthermore, providers of health care and other social assistance services[29] accounted for an estimated $31 million,[30] or approximately half of all the disabled access credits reported for 1999. However, it is not possible to determine if these credits were for accommodations to benefit their employees or clients because credits can be reported for either purpose, and tax returns include only the total amount reported. It is also not possible to determine the total number of taxpayers whose businesses met the credit's small business eligibility requirements. Table 5 shows the estimated amount of disabled access credits reported for 1999.

[27]We estimated that 1 out of 686 corporations reported the disabled access credit based on an estimated 7,199 corporations (+/- a sampling error of 2,530 corporations) out of a total of 4,935,904 corporations filing tax returns for 1999.

[28]We estimated that 1 out of 1,570 individuals with a business affiliation reported the disabled access credit based on an estimated 18,662 individuals (+/- a sampling error of 6,598 individuals) out of a total of 29,307,023 individuals with a business affiliation filing tax returns for 1999.

[29]Social assistance services include services such as vocational rehabilitation, child day care, and community housing.

[30]Providers of health care and other social assistance services (corporations and individuals) accounted for an estimated $31,349,695 (+/- a sampling error of $10,126,660) of disabled access credits for 1999. Credits reported exclude those reported by S corporations.

Table 5: Disabled Access Credits Reported for 1999

Taxpayers	Total amount[a]	Sampling error[b]	Average amount[a]	Sampling error[b]
Corporations[c]	$8,044,789	+/-$4,707,616	$3,319d	+/-$695
Individuals with a business affiliation	51,374,913	+/-22,411,548	2,753e	+/-643
Total	$59,419,702	+/-$22,761,369	$2,818f	+/-$572

[a]Figures provide point estimates from sample data.

[b]The sampling errors provide the values from which 95 percent confidence intervals can be computed for each estimate.

[c]Figures exclude the credits reported by S corporations, which pass credits through to individual shareholders.

[d]This figure is calculated based on an estimated 2,424 corporations, other than S corporations, reporting the credit.

[e]This figure is calculated based on an estimated 18,662 individuals with a business affiliation reporting the credit.

[f]This figure is calculated based on an estimated 21,086 individuals with a business affiliation and corporations, excluding S corporations, reporting the credit.

Source: GAO's analysis of IRS's Statistics of Income data.

Studies Provide Limited Information on the Effectiveness of the Tax Incentives

Little information is available regarding the effectiveness of the incentives in encouraging employers to hire, retain, or accommodate workers with disabilities. Of the three incentives, only the work opportunity credit has been the subject of specific study. The two studies we identified showed that some employers participating in the program modified their recruitment, hiring, and training practices to increase their hiring and retention of disadvantaged workers.[31] However, one of these studies, as well as some studies of a similar hiring credit that preceded the work opportunity credit, indicate that such credits can reward employers for hiring disadvantaged workers they would have hired anyway. We were unable to identify any studies that directly examined the effectiveness of the disabled access credit and barrier removal deduction. However, discussions with those knowledgeable about these incentives, including government officials, academic experts, and business representatives, and some general studies of employers' perspectives on various disability employment issues provided some additional information about the

[31]We also reviewed a 1997 study of the work opportunity credit commissioned by DOL, but did not include its findings because it focused on the administration of the credit and did not provide information on the credit's effect on the hiring of disadvantaged workers.

awareness, usage, or effectiveness of the incentives. For example, they indicated that businesses were frequently unaware of the incentives. While the studies, surveys, and opinions provide some information about the incentives' effectiveness, limitations in the research methods used, and a lack of required data for further assessment preclude a conclusive determination of how effective the three tax incentives are in increasing the employment of workers with disabilities.

Studies Are Inconclusive about the Effectiveness of the Work Opportunity Credit

One of the WOTC studies, conducted by GAO, included a survey of 225 employers participating in the WOTC program in California and Texas in 1999 and in 1997 or 1998 and found that most of the employers participating in the WOTC program reported changing their recruitment, hiring, or training practices to secure the credit and to better prepare the credit-eligible new hires.[32] Frequently, reported changes to recruitment involved employers listing job openings with a public agency or a partnership (48.8 percent), asking other organizations to refer job applicants (42.6 percent), partnering with agencies to identify applicants (33.8 percent) or to screen them (29.1 percent). These changes may have helped employers to increase their pool of WOTC-eligible applicants and may thereby have increased their chances of hiring these workers. About one-half of these employers also reported training practices that may have increased the retention of WOTC-eligible hires, such as providing mentors or work readiness training and lengthening training times. On the other hand, the report found that 57 percent of employers surveyed said that the possibility that an applicant might make the company eligible for the tax credit would not affect the applicant's chance of being hired.

The other study, commissioned by DOL, involved in-depth interviews with a judgmental selection of 16 businesses that used the WOTC and the

[32]U.S. General Accounting Office, *Work Opportunity Tax Credit: Employers Do Not Appear to Dismiss Employees to Increase Tax Credits*, GAO-01-329 (Washington, D.C.: Mar. 13, 2001), 15-18, 23-24, 33 and 35.

Welfare-to-Work Tax Credit.[33] Most, but not all, of these employers indicated that these tax credits played little or no role in their recruitment policies or that the individuals hired from either of the credit's target groups would have been hired in the absence of the tax credits. Even in those cases where the tax credit played a role in the hiring decision, employers indicated that it was one among several factors considered, such as the applicant's experience and skills.

Interviews with those knowledgeable about the work opportunity credit provided some additional information about the effectiveness of this credit. Some businesses and business groups we interviewed indicated that the credit may motivate certain employers, such as large businesses hiring many low-skilled workers, as well as some smaller businesses, to hire disadvantaged workers because it can lower their labor costs. However, some of the other businesses we interviewed told us that the work opportunity credit had marginal, if any, impact on their hiring, because they based their hiring decisions on other factors, such as the skills and abilities of job applicants, or because they viewed workers with disabilities as valuable employees and wanted to have a workforce that reflected their customer base. Furthermore, government officials and academic experts told us that the usage of this hiring credit is limited by a lack of knowledge of the credit in the business community, its low dollar value per worker hired, and administrative requirements. They also noted that because eligibility is limited to persons with disabilities receiving publicly funded vocational rehabilitation or SSI benefits, a number of other people with disabilities cannot participate. For example, individuals receiving Social Security Disability Insurance or privately funded vocational rehabilitation are not eligible to participate in the program.

Studies of a similar tax incentive to encourage employers to hire disadvantaged individuals also provide information about the potential effectiveness of WOTC. Studies of the Targeted Jobs Tax Credit, the precursor to WOTC, showed that it increased hiring and earnings of the

[33]Westat and Decision Information Resources, Inc., *Employers' Use and Assessment of the WOTC and Welfare-To-Work Tax Credits Program*, a report prepared at the request of the Department of Labor, March 2001. The welfare-to-work tax credit is another hiring incentive that was established in 1997 and provides up to $8,500 in credits to employers for each person hired who is a long-term welfare recipient. The study included businesses that varied in size, type, and location, such as a large urban transportation company and a small suburban beauty supply retailer and many of these businesses had at least one WOTC-certified new hire in 1999 that was either an SSI recipient or a vocational rehabilitation referral.

eligible workers; however, it also provided credits to employers for hiring workers who would have been hired in the absence of these incentives.[34] These studies indicate that from 50 to 92 percent of the credits claimed were for workers employers would have hired anyway. Studies of the targeted jobs tax credit also found that employers rarely took the actions needed to claim the credit when hiring individuals from eligible target groups, but that proactive government outreach, such as referral of a disadvantaged client to a business, could significantly increase employer participation in the credit program.[35] Although similar to its precursor, several administrative changes were made to WOTC in an attempt to make it less susceptible to providing credits to employers for workers they would have hired anyway; however, the specific effect of these changes is not known.[36]

In addition, we found two national surveys examining various disability employment issues that provide some information about employers' awareness and perceptions of the effectiveness of tax incentives in general. One of the national surveys assessed employers' experiences with workers with disabilities and found that only 15 percent of the 255 supervisors of workers with disabilities were aware of employer tax incentives.[37] The other national survey assessed employment policies and found that private human resource managers viewed employer tax

[34]For a summary of studies of wage subsidy programs, see Timothy J. Bartik, *Jobs for the Poor: Can Labor Demand Policies Help?* (New York: Russell Sage Foundation, 2001), Chap. 8. For example, these studies included the U.S. General Accounting Office, *Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary*, GAO/HRD-91-33 (Washington, D.C.: Feb. 20, 1991) and the U.S. Department of Labor, Office of Inspector General, *Targeted Jobs Tax Credit: Employment Inducement or Employer Windfall?* (Washington, D.C.,1994).

[35]Bartik, *Jobs for the Poor*, 228-229.

[36]The WOTC program was designed to mitigate some shortcomings that had been identified with it precursor, the Targeted Job Tax Credit program, including problems with employer windfalls for hiring employees that they would have hired anyway and too many credit-eligible employees leaving their jobs before receiving much work experience. To increase the likelihood that the credit would be considered in the hiring decision, under WOTC, the employer and job seeker are now required to fill out a form to help establish the eligibility of the applicant for WOTC on or before the date of hire. In addition, the minimum employment period for receiving the higher rate of credit was lengthened. Furthermore, some eligibility target groups were reformulated with the intention of focusing more narrowly on those who truly needed a hiring credit.

[37]D. Unger, "A National Study of Employers' Experiences with Workers with Disabilities and Their Knowledge and Utilization of Accommodations" (unpublished data, 2001).

incentives as the least effective means for reducing barriers to employment for people with disabilities. By order of importance, the more than 800 private human resource managers surveyed viewed visible top-management commitment, staff training, mentoring, on-site consultation and technical assistance, and short-term outside assistance as more important than tax incentives in reducing employment barriers for workers with disabilities.[38]

Studies Do Not Examine the Effectiveness of the Disabled Access Credit or Barrier Removal Deduction

In contrast to the work opportunity credit, we were unable to identify any studies that directly examined the effectiveness of the disabled access credit and barrier removal deduction. However, some of those we interviewed provided additional information on the perceived effectiveness and use of the disabled access credit and barrier removal deduction. Many of the business representatives and others we spoke with were either unaware of these incentives or did not have an opinion about their effectiveness. Of those with an opinion, the barrier removal deduction was viewed by more individuals as having a positive effect on the employment of workers with disabilities than was the disabled access credit. While both incentives can help offset the cost of accommodating workers with disabilities, they believed that the barrier removal deduction was more widely used because larger businesses, that are more likely to be aware of and willing to use tax incentives, are eligible for this incentive. However, they also pointed out that the use of the deduction was limited because it only allows specific types of architectural and transportation modifications. Implemented more than 20 years ago, the deduction cannot be applied to the cost of addressing communication and electronic barriers in today's modern workplace. Finally, in addition to the business size restriction, they mentioned that the unfamiliarity with the disabled access credit or not clearly understanding the expenditures that qualify, could limit its usage.

[38]S. Bruyere, *Disability Employment Policies and Practices in Private and Federal Sector Organizations*, (Ithaca, N.Y.: Cornell University, School of Industrial and Labor Relations Extension Division, Program on Employment and Disability, 2000). This survey included a random sample of the membership of the Society for Human Resource Management, the entire membership of Washington Business Group on Health, and human resource and equal employment opportunity personnel in the federal agencies, totaling over 800 private and over 400 federal agency representatives.

Further Study of the Incentives' Effectiveness Precluded by Data Limitations

While the studies, surveys, and opinions from those knowledgeable about the tax incentives provide some insight about their effectiveness, limitations in the studies' research methods do not allow for directly measuring the effectiveness of the incentives. For example, the WOTC studies are limited in that they did not measure (1) the extent to which employers would have made these hires in the absence of the incentive; (2) the effect of the incentive on the retention and salaries of WOTC hires compared to similar employees who were not certified for the program; or (3) the effect of the incentive on SSI recipients and vocational rehabilitation referrals, who are represented in two eligibility categories for the work opportunity credit.

Existing data limitations preclude a conclusive determination of how effective the three tax incentives are in increasing the employment of workers with disabilities. The tax credits and the deduction create incentives to increase the employment of workers with disabilities by reducing the costs of employing these workers. To determine the incentives' effect on the employment of these workers, information is needed on the extent to which the incentives reduce employers' costs (by decreasing their tax liability) and the extent to which these reduced costs result in the employment of more workers with disabilities. However, the national databases lack the data needed to make this determination. As previously discussed, IRS databases do not provide information on the barrier removal deduction. And, while these databases provide information to estimate the usage of the disabled access credit and the work opportunity credit, they do not provide information on the amount of credits specifically associated with workers with disabilities. In addition, although DOL has a national database for the work opportunity tax credit program, this database does not contain the information needed to accurately determine the amount of credits associated with workers with disabilities. Furthermore, economic literature does not provide a consensus on the extent to which employers would alter their employment of workers with disabilities in response to reductions in costs. Without this information, a conclusive determination of the three incentives' effectiveness cannot be made.

In addition, surveying employers to determine the extent to which tax incentives caused them to hire or accommodate employees with disabilities may provide wide variations in the results depending upon the research methods used and the quality of the data obtained. Studies that specifically ask an employer whether a tax incentive caused them to hire or accommodate an eligible individual can understate the effect of the incentive, because employers may respond negatively if they do not want

to appear to discriminate in their employment practices or because eligibility for the incentive would not be the only or even major factor that employers consider when making such decisions. On the other hand, asking a more general question, such as whether the incentives had some influence on their employment practices, lacks precision and may lead to overestimating the effect of the incentives.[39]

Options May Increase Tax Incentives' Usage and Cost, but Their Impact on Workers with Disabilities Is Uncertain

Business representatives and experts on disability issues and tax incentives[40] suggested options for increasing the usage and effect of existing employer tax incentives. Many of those we interviewed suggested increasing and improving government outreach and education efforts, including improvements to government coordination and clarification of tax incentive requirements. To further increase the use and effect of the incentives, they also suggested increasing the dollar value of the incentives and expanding the types of workers, businesses, and accommodations that qualify a business to receive the credits or deduction. Although changing the existing tax incentives presents the potential for increased usage and a reduction in tax revenues, such changes give no assurance of a substantial improvement in the employment of workers with disabilities.

Expanded and Improved Outreach Suggested to Increase Incentive Usage

Interviews with business representatives and experts in disability issues indicate that two primary obstacles to increasing the use of the tax incentives are a lack of familiarity with the incentives and perceptions regarding the amount of effort required to qualify for them. A number of those we interviewed suggested that better coordination of government efforts, clarification of tax incentive provisions, and increased outreach and education could help to improve this situation.

The most frequently cited reason by business, academic, and disability representatives for infrequent use of the incentives was that businesses were not aware of them. Among the three tax incentives we examined, most businesses and other organizations contacted were familiar with the work opportunity credit; however, our contacts, especially business representatives, were far less familiar with the disabled access credit and

[39]Bartik, *Jobs for the Poor*, 228-229.

[40]A wide variety of groups were interviewed, including businesses and their representatives, academic experts, disability groups, tax preparers, and government representatives. For a more detailed description of interviewees, see appendix I.

the barrier removal deduction. Several of those interviewed indicated that smaller businesses were less likely to have staff who were familiar with the credits than larger businesses. Furthermore, while larger businesses may have tax staff who are familiar with the incentives, this knowledge is not always shared with the hiring and other human resource managers. Without a general awareness of these tax credits and deduction, employers cannot factor them into the hiring, accommodation, or retention decisions, which may be influenced by concerns about the potential costs of employing individuals with disabilities, such as the possible costs for accommodation or increased workers' compensation and medical insurance.

Another obstacle to the use of the incentives, according to many of those we interviewed, was the perception that qualifying for the incentives would require burdensome paperwork and other efforts. To claim an incentive, businesses must gain knowledge of the eligibility requirements, record the amount claimed on the appropriate tax form, and maintain documentation to support their claim. The process may be particularly burdensome for the work opportunity credit. To claim the work opportunity credit, a business must also complete and provide two forms within 21 days to the state employment agency, which certifies the eligibility of a new hire for this program. According to some familiar with this credit, these extra requirements can create a burdensome paperwork process, especially for smaller businesses that may lack sufficient resources to meet these requirements.[41] Even those businesses that have sufficient resources may not believe that the credit is worth the time and effort needed to qualify for it, according to several business representatives. For a fee, some businesses use consultants to help reduce this burden. Furthermore, the IRS has a demonstration project to enable businesses to electronically file the certification forms and, as of April 2002, authorizes state employment agencies to accept electronic submission of one of the certification forms. Also, proposed legislation, recently passed by the House, is intended to simplify the eligibility requirements for this credit.[42]

[41]Several interviewees also raised concerns over the fact that the work opportunity credit is temporary and not permanent. The interviewees noted that businesses' interest in using the credit may be limited when its long-term future is uncertain.

[42]Also incorporated into this legislation, H.R. 4626, is a provision to combine the work opportunity credit and the Welfare-to-Work credit to simplify the use of these credits for employers.

Given the general lack of familiarity with the disabled access credit and the barrier removal deduction, views about the burdens created by these incentives may be partially based on misperceptions among businesses and others we interviewed. Unlike the work opportunity credit, these incentives do not require any additional paperwork beyond claiming the credit or deduction on IRS tax forms. Accordingly, one vocational rehabilitation official told us that businesses' perceptions about the burden of these incentives was a "myth" and not based on their actual experiences. However, to some extent, the burden may be related to determining eligibility for incentives, especially for the disabled access credit. Academic experts told us that a lack of clarity as to the type of businesses and expenditures that are eligible for the disabled access credit makes it more difficult for them to use the credit.

To increase familiarity and reduce possible misperceptions concerning the incentives, representatives from businesses, academia, government agencies, and disability organizations told us that there is a need for better coordination in promoting the appropriate use of the incentives and the advantages of hiring workers with disabilities. Most of those interviewed believed that the federal government's efforts to inform and educate taxpayers about these incentives should increase. A variety of suggestions were offered on how the government should proceed with these outreach efforts, and which agency should lead these efforts, given the multiplicity of agencies with responsibility for encouraging the employment of individuals with disabilities.

Some business, academic, and disability representatives we interviewed believed that the Department of Labor, specifically the Office of Disability Employment Policy, should have lead responsibility for promoting these three incentives. According to one businessperson, ODEP should take the lead because promoting the incentives is about promoting business and hiring of competent workers. Some of those we interviewed also viewed the participation of all federal, state, and local agencies associated with the employment of people with disabilities in outreach efforts as essential.

Some representatives also emphasized that federal agencies should partner with the private sector in promoting the use of these incentives. Federal outreach efforts were viewed as being more likely to be effective if they utilized business organizations as well as disability advocacy organizations, local agencies, and nonprofits to promote these incentives. According to a representative of thousands of small businesses, increased publicity through disability advocacy groups and the tax preparer industry would make small businesses more aware of the available incentives.

Outreach efforts by federal government agencies have been limited, but they appear to be increasing. For example, IRS, DOL, DOJ, and EEOC use their Web sites and toll-free numbers to give individuals access to information on the incentives and have recently begun more active outreach.[43] In addition, DOJ officials told us that they had been coordinating their outreach efforts with other agencies. In coordination with the Small Business Administration, DOJ developed an ADA guide for small businesses that addresses the tax incentives. DOJ officials also told us that, for each year since 1994, they had included a flier or an article with information on ADA requirements and available tax incentives along with routine SSA and IRS mailings to businesses and/or their accountants. SSA also has several efforts to provide information about tax incentives to employers and individuals with disabilities. Information about the incentives is available on its Web site and through printed materials widely distributed to employers and disability beneficiaries. As part of SSA's Ticket to Work Program, the private employment service providers and public vocational rehabilitation agencies offer employers information about their eligibility for tax incentives and assistance in qualifying for these credits, according to SSA.[44] IRS has also recently made efforts to reach out to taxpayers by including an article on the disabled access credit in the IRS Reporter—an IRS publication for taxpayers and tax preparers.

Furthermore, as part of the President's New Freedom Initiative to ensure enforcement of the ADA,[45] DOJ is mailing to selected small businesses a packet of information on tax incentives to encourage the accommodation of customers and employees with disabilities. This outreach effort to the business community was undertaken in response to a general belief that many small businesses were not aware of the tax incentives available to them, particularly the disabled access credit. Other efforts under the President's initiative include a series of workshops initiated by the EEOC to provide information to small businesses about the benefits of hiring

[43]As WOTC is jointly administered at the federal and state level, state WOTC coordinators and other state agencies are also responsible for marketing this credit. According to a state official, these activities have included providing information on this incentive at employer seminars and job fairs, but government officials acknowledged that marketing for this incentive could be improved.

[44]SSA also has on-going research efforts to identify potential new economic incentives for employers to stimulate the employment and retention of workers with disabilities.

[45]In February 2001, President George W. Bush announced his New Freedom Initiative to help Americans with disabilities participate more fully in their communities and country, including proposals to increase their ability to integrate into the workforce.

people with disabilities, including information about the tax incentives. The EEOC is partnering with DOJ to conduct some of the workshops. In addition, EEOC recently released a guide for businesses that includes information about the tax incentives entitled *The Americans with Disabilities Act: A Primer for Small Businesses*.

Improved coordination and outreach were also suggested to help resolve a reported concern about the appropriate use of the disabled access credit. According to some academic experts, unclear guidance, including a lack of IRS implementing regulations for the disabled access credit, can inhibit its use. It was explained that some companies may not use the incentives, in part, because they are wary of being audited by IRS and later being found to have used the credit incorrectly. According to a representative of a large tax preparer group, the disabled access credit's provisions are unclear and complicated. For example, IRS guidelines do not clearly state whether a business that is not required by title I of the ADA to accommodate an employee can use the credit for these expenditures.

Raising the Maximum Dollar Amount of Incentives Suggested to Increase Usage

Many of the organizations that we contacted told us that increasing the maximum dollar amount allowed to be claimed for the incentives might increase usage by attracting the attention of businesses and changing perceptions that the administrative cost of using the incentives will outweigh their benefits. Some academic and business representatives said that they believed that the incentives would need to increase—with some suggesting increases of 25 to 200 percent—to capture the attention of businesses or reduce their concerns about the cost of accommodating workers with disabilities. Although the cost of accommodating a worker with a disability is often less than $500, sometimes these costs can exceed the amount allowed under the tax incentives.[46] For example, some government, disability, and academic representatives told us that the cost of some accommodations, such as those for information technology to accommodate a person that is visually impaired, can sometimes far exceed the maximum $5,000 per year for each eligible business allowed under the disabled access credit. In addition, companies that employ a large number of disabled workers may also incur substantial accommodation costs. For example, one of the large companies we interviewed reported spending

[46]Information from DOL's Job Accommodation Network indicates that carrying out its suggested accommodations cost less than $500 in 71 percent of all cases. (See Job Accommodation Network Publications, "Facts About Job Accommodations," http://www.jan.wvu.edu/media/JANFacts.html.)

more than $1 million on accommodations in the last year, although this official believed that the talent they received more than compensated for these costs.

Expanding Eligibility for the Tax Incentives Suggested to Benefit a Broader Spectrum of Businesses and Workers with Disabilities

Most of the organizations interviewed favored an expansion of the eligibility requirements of the tax incentives as a means to increase their usage. According to interviewees, use of the incentives is limited by the following restrictions:

- the type of workers eligible for the work opportunity credit,
- the size of businesses for the disabled access credit, and
- the type of accommodations for the barrier removal deduction.

Most interviewees favored expanding coverage of the work opportunity credit to include a broader spectrum of workers with disabilities, as eligibility requirements currently limit eligibility for workers with disabilities to certain vocational rehabilitation referrals or Supplemental Security Income recipients. Many suggested including Social Security Disability Insurance recipients as an additional category of eligible workers for this program even though some of these individuals may not be economically disadvantaged—generally a criterion for inclusion in this program.[47] Inclusion of this group would complement SSA's Ticket to Work program to encourage individuals with disabilities who are receiving disability benefits to return to work. Pending legislation, passed by the House, includes a provision to expand eligibility to those Social Security Disability Insurance recipients who are working with employment networks and have individualized work plans under the Ticket to Work program.

[47]The work opportunity credit was originally designed to help economically disadvantaged individuals from certain groups that consistently have had a particularly high unemployment rate. However, it does not specifically require that all individuals of these groups be economically disadvantaged. For example, youth from empowerment zones and enterprise communities do not have to demonstrate that they are economically disadvantaged to be eligible for WOTC. Also, a recent amendment to WOTC has created a new group of eligible workers who may or may not be economically disadvantaged. This group includes workers for businesses located in the New York Liberty Zone or for businesses that relocated from that zone to elsewhere within New York due to physical destruction or damage of their workplace caused by the terrorist attack on September 11, 2001.

Many business representatives would also like to see the disabled access credit expanded to make more businesses eligible for the credit. The tax code limits the usage of this credit to businesses that are making accommodations in compliance with the ADA and have either (1) 30 employees or less or (2) $1.0 million or less in gross receipts. Many believed that the restriction on employees should be expanded to include businesses with over 30 employees. In addition, academic experts pointed out that by tying the use of the credit to compliance with the ADA that many of the smallest firms, that is those with fewer than 15 employees, may not be able to use this credit when accommodating an employee. While the ADA generally requires small businesses to remove architectural barriers, it does not require businesses with fewer than 15 employees to make such modifications for their employees. According to representatives of a business organization representing many small companies, ensuring that the incentives are available to small business to accommodate employees is particularly important because these businesses account for most of the growth in jobs. According to the Small Business Administration, small firms constituted about three-quarters of the employment growth in the 1990s.[48]

The vast majority of business, academic, government, and disability representatives interviewed told us that the barrier removal deduction should be expanded to include accommodations to address electronic and communications barriers in the workplace. Although new technologies can open up opportunities for people with disabilities to more actively participate in the workforce, some new technologies can also act as barriers for those with sensory and other types of impairments and can prevent them from fully participating in the modern workplace. For example, an individual with a visual impairment may not be able to use a computer without a screen reader or other special software to interpret images on the monitor.

[48]U.S. Small Business Administration, Office of Advocacy, *Small Business Economic Indicators 2000*, (Washington, D.C. 2001).

Suggested Options May Increase Government Costs, but the Effect on Workers with Disabilities is Uncertain

Many of those we interviewed believed that various changes could increase the usage of the incentives to improve the employment of workers with disabilities; however, tax revenue reductions are a likely result from such changes. Tax revenues would be expected to decrease if the dollar value of the incentives was increased and/or coverage was expanded to include more people with disabilities, businesses, or types of accommodation. Potential reductions in tax revenues could be offset to some extent by an increase in taxable income and reduced government benefits for workers with disabilities if changing the incentives were to improve the employment of workers with disabilities. However, because of the lack of data on the effectiveness of the incentives, potential tax revenue losses would have to be absorbed without knowing the effect of changes to the incentives on the employment of people with disabilities.

Increasing the dollar amount allowed for these incentives may also increase the potential for misuse and thereby reduce tax revenues. There are already indications that at least one of the incentives, the disabled access credit, has been targeted for fraudulent activity. In April 2002, the Treasury Inspector General for Tax Administration testified that, in tax year 1999, thousands of taxpayers may have inappropriately claimed the disabled access credit, including taxpayers who did not indicate any interest in or ownership of a business on their tax return—a key requirement for receiving the credit.[49] Increasing the value of this and other tax incentives may make them even more attractive to those who may misuse them.

Another point to consider with increasing the maximum dollar amount for the incentives is that this change would allow those who are already claiming the incentive to claim an additional amount without increasing the employment or accommodation of workers with disabilities. For example, businesses that already claim the work opportunity credit, could, if the credit were increased, simply claim more for each eligible worker without making any changes in the overall number of workers they hired or the level of accommodation provided. In addition, because the disabled access credit is tied to compliance with the ADA, increasing the maximum dollar amount for the incentive may not increase the level of

[49]In an April 11, 2002, hearing before the Senate Committee on Finance, the Treasury Inspector General for Tax Administration identified a fraudulent tax scheme in which promoters selling expensive, coin-operated telephone equipment with volume controls targeted elderly taxpayers to convince them that purchasing this equipment would enable the taxpayer to claim the disabled access credit.

accommodation provided, in that employers are already required by law to provide reasonable accommodations. Finally, increasing outreach, eligibility, or the maximum dollar amount allowed to be claimed for the incentives may increase their usage; however, it is not known whether the costs of such changes would be offset by improvements in the employment and accommodation of workers with disabilities.

Agency Comments and Our Response

We provided a draft of this report to the Department of Education, the Department of Justice, the Department of Labor, the Internal Revenue Service within the Department of the Treasury, the Equal Employment Opportunity Commission, and the Social Security Administration. They generally concurred with our findings.

The comments from most of the agencies were limited to technical comments and were incorporated, as appropriate, into the report. In addition to technical comments, SSA provided us with several general comments. In response to one of these comments, we included additional information about workers' eligibility for the work opportunity credit. SSA also commented that disability groups believe that the current structure of WOTC may be causing a revolving door effect in which employers hire individuals for low-pay and unskilled work and retain them only as long as the employers receive the tax credit. However, in our discussions with a wide range of disability groups, none indicated that the program created a revolving door for WOTC-eligible hires. Moreover, a recent GAO review of the credit found that employers did not appear to be dismissing employees to increase their tax credit.[50] In addition, SSA's general comments indicated that more attention should be directed at measuring the employers' awareness and understanding of the three tax incentives, the results of which could, among other things, improve outreach and education. Although further study may provide some additional information on changes to outreach that could increase the incentives' usage, existing data limitations would still preclude determining the effectiveness of these changes on the employment of people with disabilities. The full texts of SSA's and IRS's comments are included as appendices III and IV.

We are sending copies of this report to the Department of Education, the Department of Justice, the Department of Labor, the Internal Revenue

[50] GAO-01-329, 2-3.

Service within the Department of the Treasury, the Equal Employment Opportunity Commission, the Social Security Administration, appropriate congressional committees, and other interested parties. We will also make copies available to others on request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staffs have any questions concerning this report, please call me or Carol Dawn Petersen, Assistant Director, at (202) 512-7215. Staff acknowledgments are listed in appendix V.

Robert E. Robertson
Director, Education, Workforce,
and Income Security Issues

Appendix I: Scope and Methods

To obtain information on the usage of the two tax credits, we analyzed tax data from the Internal Revenue Service's (IRS) Statistics of Income Programs for 1999, the most recent year that data were available. Statistics compiled for the Statistics of Income (SOI) programs are generally based on stratified probability samples of income tax returns or other forms filed with the IRS.

The two SOI programs used were the 1999 Corporation Income Tax Returns Program and the 1999 Individual Income Tax Return Program. The Corporation program includes information on active, for-profit corporations, including information on S corporations. S corporations report items of income, deduction, loss, and credit on their corporate tax returns, but pass through such items to individual shareholders. Throughout the report, we provided information on the number and characteristics of corporations reporting the credits. However, we excluded the amount of credits associated with S corporations because these credits can be passed through to individual shareholders and reported on individual tax returns. For individual tax returns, we differentiated between individuals with and without a business affiliation, as the credits are for businesses that hire disadvantaged employees or accommodate employees or customers with disabilities. Individual taxpayers with a business affiliation are those whose individual tax returns show they had a sole proprietorship, partnership, farm, or interest in a S corporation, rental property, estate, or trust.

Because estimates from the SOI programs are based on a sample of taxpayer data, they are subject to sampling errors. These sampling errors measure the extent to which the point estimates may vary from the actual values in the population of taxpayers. Each of our estimates are surrounded by a 95-percent confidence interval, which indicates that we can be 95 percent confident that the interval surrounding the estimate includes the actual population value. In some cases, the small number of taxpayers reporting the tax credits in the SOI sample resulted in large estimate intervals.[1]

To assess existing information on the tax incentives' effectiveness as well as to identify any changes that may increase businesses' awareness of

[1]In addition to the reported sampling errors, there are other sources of error that may affect the reliability of SOI data. These nonsampling errors include taxpayer reporting errors and inconsistencies, processing errors, and the effects of any early cutoff of sampling.

future usage, we performed extensive literature, legislative history, and Internet searches and reviewed available studies. We also interviewed various groups interested in these issues using interview guides, with a standard set of questions for each group interviewed. We conducted interviews with federal agency officials in the Departments of Education, Labor, Justice, and the Treasury and in the Social Security Administration and the Equal Employment Opportunity Commission and with state agency officials from New York and California.[2] Additional interviews were conducted with selected businesses, business groups, tax preparer groups, disability organizations, and academic experts who were knowledgeable about these incentives and disability issues in general. Among those we interviewed were (1) individuals from a variety of businesses, such as large businesses in the retail and computer industries and small to medium sized businesses in the consulting and engineering service industries; (2) business groups, including the U.S. Federation of Small Businesses, the Washington Business Group on Health, and the U.S. Chamber of Commerce; (3) disability organizations, including the American Association of People with Disabilities, the American Foundation for the Blind, the Paralyzed Veterans of America, the World Institute on Disability, and the Consortium of Citizens with Disabilities; and (4) academic experts at the Law, Health Policy, and Disability Center at the University of Iowa, the Rural Institute on Disabilities at the University of Montana, the Rehabilitation Research and Training Center at the Virginia Commonwealth University, and the Department of Policy Analysis and Management at Cornell University.

[2]Among all the states, California and New York had two of the largest WOTC programs and individually accounted for the two largest allotments of administrative funds from the Department of Labor in fiscal year 2001. Together, they accounted for $3.7 million, or approximately 18.3 percent of the total administrative budget for the program.

Appendix II: Federal Employment Programs and Incentives Targeted to Workers with Disabilities

The federal government provides many programs and incentives exclusively to persons with disabilities to enable them to enter or remain in the workforce. Persons with disabilities can take advantage of more than 100 federal programs. Many of these programs, such as those providing accessible housing, transportation, and independent living services, can help those with disabilities to become or remain employed.[1] However, only a relatively small proportion of these federal programs are specifically focused on providing employment services exclusively to persons with disabilities.

The Department of Education, the Department of Labor, the Department of Health and Human Services, and the Social Security Administration (SSA) administer most of the employment programs exclusively targeted to persons with disabilities, with services delivered by numerous public and private agencies at the state and local level.[2] The Department of Education has a long standing involvement in, and numerous programs for, the rehabilitation and training of persons with disabilities. Its Vocational Rehabilitation Program is the largest federal effort for improving the employment of people with disabilities. Recently, the Department of Labor undertook two initiatives to improve the employment of persons with disabilities: (1) a series of projects under the Office of Disability Employment Policy, some of which are targeted to employers, as previously described and (2) Work Incentives Grants to give persons with disabilities better access to the one-stop centers where many of the federally funded employment and training programs are to be provided, as required by the Workforce Investment Act passed in 1998.

Other recent legislation, the Ticket to Work and Work Incentives Improvement (TWWIIA) Act of 1999 created four new federal programs for

[1]For the broad range of federal programs to assist people with disabilities, see U.S. General Accounting Office, *People with Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment*, GAO/HEHS-96-126 (Washington, D.C.: Sept. 3, 1996).

[2]Federal agencies are also joining together to create special initiatives to encourage the employment of persons with disabilities. Under the State Partnership Systems Change Initiative, the Social Security Administration and the Department of Education's Rehabilitation Services Administration funded demonstration projects in 17 states to provide innovative projects, services, and supports to increase job opportunities and to assist adults with disabilities in their efforts to enter the work force. Other federal agencies, such as the Department of Health and Human Services have joined in the support of these projects. SSA also has a Youth Continuing Disability Initiative in two states to provide early intervention and information to assist youths in making a successful transition from school to work.

persons with disabilities, as well as incentives to encourage persons with disabilities to work. Two of these programs, under the Department of Health and Human Services, are designed to provide services needed by workers with disabilities to become employed and to help those with severe impairments to maintain their employment. Two others, under SSA, are intended to build the infrastructure for the new ticket program to expand the availability of employment services for disability beneficiaries. This legislation also provides states with options for expanding medical coverage to working individuals with disabilities and adds to the work incentives available to persons who are receiving Supplemental Security Income (SSI) and Social Security Disability Insurance (DI), such as extending healthcare coverage an additional 4-1/2 years to DI recipients who have returned to work. In addition to these incentives, the government also provides a tax incentive to individuals who incur work-related accommodation expenses. The federal employment programs and incentives exclusively available to persons with disabilities are summarized in table 6.

Table 6: Federal Employment Programs and Incentives for Persons with Disabilities

Programs and incentives	Objective	Target beneficiary
Department of Education Programs		
Rehabilitation Services—Vocational Rehabilitation Grants to States	To provide grants to assist states in operating statewide comprehensive programs, as part of a statewide workforce investment system, designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities.	Individuals with disabilities.
Rehabilitation Services—Service Projects	To provide discretionary grant funds to state vocational rehabilitation agencies and public nonprofit organizations for special projects and demonstrations that promise to expand or otherwise improve services to individuals with disabilities, over and above those provided by the basic rehabilitation services administered by states.	Individuals with disabilities and individuals with "significant" disabilities as defined in the Rehabilitation Act of 1973.
Rehabilitation Services Demonstration and Training-Special Demonstration Programs	To provide financial assistance to projects and demonstrations for expanding and improving services authorized under the Rehabilitation Act of 1973, including related research and evaluation activities.	Individuals with disabilities.
Supported Employment Services for Individuals With Significant Disabilities	To provide grants to help states develop and implement collaborative programs with appropriate entities to provide supported employment services, such as intensive on-the-job training, to enable individuals with the most significant disabilities to achieve supported employment.	Individuals with significant disabilities.
Helen Keller National Center Program	To provide direct services for deaf and blind individuals to enhance their potential for employment and to live independently in their home communities.	Individuals who are deaf and blind, their families, and service providers.
Randolph-Sheppard Program	To provide blind persons with remunerative employment, enlarge their economic opportunities, and encourage their self-support through the operation of vending facilities in federal buildings.	Blind individuals.
Rehabilitation Services—American Indians with Disabilities	Provide vocational rehabilitation services to American Indians with disabilities that reside on or near federal or state reservations, to prepare them for employment.	American Indians with disabilities who reside on or near federal or state reservations.
Projects with Industry	To create and expand job and career opportunities for individuals with disabilities in the competitive labor market by partnering with private industry.	Individuals with disabilities.
Department of Labor Programs		
Employment Programs for People with Disabilities	To bring a heightened and permanent long-term focus to the goal of increasing employment of persons with disabilities, by providing leadership, development policies, and initiatives and by awarding grants that further the elimination of barriers to the training and employment of people with disabilities. (Note: See table 1 for several of the programs targeted to employers that are funded by this program.)	People with disabilities and the organizations that serve them.

Programs and incentives	Objective	Target beneficiary
Work Incentive Grants	To support the development of the one-stop system infrastructure with the objective of achieving model, seamless, and comprehensive services for people with disabilities, thereby increasing their employment, retention, earning capacity, and occupational skill attainment.	Individuals with disabilities eligible for employment and training services under the Workforce Investment Act.
Department of Health and Human Services Programs and Incentives		
Demonstration to Maintain Independence and Employment (Ticket-to-Work Demonstrations)	To support states' efforts to provide working individuals with the necessary benefits and services required for these individuals to manage the progression of their condition and remain employed. The benefits provided should be equivalent to those provided by Medicaid to the categorically needy and to workers that have physical or mental impairments that, without medical assistance, will result in a disability.	Workers with potentially severe disabilities that are (1) at least 16 but less than 65 years of age, (2) have specific physical or mental impairments identified by the state that are reasonably expected to lead to blindness or disability, and (3) are employed.
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	To support state efforts to enhance employment options for persons with disabilities by building the Medicaid infrastructure. Funding may be used to develop a Medicaid buy-in, increase availability of Personal Assistance Services, plan a demonstration to Maintain the Independence and Employment Program, or for state-to-state technical assistance.	Employed persons with disabilities between 16 and 65 years old in either of two circumstances: (1) those who meet income, asset, and resource standards established by the state and (2) those who cease to be eligible for medical assistance because of medical improvements determined at the time of a regularly scheduled disability review, but who also continue to have a severe, medically determinable impairment.
Expanded Availability of Healthcare Services for Workers with Disabilities	To enable individuals with disabilities to remain in or enter the workforce, TWWIIA allows (1) the option to states to provide Medicaid benefits to more people with disabilities, (2) extension of premium-free Medicare coverage to DI recipients who return to work, and (3) coverage protection for some Medigap policy holders.	With the passage of TWWIIA, states can offer Medicaid to (1) working individuals between 16 and 64 years of age who, except for their income and resource levels, are eligible to receive SSI and (2) employed individuals with a medically improved disability who lost Medicaid eligibility because they no longer met the SSI definition of disability.

Programs and incentives	Objective	Target beneficiary
Social Security Administration Programs and Incentives		
Social Security—Benefits Planning, Assistance, and Outreach Program	To provide grants to qualified organizations to (1) offer benefit planning and assistance to disability beneficiaries and to provide outreach to those potentially eligible for work incentive programs and (2) disseminate accurate information to beneficiaries with disabilities about incentive programs and related issues.	DI and SSI beneficiaries with disabilities and their families.
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	To provide grants to state protection and advocacy systems that provide (1) information and advice about obtaining vocational rehabilitation and employment services or (2) advocacy or other services that beneficiaries with disabilities may need to secure or regain employment.	DI and SSI beneficiaries with disabilities who want to work.
Work Incentives for Supplemental Security Income (SSI) and Social Security Disability Insurance (DI)	To encourage and enable those receiving federal disability benefits to become part of the workforce, SSA provides incentives to allow SSI and DI beneficiaries to extend their medical benefits and disability payments when returning to work and to make it easier to have benefits reinstated if work is no longer possible. TWWIIA expands upon the incentives by (1) providing tickets to SSI and DI recipients to receive training and employment assistance; (2) extending premium-free Medicare coverage for a longer time period; (3) providing temporary benefits for those who left the disability program, but are unable to continue working; and (4) not reviewing the eligibility of DI or SSI beneficiary using a ticket to work.	Individuals receiving SSI or DI benefit payments who return to work.
Department of the Treasury		
Tax deduction for Impairment-Related Work Expenses	To permit workers with disabilities to claim impairment-related work expenses (such as the cost for attendant care at work) as deductions to their gross income. These deductions, unlike other business expenses, are not limited to 2 percent of adjusted gross income.	Individuals with a disability or impairment that functionally limits their employment or substantially limits one or more major life activities.
Department of Veterans' Affairs Program		
Vocational Rehabilitation for Disabled Veterans	To provide all services and assistance necessary to enable veterans with service-connected disabilities to prepare for, obtain, or maintain suitable employment, and if work is not possible, to provide services and assistance to help the veteran achieve maximum independence in daily living.	Veterans with a service-connected disability and veterans with disabilities who have a serious employment handicap.

[a]Federal programs and initiatives that do not exclusively and directly provide employment related services to persons with disabilities have not been included. For example, not included is the Javits-Wagner-O'Day Act that requires federal agencies to give purchasing priority to the products and services of sheltered workshops for individuals who are blind or have other significant disabilities.

[b]For more information on the work incentives and the Ticket to Work Program, see Social Security Administration, Office of Employment Support, 2002 Red Book on Employment Support: A Summary Guide to Employment Support Available to People with Disabilities Under the Social Security Disability Insurance and Supplemental Security Income Programs, SSA Publication No. 64-030. (Baltimore, Md., 2002).

[c]For more information on tax adjustments, such as the medical expense deduction, that may be of particular interest for those with a disability or who care for someone who has a disability, see Department of Treasury, Internal Revenue Services, Tax Highlights for Persons with Disabilities, IRS Publication No. 907. (Washington, D.C., 2000).

Source: The Catalog of Federal Domestic Assistance Programs and federal agency Web sites and other federal information sources.

Appendix III: Comments from the Social Security Administration

SOCIAL SECURITY
The Commissioner

November 6, 2002

Mr. Robert E. Robertson
Director, Education, Workforce and
Income Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Robertson:

Thank you for the opportunity to review and comment on the draft report, "Business Tax Incentives: Incentives To Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact" (GAO-03-39). Our comments on the report are enclosed. If you have any questions, please have your staff contact Trudy Williams at (410) 965-0380.

Sincerely,

Jo Anne B. Barnhart

Enclosures: (2)

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT, "BUSINESS TAX INCENTIVES: INCENTIVES TO EMPLOY WORKERS WITH DISABILITIES RECEIVE LIMITED USE AND HAVE AN UNCERTAIN IMPACT" (GAO-03-39)

The use and effectiveness of tax incentives to hire and retain workers with disabilities is an important topic in the overall arena of providing employment opportunities for individuals with disabilities. We think it would be helpful to readers of the report if it provided a more detailed description of each of the business tax incentives and identified categories for eligible individuals for whom an employer could claim tax credits (and those who are not eligible). For instance, the Work Opportunity Tax Credit is available for Supplemental Security Income recipients, persons participating in a vocational rehabilitation program, and other disadvantaged groups (e.g., former prisoners). However, Social Security Disability Insurance beneficiaries are not an eligible category; neither are other categories of impaired persons. Identifying all eligible groups may provide the reader with a better picture of which disabled groups are included and which are not, as well as how large the pool of eligible disabled persons is relative to those who are eligible for other reasons.

SSA believes that additional attention should be directed at measuring employers' awareness and understanding of the principal tax incentives. The results of these efforts could help in conducting more effective outreach and education, documenting employers' concerns and misperceptions over the administrative burdens of qualifying for the incentives, and developing additional or modified incentives that would address the needs of employers.

The report includes the results of some interviews that indicate that the incentives are underutilized, and it makes some suggestions for improving the incentives. However, it could be strengthened by adding a discussion of the concern of the major advocacy groups for the disabled that the current structure of the Work Opportunity Tax Credit may be causing a revolving door effect in which employers hire individuals for low-pay, unskilled work and retain them only as long as they receive the tax credit. When the tax credit is no longer payable, the employee is let go and replaced with another eligible person. Not having obtained any skills, the disabled person is left to find another low-pay, unskilled job. While this is clearly anecdotal, the GAO might want to look more carefully at this concern and consider recommending a longer time horizon for the tax credit in the place of proposing a larger maximum amount for the incentive.

Technical Comments

Beginning on page 23, the report cites examples of the outreach and education efforts of Federal agencies, including use of the Internet, to provide information about tax incentives. SSA has been very active in this arena through several initiatives:

- SSA provides information to employers about tax incentives, qualifications and application procedures on its SSA Online web site and includes this

information in printed materials that are widely distributed to beneficiaries and employers.

- SSA is partnering with the Department of Labor (DOL), Office of Disability Employment Policy, on Project EARN, which offers information and support to employers who are looking to hire qualified persons with disabilities. The two agencies are also partnering on Ticket to Hire, which is a free national referral service for employers to hire qualified job candidates with disabilities from the Ticket to Work Program.

- Through the Ticket to Work Program, private sector employment service providers and public vocational rehabilitation agencies offer employers information about their eligibility for tax incentives and assistance in qualifying for these credits.

We suggest including a description of Ticket to Hire, described above, to Table 1: "Federal Employment Efforts Targeted to Employers to Hire, Retain and Accommodate Workers with Disabilities" on page 7.

Additional Comments

SSA is presently developing research projects that focus on innovative employment practices and methods for intervening with appropriate benefits and support services earlier in the disability determination process. As part of this effort, we are examining other domestic programs, such as Welfare to Work and the practices of foreign disability programs as sources of potential new economic incentives for employers which would provide better measures of their effectiveness in stimulating employment and furthering retention of workers with disabilities.

Appendix IV: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

November 26, 2002

Mr. Robert E. Robertson
Director
Education, Workforce, and Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Robertson:

I reviewed your draft report titled "Business Tax Incentives: Incentives to Employ Workers With Disabilities Receive Limited Use and Have Uncertain Impact" (GAO-03-39). I agree with your report that businesses have not made full use of the tax incentives available to them. But, as your report indicates, we have taken steps to publicize these tax incentives. Tax professionals and employers can access information on available tax credits through our website, the Digital Daily. The website provides forms and publications, answers to frequently asked questions, and information on the misuse of these credits.

I also would like to clarify a few areas. Your report is based on data for 1999. The Work Opportunity Tax Credit (WOTC) expired on June 30, 1999. From July to December 1999, the Internal Revenue Code specified that the credit was unavailable to individuals hired after June 30, 1999. Public Law Number 106-170, dated December 17, 1999, retroactively reinstated the credit. The reinstatement may have affected the total usage of the credit during 1999 and the extent to which the credit operated as a hiring incentive during that year.

I would also like to comment on two sentences in the report:

- On page 8, the description of the first tier of the credit refers to the amount as being "40 percent of the first $6,000 in wages paid…." This statement would be incorrect if an employee took more than one year to earn his or her first $6,000. You should revise the description to read "40 percent of the first $6,000 in wages paid for the first year of employment…."

- On page 22, the following sentence could be misleading: "The IRS is working on a project to enable businesses to electronically file the certification forms." The current project is a demonstration project. However, in April 2002, the IRS released Announcement 2002-44, authorizing state employment agencies to accept electronic submissions of Form 8850. Each state employment agency can accept electronic submissions at any time in accordance with the provisions of that announcement without waiting for completion of the demonstration project.

2

Several footnotes also need to be clarified:

- On page 3, footnote 7 – "allotments of WOTC funds" should be revised to clearly indicate that it refers to payments administered by the Department of Labor to states rather than tax credits to employers.

- On page 25, footnote 42 – the footnote should be replaced with the following: "The Internal Revenue Code states that small businesses can claim the disabled access credit for expenditures incurred to comply with the ADA. The statutory language appears to be clear that a small business already in compliance with the ADA would have little basis for claiming the credit."

If you have any questions, please contact me or Joseph R. Brimacombe, Deputy Director, Compliance Policy, Small Business/Self Employed Division, at (202) 283-2180.

Sincerely,

Bob Wenzel
Acting Commissioner

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

Robert E. Robertson, (202) 512-7215
Carol Dawn Petersen, (202) 512-7215

Staff Acknowledgments

In addition to those named above, the following individuals made significant contributions to this report: Jeffrey Arkin, Julie DeVault, Patrick DiBattista, Patricia Elston, Corinna Nicolaou, Robert Tomco, Education, Workforce, and Income Security Issues: Wendy Ahmed, Luanne Moy, Ed Nannenhorn, James Ungvarsky, Anne Stevens, Applied Research and Methods: Shirley Jones and Behn Miller, General Counsel; and Thomas Bloom and Samuel Scrutchins, Tax Administration and Justice Issues.

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