WORK OPPORTUNITY TAX CREDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

JULY 1, 1999

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THE WORK OPPORTUNITY TAX CREDIT

THURSDAY, JULY 1, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m., in room B–318, Rayburn House Office Building, Hon. Amo Houghton (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–7601
June 24, 1999
No. OV–9

Houghton Announces Hearing on the Work Opportunity Tax Credit

Congressman Amo Houghton (R–NY), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the work opportunity tax credit (WOTC). The hearing will take place on Thursday, July 1, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from invited witnesses only. Witnesses will include representatives from the U.S. Department of the Treasury, U.S. Department of Labor, and spokespersons for organizations knowledgeable about the operation of the WOTC. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Small Business Job Protection Act of 1996 (P.L. 104–188) established the work opportunity tax credit, section 51 of the Internal Revenue Code. The objective of the WOTC is to provide employers an incentive to hire persons from certain disadvantaged groups. (The WOTC is a successor to the targeted jobs tax credit which served a similar function before 1996.) The WOTC is scheduled to expire after June 30, 1999. The WOTC is available on an elective basis for employers who hire persons from one of eight targeted groups. The credit equals 40 percent of the first $6,000 of qualified first-year wages for a person who works more than 400 hours. The credit is 25 percent of the first $6,000 in qualified wages for a person who works 400 hours or less.

The eight targeted groups are: (1) families eligible to receive benefits under the Temporary Assistance for Needy Families Program, (2) qualified veterans, (3) qualified ex-felons, (4) high-risk youths, (5) vocational rehabilitation referrals, (6) qualified summer youth employees, (7) families receiving food stamps, and (8) persons receiving certain Supplemental Security Income benefits. The process for claiming the credit generally requires an appropriate State agency to certify that the prospective employee meets the eligibility standards for one of the targeted groups.

The current WOTC is applied as a credit against the employer's Federal income tax liability. Therefore, a non-profit or charitable employer, such as a university or hospital, receives no benefit from the credit because such employers generally are exempt from Federal income tax. However, non-profit employers may have a payroll tax liability for the employer's portion of the Social Security tax as do for-profit firms. The WOTC only applies against the regular income tax. It does not offset the alternative minimum tax (AMT), to the extent that the AMT exceeds the regular income tax.

In announcing the hearing, Chairman Houghton stated: "The work opportunity tax credit is one more way we're helping millions of families move from welfare rolls to payrolls. This tax incentive to encourage work is a key part of our plan to help even more low-income Americans escape poverty and enjoy the independence of employment and a career. I'm hopeful that the bipartisan support for this initiative will continue."

FOCUS OF THE HEARING:

The hearing will focus on the operation and effectiveness of the WOTC. The Subcommittee will review the desirability of extending the existence of the credit and ways in which it might be improved.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the *close of business*, Thursday, July 15, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS__MEANS/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested).

Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

NOTICE—CHANGE IN LOCATION

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE | CONTACT: (202) 225–7601
June 30, 1999
No. OV–9–Revised

Change in Location for Subcommittee Hearing on Thursday, July 1, 1999, on the Work Opportunity Tax Credit

Congressman Amo Houghton (R–NY), Chairman of the Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee hearing on the work opportunity tax credit scheduled for Thursday, July 1, 1999, at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building, will now be held in room B–318 of the Rayburn House Office Building.

All other details for the hearing remain the same. (See Subcommittee press release OV–9, dated June 24, 1999.)

Chairman HOUGHTON. Good morning, ladies and gentlemen. This is a small room; therefore, I have a small gavel. The hearing will come to order.

Welcome to the hearing on the Work Opportunity Tax Credit. We are delighted to have our two distinguished associates here with us this morning.

Ladies and gentlemen, a person with a meaningful job earns more than just a paycheck every week. A job helps a person develop a sense of self esteem, accomplishment, and independence. These qualities not only help people when they are at work, but also help them in leading their lives off the job as well. These qualities also help people at home with their families.

The sad truth is that a few disadvantaged people have a difficult time in obtaining the type of job that can help them develop this sense of self-esteem, accomplishment, and independence. The difficulty may stem from the employers, who perceive such people as lacking a good work ethic or costing more to train. Thus, some people may face a higher hurdle in finding a meaningful job.

The tax law seeks to address this challenge by providing employers a tax credit for hiring from eight targeted groups of disadvantaged people. The groups include welfare families, food stamp families, high-risk youth, qualified ex-felons, et cetera. For over 20 years, the tax credit has provided some type of hiring incentive for employers.

Originally, there was a general jobs tax credit, which was refined to become the targeted jobs tax credit. Today we have the Work Opportunity Tax Credit. These credit programs were marked by the fact that they were not permanent features of the tax law. Rather, they would expire and need to be extended periodically. We are at that point again. The Work Opportunity Tax Credit expired yesterday, on June 30.

So the need to extend this credit periodically may be annoying, but it also gives us an opportunity to focus on the details of how it is operating, and to examine proposals on how to improve it. This is the purpose of today's hearing. The Subcommittee would like to learn the best way to extend the Work Opportunity Tax Credit, and how to improve its effectiveness. I look forward to hearing the testimony of our witnesses.

Chairman HOUGHTON. When Mr. Coyne comes, I would love to have him make a statement. In the meantime, what I would like to do is call on our first witness, Mr. Charles Rangel. Charlie, great to have you here; it is an honor.

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. RANGEL. Mr. Chairman, it is good to call you "Mr. Chairman," no matter how brief this tenure will be. [Laughter.]

Chairman HOUGHTON. I hope you will be brief. [Laughter.]

Mr. RANGEL. I probably should. Let me thank you for your friendship over the years, Mr. Chairman, and your sensitivity to so many problems outside the scope of our Subcommittee. More specifically, it has been a great honor and pleasure to work with you on pieces of legislation that effect the lives of people.

The legislation that we have before us today, even though it is a tax credit and deals with accountants and lawyers; it really deals with the lives of people. At this point I ask unanimous consent to have my written statement to be made part of the record.

Chairman HOUGHTON. So approved.

Mr. RANGEL. Thank you. I would just like to say that the best lobbyists for this legislation are the young people that for whatever reason have impediments that cause them to be reluctant even to get involved in applying for a job.

We, as Americans, just take for granted the work experience. We don't know the fears that people have, or the fact that employers refuse to take the risk. Therefore, we find a job market out there untouched, and employers out there not being able to really find those people that, once they break in, become very, very loyal employees.

The Work Opportunity Tax Credit gives someone an opportunity to develop skills; to become loyal employees; to gain promotions, and to go on to higher learning. Once you have broken the ice and find out that you have the pride of having a job, the other disadvantages that these particular eight categories have no longer exist. You are in the market. You are competitive.

What is important, however, is that employers have something to rely on. In the legislation that you and I have co-sponsored, what we do is make it permanent so that we know from year to year that employers and businesses can depend on it. We enlarge those things that are taken in account so that training and health care could become a part. You are a co-sponsor of those things.

We also would ask you to consider enlarging the groups that will be eligible for this type of thing, as we find more and more employees being dislocated because of a lot of progress that we are making in technology. The most important thing is for you to take testimony here to see how well this program has worked; how it has been able to function without bureaucracy, and the fact that it has brought so many people that had no idea that they could so easily integrate into a work force. This program has allowed it to happen.

You have played a very, very important role in creating the climate for employers to stick with the program, notwithstanding the fact that it has expired. I hope that you and I will be successful in making it permanent, so that they don't have to worry from year-to-year whether the program will be there for them. I want to thank you for my testimony.

[The prepared statement follows:]

Statement of Hon. Charles B. Rangel, a Representative in Congress from the State of New York

I am pleased to be here today to testify before the Subcommittee on Oversight concerning the work opportunity tax credit (WOTC.) The WOTC continues to be an extremely important incentive for employers to hire workers from disadvantaged groups.

Time and time again, I hear from workers in my Congressional District and throughout the country about how the WOTC provided them with the opportunity to learn marketable job skills. These individuals have moved from the first rung of the employment ladder to positions of experience and success.

Employees hired under the WOTC are proud of what they have accomplished and the skills they have achieved. These individuals are providing for their families and, importantly, serving as role models for others in difficult situations and trying to enter the workforce.

The key to the WOTC is not the first weeks of employment but rather the long-term benefits that come from promotions, job training, and self-confidence in success. While some of the targeted teenagers would obtain jobs without the WOTC, many would not. Either way, the WOTC keeps employers focused on the "targeted" groups. It is the high-risk youth, the low-income family, and others that have traditionally had difficulty in the private sector workforce. The WOTC keeps them in the forefront of many employers' minds.

The WOTC continues to be a meaningful hiring incentive for large and mid-sized companies. For example, in fiscal year 1998, more than 285,000 individuals were certified by state agencies as WOTC-eligible employees. This is more than double the number of certified individuals in 1997. Why have these numbers increased so dramatically? Because the WOTC is a proven and effective worker training program for much of our entry level workforce. Worker growth, training, and long-term employment potential are what the targeted employee groups need and, proudly I must say, the WOTC provides these opportunities.

The continued success of the WOTC depends on a strong public-private sector partnership. Helping those most in need to find and retain jobs—and, more importantly, to gain on-the-job experience and acquire enhanced job skills—benefits our society as a whole. Without question, the WOTC has the effect of increasing America's economic growth and productivity.

The WOTC expired on June 30, 1999. I suggest that the Subcommittee consider favorably H.R. 2101 as you debate extension of the credit. I am pleased to have co-sponsored this bill with Subcommittee Chairman Houghton (along with many Members of the Ways and Means Committee on a bi-partisan basis.)

Extension of the WOTC—ideally on a permanent basis—is critical to continuing the message we have been sending employers and future WOTC workers. Hundreds of thousands of individuals have been certified under the WOTC program to date, and many more are ready to begin the process this year. We must pay attention to their needs and give them the chance to get valuable training, experience, and wages for which they can be proud.

The legislation I have cosponsored would make the WOTC a *permanent* tax credit; *expand* the wage base eligible for the WOTC to include employer costs for employee benefits such as *health insurance, educational assistance, and dependent care assistance* for purpose of measuring compensation; *merge the welfare-to-work tax credit* into the WOTC with minor modifications; and, extend the WOTC to *tax-exempt* charitable organizations.

Under the bill, eight targeted groups would be eligible for the WOTC. They are certain/qualified (1) families eligible to receive benefits under the Temporary Assistance for Needy Families ("TANF") Program; (2) families receiving food stamps; (3) ex-felons; (4) high-risk EZ/EC youths; (5) summer EZ/EC youth employees; (6) vocational rehabilitation referrals; (7) veterans; (8) and persons receiving certain Supplemental Security Income ("SSI") benefits.

Currently, a significant percentage of WOTC employees are coming from the families who have been on welfare or receive food stamps. For example, about ¾ of New York's WOTC participants are from these groups. Workers who have experienced life on welfare or food stamps are searching out opportunities to join the workforce in a productive and long-term way. The WOTC is designed to bring these potential employees into the private sector job market and give them a change to succeed. These are fathers, mothers, and kids who want to learn useful job skills, have untapped abilities, and again will prove the WOTC is a success.

The Subcommittee's hearing today will serve several very important purposes. First, the hearing will provide an opportunity for the Subcommittee to focus on the operation and effectiveness of the WOTC. The Department of Labor should be uniquely prepared to discuss why the WOTC has been critical to providing job and training opportunities to hundreds of thousands of Americans.

Second, in addition to considering H.R. 2101, the Subcommittee will be able to discuss other proposals for expanding and improving the WOTC. For example, legislation pending before the 106th Congress would add targeted categories for displaced homemakers, children aging out of foster care, high-risk youth living in renewal communities, and rural area residents.

In closing, today's hearing is a good time to hear the views of the federal government and the private sector about the benefits of the WOTC, and whether any program reforms are needed. With this in mind, I welcome representatives from the Department of the Treasury and the Department of Labor who I know strongly support the WOTC and will work for permanent (or at least multi-year) extension of the program. Also, I welcome representatives from the fast food, discount-retail clothing, tax-exempt, and low-income/minority communities to participate in this discussion.

Chairman HOUGHTON. Thanks very much. Charlie, if you want to stay, fine. If not, that is all right, too.

Mr. Coyne, would you like to make a comment?

Mr. COYNE. Yes. Mr. Chairman, I would just like to welcome Congressman Rangel, Congressman Bilirakis, and will submit my statement for the record.

[The opening statement follows:]

Opening Statement of Hon. William J. Coyne, a Representative in Congress from the State of Pennsylvania

The Work Opportunity Tax Credit (WOTC) technically expired yesterday and, as a result, needs to be extended. I have joined Chairman Houghton, as have other Subcommittee Members, as a strong supporter of H.R. 2101. Enactment of this bipartisan bill would permanently extend the WOTC and make other improvements to the program.

The WOTC has provided employers with meaningful incentives to hire workers from targeted groups. To increase its effectiveness, the bill would apply the WOTC to costs employers incur in providing employee accident and health benefits, educational assistance, and dependent care assistance. Also, the Welfare-to-Work Tax Credit would be merged into the WOTC.

The WOTC has proven to be an effective worker training program for much of our hard-to-employ workforce with the promise of long-term employment opportunities. Beneficiaries of the new WOTC include certain families receiving food stamps or temporary assistance, veterans, ex-felons, high-risk youths and summer youth employees, vocational rehabilitation referrals, and supplemental security income recipients.

The provisions of H.R. 2101 would expand the WOTC beyond current law to encourage tax-exempt charitable organizations to employ workers from the eight targeted groups. Tax-exempt organizations continue to be an untapped source of employment and training opportunities for which the WOTC should be available.

I want to thank Subcommittee Chairman Houghton for holding this hearing in advance of the full Committee's mark-up of expiring tax provisions.

Chairman HOUGHTON. Good. Are you going to have any questions for Charlie? I don't either. [Laughter.]

Thanks very much, Charlie, for agreeing to come.

Now, Mr. Bilirakis, thank you so much for being with us.

STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BILIRAKIS. Mr. Chairman, it is I who thank you. At the last moment I requested this appearance. You and your staff obliged me. I very much appreciate it.

I very much appreciate the work that you, Mr. Coyne, the Subcommittee, and Mr. Rangel and others are doing on this Work Opportunity Tax Credit. We have so many tough issues to deal with up here. Most of them are the things that really make headlines, and whatnot. But issues such as WOTC are just as significant, because, as Charles said, it touches the public out there. I have a 2-page statement that I would ask unanimous consent be made part of record.

Just very briefly—there is a group that is not covered, a part of the target group of the Work Opportunity Tax Credit, and that is the displaced homemakers of our society. A displaced homemaker can be a man, but ordinarily it is a woman. It is ordinarily a woman who has not been in the work force because she has been at home taking care of the children and doing things that are so very, very important. Then, for whatever reason—divorce, separation, abandonment, death or disability of a spouse—all of a sudden has to get out into the work force; no work background, if you will; no work experience; in many cases, no education. So how many employers are going to really take a chance on that type of a person?

You know, we go through life—I know you have experienced it, too—taking so many things for granted, and are not aware of this kind of problem. In 1982, when I ran for this office, during the forums that we go through, I was faced with this, studied it, and decided to introduce legislation in my first term. We have been trying ever since. It just seems to be very natural that they be added to the targeted group. We have checked with the Joint Committee on Taxation, and have received a response in writing from them. They agree that this group of individuals does not really qualify under the WOTC as it now stands.

There are a lot of details and statistics: They are women, principally, who make up this group; the cost that Taxation Committee has applied to it; the definition, and things of that nature. I know you can pick this up, and maybe already have picked this up from the documentation that we have submitted. That is basically our request on behalf a group of people that is falling through the cracks out there. They have no unemployment insurance. They have no health insurance. They really need this help.

[The prepared statement follows:]

Statement of Hon. Michael Bilirakis, a Representative in Congress from the State of Florida

Mr. Chairman and distinguished Members of the Subcommittee, I appreciate the opportunity to appear before you this morning to discuss the Work Opportunity Tax Credit (WOTC) program.

First, let me start out by saying that I support the reauthorization of this program. Most people want to work if given the opportunity. It adds to their dignity and self-esteem. Programs such as the Work Opportunity Tax Credit should be applauded, encouraged, and continued. The Work Opportunity Tax Credit (WOTC) is intended to combat and lessen the problem of structural unemployment among certain "hard-to-employ" individuals. The working experience provided to presently targeted groups gives them the opportunity to participate in the American economy.

However, Mr. Chairman, there is a group of individuals who are as needy as those presently covered under the WOTC program—the displaced homemakers of our society. Displaced homemakers are primarily women who have been full-time homemakers for a number of years, but who have lost their source of economic support due to divorce, separation, abandonment, or the death or disability of a spouse.

I am not talking about women whose husbands have died and left them well off, or about women who receive substantial alimony or child support payments. We're talking about poor women who have been out of the workforce and cannot find decent jobs, either because of a lack of job skills or an employer's unwillingness to hire them because they haven't worked in years or perhaps have never worked outside the home.

Mr. Chairman, these women are struggling to make ends meet without unemployment insurance, without health insurance, and without jobs.

Displaced homemakers are not only elderly women, even though prime working years are usually considered to be up to age 64. Displaced homemakers can be in their late 20s, 30s, or 40s. They may have a number of children or they may have none. However, the basic fact is that they need housing, medical care, and food to eat, all of which they would pay for if they had a job.

The statistics on displaced homemakers are shocking. The Women Work Network here in Washington, which represents local programs serving displaced homemakers nationwide, indicates that although economic recovery has improved the lives of many Americans in the last few years, displaced homemakers continue to be left behind. Studies reveal that in 1997, there were 17 million displaced homemakers in the United States. This is virtually unchanged from the 1990 figure of 17.8 million. Of these 17 million displaced homemakers, 43 percent are age 64 or younger and 57 percent are age 65 or older. In my own state of Florida, there were over half a million displaced homemakers over the age of 65 in 1997—an 11.4 percent increase since 1992.

Sadly, the studies also indicate that in 1997, 3.3 million displaced homemakers lived below the poverty threshold. In fact, approximately 83 percent of displaced homemakers earned less than $20,000 in 1997. Of that 83 percent, 59 percent earned less than $10,000.

Mr. Chairman, any woman who has succeeded in running a home, budgeting, and possibly caring for children certainly has skills that will fit very nicely into a working environment outside of the home. Displaced homemakers should be given a chance to work. That is why I believe that displaced homemakers should be included among the groups served by the WOTC program.

As you may know, for over ten years I have sponsored legislation to assist displaced homemakers by extending the WOTC program to provide a tax credit to employers who hire and train these individuals. I have reintroduced this legislation in the 106th Congress.

My bill, H.R. 81, would give employers a tax credit for hiring displaced homemakers by establishing them as a targeted group under the Work Opportunity Tax Credit (WOTC) program.

I see this approach as cost-effective. By providing prospective employers with the incentive to hire displaced homemakers, we avoid the much more costly alternative of publicly supporting these homemakers and their families.

In addition, Mr. Chairman, we enable these homemakers to maintain the pride and self-esteem that comes with holding a job and being self-sufficient. The Work Opportunity Tax Credit program needs to be expanded to create employment opportunities for our displaced homemakers. This, Mr. Chairman, is nothing less than an issue of compassion, good fiscal sense, and progressive thinking.

Mr. Chairman, I hope that the Ways and Means Committee will move forward on H.R. 81 and expand the WOTC program to include displaced homemakers as a targeted group. We have all heard the old saying, "If you give a person a fish, you feed him for a day; if you teach a person to fish, you feed him for a lifetime." I believe that targeting displaced homemakers under the WOTC program is the equivalent of teaching these women "to fish" and earn a skill that will last them a lifetime.

Thank you, Mr. Chairman, for providing me with this opportunity to testify on the Work Opportunity Tax Credit and the need for my legislation.

Chairman HOUGHTON. Well, thank you very much.

Do you have a question? Mike, I have a couple of questions.

First of all, how many people do you think would fall into this displaced category.

Mr. BILIRAKIS. Well, the information that we have received from studies in 1997 is that there were 17 million displaced homemakers falling within the definition of a displaced homemaker. This is really a figure that is virtually unchanged from the 1990 figure of 17.8 million. So approximately, it is the same over the period of 7 years.

Of these 17 million, 43 percent are aged 64, or younger, and 57 percent are aged 65, or older. Many of them that live near the poverty level are younger than 35 and have children. Those are the people that really need help, even more so, I think, than someone much older.

Chairman HOUGHTON. The second question, really, is in terms of the money. Do you have any idea what this will cost?

Mr. BILIRAKIS. Yes, we do. We do from the standpoint of what we received from the Joint Committee on Taxation. They have estimated a first-year cost of $22 million. Over 5 years it would be $264 million.

Again, we have that old situation that we are faced with with CBO where they have the statistical figure, and don't take into consideration the money that would come into the coffer as a result of these people working, and, of course, the money that they would not have to use in terms of welfare—if you will—and all of the other costs. The gross costs are $22 million in the first year and $264 million over 5 years.

Chairman HOUGHTON. OK. Mike, when we were talking, you mentioned the fact that you wanted to revive this concept. What happened to it along the way?

Mr. BILIRAKIS. Well, we just kept hitting our heads against a stone wall. When it was the Republican administration, they would testify against it because of the cost. Frankly, we just sort of got off onto other things. We continued to introduce the legislation. When found out about this hearing, the red flag went up. We decided that maybe it is a good opportunity to reinstate it.

Chairman HOUGHTON. I don't have any other questions. Thank you very much for coming. I am delighted that we could fit you in here.

Mr. BILIRAKIS. Thank you, Mr. Chairman. Again, I appreciate your consideration.

Chairman HOUGHTON. OK, great. Thank you.

Now, we will have the first panel: Mr. Burman, who is the Deputy Assistant Secretary for Tax Analysis in the Treasury; John Beverly, who is the Director of U.S. Employment and Service, Employment and Training, in the Department of Labor. If you two gentlemen will come up, I would appreciate it.

Good morning. Glad to have you here.

Mr. Burman, would you like to give your testimony?

STATEMENT OF LEONARD BURMAN, DEPUTY ASSISTANT SECRETARY OF TAX ANALYSIS, U.S. DEPARTMENT OF TREASURY

Mr. BURMAN. Yes, thank you. Mr. Chairman and Distinguished Ranking Member, I am pleased to present the views of the Treasury Department today on the Work Opportunity Tax Credit.

Mr. Chairman, we appreciate your leadership in enacting this credit, and your efforts to extend the credit and strengthen its operation and effectiveness. The Work Opportunity and Welfare-to-Work tax credits provide an incentive for employers to hire workers who would otherwise have a hard time finding work and attaining self-sufficiency, including those who are trying to make the difficult transition from welfare to work.

Employers are using these new incentives. The Labor Department reports that between Fiscal Year 1997 and Fiscal Year 1998, the number of certifications for Work Opportunity Tax Credits has more than doubled. The Administration strongly supports efforts to extend and improve these credits. Our Fiscal Year 2000 budget would extend, for 1 year, both the Work Opportunity Tax Credit and the Welfare-to-Work tax credit. We would generally support a longer-term extension of both credits, if done in a fiscally responsible way, because it would allow businesses to make future hiring plans knowing that the tax incentives would be available. We look forward to working with the Subcommittee on the simplification of the Work Opportunity Tax Credit and the Welfare-to-Work tax credit in the context of a multi-year extension.

The employment of economically disadvantaged and disabled workers is one of the Administration's most pressing concerns. The Work Opportunity Tax Credit provides an incentive for employers to hire individuals who have traditionally had difficulty obtaining employment and remaining in the work force. The Welfare-to-Work credit provides targeted employment incentives that will support the goals of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, and the Welfare-to-Work Program created in the 1997 Balanced Budget Act, by helping long-term welfare recipients make the difficult transition to work and succeed in the work force. The experience encouraged by those credits is intended to promote job skills.

Both tax credits, as you know, expired yesterday. The Administration's budget would extend them for 1 year so that they would apply to employees who began work before July 1, 2000. Extension of both provisions is a very high priority of the Administration.

It is important to ensure that the provisions work as they were intended. Under current law, one problem is that the benefits under the Work Opportunity Tax Credit and the Welfare-to-Work credit are not properly coordinated with respect to an individual if his first year of employment does not coincide with the employer's taxable year. The fiscal year 2000 budget proposed a technical modification that would rectify this problem.

We are also taking steps to clarify the operation of the Work Opportunity Tax Credit and the Welfare-to-Work credit where an individual in the process of moving from welfare to work is employed by more than one employer. The typical case is where a non-profit organization hires a former welfare recipient to participate in a transition to work training program to prepare the individual for employment with a for-profit business. The Treasury and the IRS are about to issue a notice that will clarify that the for-profit employer who hires the former welfare recipient from the transition to work program is eligible for the full Work Opportunity Tax Credit or Welfare-to-Work credit, if the individual satisfies the statutory requirements for qualification, even though the individual is not hired by the for-profit employer directly from the welfare rolls. We believe that the forthcoming notice will preserve the important role that non-profit organizations play as a bridge between welfare and employment by for-profit businesses.

H.R. 2101 would make the Work Opportunity Tax Credit permanent, consolidate the Work Opportunity Tax Credit and Welfare-to-Work credit, and allow the credits to be claimed by tax-exempt organizations. We share the goals underlying these proposals, but have concerns about some of the specific details. Because we are concerned about the efficient use of Government revenues, and the need to find a revenue offset, we believe that priority should be given to an extension of the credits and the Administration's proposed clarification, and the coordination between the two credits. However, we recognize the need for a continuing employment incentive, and more certainty for businesses when making hiring plans. Therefore, the Administration would support an extension of the credits that is longer than 1 year, provided that appropriate revenue offsets could be found.

We also want tax-exempt employers to continue to serve as a bridge between welfare and productive employment in the for-profit sector. For example, the forthcoming notice will help by ensuring that an individual who participates in a transition-to-work program with a tax-exempt entity will not lose eligibility under the Work Opportunity Tax Credit or Welfare-to-Work credit. We recognize and support the vital role that tax-exempt organizations play in providing employment opportunities. But we don't believe that tax incentives are the appropriate subsidy mechanism for those who are tax-exempt, for several reasons.

H.R. 2101 would allow tax-exempt entities to claim work opportunity and Welfare-to-Work tax credits against their FICA tax liability. This would be an unprecedented new role for the payroll tax system. The payroll tax system must remain devoted to its vital core mission of financing Social Security and Medicare.

Moreover, we have serious concerns about allowing an income tax credit for entities that have been exempted by statute from income tax. That result would surely seem unfair to an ordinarily taxable business that cannot use tax credits because they are unprofitable, and thus have insufficient tax liability against which to claim the credits. Moreover, administering the proposal would be difficult because the payroll tax system and the income tax system are administered separately.

We would be pleased to work with you on simplification of the two credits. In doing that, we want to ensure that consolidation of the credits to streamline their operation does not sacrifice the special features aimed at helping long-term welfare recipients to successfully re-enter the work force.

In conclusion, Mr. Chairman, the Administration strongly supports an extension of the Work Opportunity Tax Credit and the Welfare-to-Work tax credit. We believe these credits improve job opportunities for economically disadvantaged and disabled individuals and help the ease the difficult transition from welfare to work. Although extension of the credits and technical modifications to improve their coordination is our highest priority, we would be happy to work with you and other Members of this Subcommittee on modifications that will simplify the credits in the context of a fiscally responsible, multiyear extension.

I would be happy to answer any questions.

[The prepared statement follows:]

Statement of Leonard Burman, Deputy Assistant Secretary of Tax Analysis, U.S. Department of the Treasury

Mr. Chairman and distinguished Members of the Subcommittee, I am pleased to present the views of the Treasury Department today on the work opportunity tax credit. Mr. Chairman, we appreciate your leadership in enacting this credit and your efforts to extend the credit and strengthen its operation and effectiveness. The work opportunity and the welfare-to-work tax credits provide an incentive for employers to hire workers who would otherwise have a hard time finding work and attaining economic self sufficiency, including those who are trying to make the difficult transition from welfare to work. Employers are using these new incentives, as the Labor Department will report. Between FY 1997 and 1998, the number of certifications for work opportunity tax credits has more than doubled.

The Administration is strongly supportive of efforts to extend and improve these credits. Our FY 2000 budget would extend for one year both the work opportunity tax credit and the welfare-to-work tax credit. We would generally support a longer-term extension of the work opportunity tax credit and welfare-to-work tax credit, if done in a fiscally responsible way, because it would allow businesses to make future hiring plans knowing that the tax incentives would be available.

We look forward to working with the Subcommittee on the simplification of the work opportunity tax credit and the welfare-to-work tax credit in the context of a multi-year extension.

BACKGROUND

The work opportunity tax credit was enacted by the Small Business Job Protection Act of 1996 as a replacement for the targeted jobs tax credit, which had expired on December 31, 1994. The work opportunity tax credit is intended to provide an incentive for employers to hire certain economically disadvantaged and disabled individuals, many of whom lack job skills. As originally enacted, the work opportunity tax credit was effective for wages paid or incurred to a qualified employee who began work for the employer after September 30, 1996 and before October 1, 1997. The credit was subsequently extended nine months (to July 1, 1998) by the Taxpayer Relief Act of 1997, and one year (to July 1, 1999) by the Tax and Trade Relief Extension Act of 1998.

The welfare-to-work tax credit was enacted by the Taxpayer Relief Act of 1997 in order to help move individuals from welfare to work. This credit is intended to encourage employers to hire long-term welfare recipients who may face the greatest challenges making the transition to employment, and to promote retention by providing a larger credit for the second year of employment. It also is intended to encourage employers to offer benefits, such as educational assistance, health plan coverage and dependent care that will help these workers succeed on the job. The originally enacted welfare-to-work tax credit was effective for wages paid or incurred to a qualified individual who began work for an employer on or after January 1, 1998, and before May 1, 1999. The Tax and Trade Relief Extension Act of 1998 extended the credit for two months (to July 1, 1999).

The work opportunity tax credit and the welfare-to-work tax credit are jointly administered by the Treasury Department through the Internal Revenue Service (IRS) and the Department of Labor through its Employment Service. The IRS is responsible for tax-related aspects of the program and the Employment Service, through the network of State Employment Security Agencies, is responsible for documenting worker eligibility.

CURRENT LAW

Work Opportunity Tax Credit

The work opportunity tax credit encourages employers to hire individuals who are members of certain targeted groups. The credit equals a percentage of qualified wages paid during the first year of the individual's employment with the employer. The credit rate depends on the length of employment. An employer can claim a 25 percent credit for employment of at least 120 hours but less than 400 hours; the credit rate is 40 percent for employment of 400 or more hours. Up to $6,000 of wages may qualify for the credit. Thus, the maximum credit is $2,400 per eligible employee. The credit is scheduled to expire with respect to employees who begin work after June 30, 1999.

Eligible employees must be a member of one of the following targeted groups: (1) families receiving assistance under Title IV-A of the Social Security Act (The Temporary Assistance for Needy Families Program (TANF)); (2) qualified veterans; (3) qualified ex-felons; (4) high-risk youth; (5) vocational rehabilitation referrals; (6) qualified summer youth employees; (7) certain families receiving food stamps; and (8) qualified supplemental security income (SSI) recipients. Qualified wages generally include cash wages paid to an eligible employee.

To claim a credit for an employee, an employer must receive a written certification that the employee is a member of a targeted group. State employment security agencies are generally responsible for providing those certifications. The employer must have received the certification on or before the day on which the individual begins work for the employer, or must have completed a "pre-screening" notice with respect to the employee (containing the information that led the employer to believe the individual is a member of a targeted group) on or before the day the individual is offered employment with the employer and submitted such notice as part of a written request for certification not later than 21 days after the individual begins work for the employer.

Welfare-to-Work Tax Credit

The welfare-to-work tax credit enables employers to claim a tax credit for eligible wages paid to certain long-term family assistance recipients. The credit is 35 percent of the first $10,000 of qualified wages in the first year of employment and 50 percent of the first $10,000 of qualified wages in the second year of employment. Thus, the maximum credit for two years is $8,500 per eligible employee. The employee must work for the employer for at least 180 days or 400 hours. The credit is scheduled to expire with respect to individuals who begin work after June 30, 1999.

Qualified wages include cash wages paid to the employee plus amounts paid by the employer for the following: (1) educational assistance excludable under a section 127 program; (2) health plan coverage for an employee (subject to certain limits), and (3) dependent care assistance excludable under section 129.

DISCUSSION

The employment of economically disadvantaged and disabled workers is one of the Administration's most pressing concerns. The work opportunity tax credit provides an incentive for employers to hire individuals who have traditionally had difficulty obtaining employment and remaining in the work force. The welfare-to-work credit provides targeted employment incentives that will support the goals of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the Welfare-to-Work program created in the 1997 Balanced Budget Act by helping long-term welfare recipients make the transition to work and succeed in the workforce. The work experience encouraged by those credits is intended to promote job skills. Extension of both provisions is a high priority of this Administration.

In the FY 2000 budget, the Administration proposed a one-year extension of the work opportunity tax credit, so that the credit would apply with respect to employees who begin work before July 1, 2000. An extended credit would continue to serve as an inducement for employers to hire these hard-to-employ individuals and to help them develop valuable job skills. The revenue cost of a one-year extension of the work opportunity tax credit is estimated to be $415 million for FY 2000–2004.

The Administration also proposed a one-year extension of the welfare-to-work credit, so that the credit would be effective for individuals who begin work before July 1, 2000. Extending this credit would continue to encourage employers to hire long-term welfare recipients, and to invest in training, health care and dependent care benefits, and to encourage long-term employment. The revenue cost of a one-year extension of the welfare-to-work tax credit is estimated to be $87 million for FY 2000–2004.

It is important to ensure that the provisions work as they were intended. Under current law, one problem is that the benefits under the work opportunity tax credit and the welfare-to-work tax credit are not properly coordinated with respect to an individual whose first year of employment does not coincide with the employer's taxable year. To rectify this problem, we proposed a technical modification in the FY 2000 budget that would eliminate any unintended effects.

We are also taking steps to clarify the operation of the work opportunity tax credit and the welfare-to-work tax credit where an individual, in the process of moving from welfare to work, is employed by more than one employer. The typical case is where a nonprofit organization hires a former welfare recipient to participate in a transition-to-work training program to prepare the individual for employment with a for-profit business. Treasury and the IRS are about to issue a notice that will clarify that the for-profit employer who hires the former welfare recipient from the transition-to-work program is eligible for the full work opportunity tax credit or welfare-to-work tax credit if the individual satisfies the statutory requirements for qualification, even though the individual was not hired by the for-profit employer directly from the welfare rolls. We believe that the forthcoming notice will preserve the important role that nonprofit organizations play as a bridge between welfare and employment by for-profit businesses.

H.R. 2101 would (1) make the work opportunity tax credit permanent; (2) consolidate the work opportunity credit and the welfare-to-work credit; and (3) allow the credits to be claimed by tax-exempt organizations. We share the goals underlying many of these proposals, but have concerns about some of the specific proposals.

Because we are concerned about the efficient use of government revenues and the need to find revenue offsets, we believe that priority should be given to an extension of the credits and to the Administration's proposed clarification in the coordination of the work opportunity tax credit and the welfare-to-work tax credit. However, we recognize the need for a continuing employment incentive and more certainty for businesses when making hiring plans. Therefore, the Administration would support an extension of these credits that is longer than one year, provided that appropriate revenue offsets could be found.

We also want tax-exempt employers to continue to serve as a bridge between welfare and productive employment in the for-profit sector. For example, our proposed notice will clarify that an individual who is participating in a transition-to-work program with a tax-exempt entity will not lose eligibility under the work opportunity tax credit and welfare-to-work tax credit.

We would oppose, however, allowing a tax-exempt entity to claim these credits against its FICA tax liability. This unprecedented new role for the payroll tax system would allow it to be used as a backdoor mechanism for providing income tax credits. The payroll tax system must remain devoted to its vital core mission of financing Social Security and Medicare. Moreover, we object to allowing an income tax credit to entities that have been exempted by statute from income tax liability. Such a policy would mean that certain tax-exempt entities would effectively have a negative tax liability under the income tax—that is, the income tax system would serve solely as a means of providing subsidies. That result would surely seem unfair to ordinarily taxable businesses that cannot use tax credits because they are unprofitable and thus have insufficient tax liability against which to claim the credits. Moreover, administering the proposal would be difficult because the payroll tax system and the income tax system are administered separately.

We would be pleased to work with you on simplification of the work opportunity tax credit and the welfare-to-work tax credit. In doing that, we would want to ensure that consolidation of the credits to streamline their operation does not sacrifice the special features aimed at helping long-term welfare recipients successfully reenter the work force.

CONCLUSION

In conclusion, Mr. Chairman, the Administration strongly supports an extension of the work opportunity tax credit and the welfare-to-work tax credit. We believe that these credits improve job opportunities for economically disadvantaged and disabled individuals, and help to ease the transition from welfare to work for long-term welfare recipients. Although extension of the credits and technical modifications to improve their coordination is our highest priority, we would be happy to work with you and other Members of this Subcommittee on modifications that will simplify the credits in the context of a fiscally responsible multi-year extension.

This concludes my prepared remarks. I would be pleased to respond to your questions.

Chairman HOUGHTON. Thank you very much.

Mr. Beverly.

STATEMENT OF JOHN R. BEVERLY, III, DIRECTOR, U.S. EMPLOYMENT SERVICE, U.S. DEPARTMENT OF LABOR

Mr. BEVERLY. Thank you, Mr. Chairman. Good morning to you and the distinguished Members of the Subcommittee. I am pleased to have the opportunity to testify before you today on the Work Opportunity Tax Credit and Welfare-to-Work credit. I would like to summarize the key points of my prepared statement, if I may.

Employment tax credits are an important element of the Administration's Welfare-to-Work strategy and efforts to assist the hard-to-employ. Employment tax credits benefit disadvantaged job seekers by making them more attractive job candidates. They benefit employers by compensating them for some of the risk and additional costs associated with employing persons who may not have extensive job histories, and who may need some assistance in becoming fully productive once employed.

Tax credits can be a win-win situation, therefore, for all concerned, if they operate in a way that is consistent with policies that guard against abuse. In this regard, both tax credits seem to address many of the concerns associated with the targeted jobs tax credit.

As you may know, part of the problem the tax credit was concerned about is when the determination of eligibility was made. With the Welfare-to-Work and Work Opportunity Tax Credit, an employer's judgment about the eligibility of the hire is made on or before the date of hire. Compared to the TJTC these tax credit programs have stringent eligibility standards which, I believe, focus them on the right benefits for job seekers.

Thus, the change from the TJTC to the current employment tax credits generally appears to be positive. We expect that our policy framework for these programs continues to provide the protection against the re-emergence of past problems.

The number of Work Opportunity Tax Credit and Welfare-to-Work credit certifications has been significant, and provides an indication of the number of job seekers whose employment may have been influenced by these tax credits. For the most recent full year for which data is available, the total number of Welfare-to-Work and work opportunity certifications issued was 336,000; 290,000 for WOTC and 46,000 for Welfare-to-Work. Two-hundred-sixteen-thousand WOTC and WTW certifications were issued during the first half of fiscal year 1999—again, 166,000 for WOTC and 50,000 for WTW.

On an annual basis, if the current certification filings and the certification rate remains constant, we will approach certification levels that were similar to those during the early- to mid-1990's, when between 400,000 and 500,000 targeted job tax credit certifications were issued each year.

Employers and employees find value in the tax credits. One large national employer who has used these tax credits, has used them to develop a jobs-plus training program for individuals that were hired using these tax credits. They have made a special effort in this connection to use the program as a resource in hiring persons with disabilities. Another large employer hires about 300 individuals per year as a result of these tax credits, and uses the tax credits to hire individuals who otherwise would not have been hired. One such individual's performance was so outstanding, he has been promoted and is training to become a manager.

The WOTC is benefiting many other individuals seeking to move from Welfare-to-Work. Of the total certifications issued in the first half of fiscal year 1999, 55 percent were issued based on the employee being an eligible TANF recipient.

The second most common target group is food stamp recipient, who comprise 21 percent of the certifications in the first half of fiscal year 1999. The Welfare-to-Work credit complements the Welfare-to-Work Program enacted by the Balanced Budget Act, which is administered by the Department of Labor. It provides a targeted incentive to employers to hire, retain, and invest in long-term recipients, many of whom face great challenges in getting and holding a job.

Current certification activity reflects a significant work load, whose administration, we believe, has been improving over time. Most States currently provide certification decisions within the timeframes anticipated by our guidelines. States that do not respond in a reasonable time to certification requests are in the minority. A major cause of these delays concerns difficultly in some States in developing and maintaining mechanisms that are effective in providing job service agencies with eligibility information in a timely way. We hope to work with these agencies in making sure that information moves from those who have eligibility information to the certifying agency in a timely way. We hope to make progress in this connection by executing Memoranda of Understanding with HHS, Agriculture and Treasury to assure that this information moves in a timely way.

We also want to make sure that greater efforts are made to mine the information that is available in these agencies that is relevant to certification. We also want to make broader use of conditional certification as means of expediting certification. We also intend to step up our efforts to assure that small employers participate in the program. We want to make sure that youth, especially, have an opportunity to benefit from the credit. As you may know, getting eligible youth into employment and on the right track to producing careers is a high priority for Secretary Herman.

Employer participation can translate into jobs for targeted job seekers. We believe that this participation is, in fact, influenced by employers' perception of the program's continuity. When a hiatus in authorization occurs, employer confidence in the program erodes. Some employers may not continue to use the program. This may be especially true for small employers.

The WOTC and WTW tax credits, as you know, expired yesterday. In the Administration's fiscal year 2000 budget we have suggested an extension for 1 year. However, in light of the problems created by these retroactive extensions of credits, an extension of the credits for a longer period of time may be desirable.

We are committed to continually improving the certification process, and plan to conduct a process study to help us examine where the strengths and weaknesses are, and improve the current process.

Mr. Chairman, this concludes my summary of my prepared statement. I would be pleased to answer any questions that you or Members of the Subcommittee may have.

[The prepared statement follows:]

Statement of John R. Beverly, III, Director, U.S. Employment Service, U.S. Department of Labor

Good morning, Mr. Chairman and Members of the Subcommittee. I am pleased to have the opportunity to testify before you on the Work Opportunity and Welfare-to-Work Tax Credit (WOTC and WtW) programs.

Employment tax credits are an important element of the Administration's welfare-to-work strategy and efforts to assist the hard-to-employ. Employment tax credits benefit disadvantaged job-seekers by making them more attractive job candidates, and they benefit employers by compensating them for some of the risk and additional costs involved in employing job-seekers who may not have extensive work histories, or who may require some assistance on the job to become fully productive. Employment tax credits can be a "win-win" situation for all concerned if they operate consistent with policies that guard against abuses.

The WOTC and the WtW tax credits address many of the concerns about abuse that were associated with the Targeted Jobs Tax Credit (TJTC) program. For both the WOTC and the WtW tax credits, the requirement that the employer submit a pre-screening notification on or before the date of hire, indicating that the employer believes an individual is eligible, appears to appropriately focus employers' efforts to determine eligibility before the hiring decision is made. Under TJTC, a significant concern was that the employers would conduct a post-hire examination of the workforce to determine eligibility for the credit, thus undermining the effectiveness of the credit as a hiring incentive. Compared to the TJTC, the reduction in the number of eligible target groups and tighter eligibility standards has also focused the WOTC on job-seekers who are most likely to benefit from an additional job-finding advantage.

Thus, the change from the TJTC to the current employment tax credit programs generally appears to be positive. We expect that our policy framework for these programs continues to provide protection against a re-emergence of past problems.

The number of WOTC and WtW certifications has been significant, and provides some indication of the number of job-seekers whose employment may have been influenced by these tax credit programs. From October 1, 1997 through September 1998, the total number of WOTC and WtW certifications issued by the Department of Labor was 336,000—290,000 and 46,000 for WOTC and WtW, respectively. This shows considerable growth in the use of WOTC, compared to WOTC's first year (FY 1997, beginning October 1, 1996), when about 126,000 WOTC certifications were issued. The WtW tax credit was implemented January 1998, and the 46,000 certifications issued represent only 9 months usage.

The total number of employer WOTC and WtW certifications issued for the first half of Fiscal Year 1999 (through March 1999) was 216,000—166,000 for WOTC and 50,000 for WtW. On an annual basis, if current certification filings and the certification rate remain constant, we will approach certification levels similar to those during the early- to mid-1990s when between 400,000–500,000 TJTC certifications were issued each year .

In summary, since these tax credits programs were enacted, they have been a factor in the employment of more than 600,000 job seekers. We anticipate that the cumulative total certifications issued will reach 1 million by the end of this fiscal year.

Employers and employees find value in these tax credits. For example, one national company has used these tax credits to develop a "Jobs Plus" training program for individuals hired through the tax credits. The company has hired approximately 1,000 individuals per year for the last three years utilizing the WOTC tax credit program. It has made a special effort to use the program as a resource in hiring persons with disabilities. One such person was hired in the adminstrative office, received the highest rating possible during his annual employee review, and was recently promoted.

Another national chain hires approximately 300 individuals per year as a result of the WOTC & WtW tax credits and indicates that it uses the tax credit to hire individuals that it would not otherwise consider for employment. One such individual's performance was so outstanding that he has been promoted and is training to become a manager.

The WOTC is benefiting individuals seeking to move from welfare-to-work. Of the total certifications issued in the first half of FY 1999, 92,741, or 55 percent, were issued based on the employee being an eligible TANF recipient. The second most common target group is Food Stamp recipients, which comprised 34,473, or 21 percent of FY 1999 certifications.

The Welfare-to-Work tax credit complements the Welfare-to-Work program enacted in the Balanced Budget Act and administered by the Department of Labor. It provides a targeted incentive to employers to hire, retain, and invest in long-term welfare recipients who may face the greatest challenges in both getting and keeping a job. It also allows employer-provided benefits to count towards wages for purposes of the credit, and provides higher credit amounts than the WOTC, including a credit for the second year of employment, in recognition of the special challenges faced by this target group.

The certification data reflect a significant workload whose administration, we believe, has been improving over time. Most States currently provide certification decisions within the time-frames anticipated by our processing guidelines. States that do not respond in a reasonable time to certification requests are in the minority.

A major cause of processing delays concerns the difficulty some States have in developing and maintaining mechanisms that are effective in providing Job Service agencies with eligibility information in a timely way. Some information required to establish eligibility is sensitive, and state agencies rightfully impose safeguards to protect the security of this information. Sometimes this can impede the kind of high volume exchange of information needed to produce timely certification results.

We hope to make significant progress in correcting this problem through a Memorandum of Understanding among the Departments of Health and Human Services, Agriculture and Treasury that encourages a timely and efficient exchange of certification information, greater efforts to locate information that establishes eligibility in connection with a given information request, and which also encourages broader use of conditional certifications as a means of expediting certification. Also, the Employment and Training Administration will step up its technical assistance to States that are having certification delays. We hope to apply the experience of other states and may provide additional funds on a one-time basis, if required, to resolve specific problems.

We also intend to step up our efforts to increase the participation of small employers in these tax credit programs. A significant expansion in the number of job-seekers who benefit from these programs may depend, in large part, on increasing small business participation. In this connection we continue to look for ways to streamline the certification process without compromising its integrity.

Similarly, we hope to find ways to increase the number of certifications issued in connection with the employment of eligible youth. Getting eligible youth into employment and on the right track to productive careers is a high priority of Secretary Herman. We believe that the tax credit programs are underutilized resources in this regard.

We also believe that employer participation is also influenced by their perception of the program's continuity. When a hiatus in authorization occurs, employer confidence in the program erodes, and some employers may not continue to use the program following reauthorization. This is likely to be true especially for small employers.

The WOTC and WtW tax credits expired yesterday, June 30. In its FY 2000 Budget Request, the Administration proposed that the WOTC and WtW tax credits be extended for one year. However, in light of the problems created by short-term, retroactive extensions of the credits, an extension of the credits for a longer period may be desirable to promote stability and continuity, provided appropriate revenue offsets could be found.

The Employment and Training Administration plans to conduct a process study to examine the strengths and weaknesses of the current certification process. However, a rigorous program evaluation sufficient to answer important questions about the impacts of the program would require a substantial investment of resources and also poses significant evaluation design challenges.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or other Members of the Subcommittee may have.

Chairman HOUGHTON. Well, thanks, Mr. Beverly, very much.

We have a vote here. I think we ought to be able to ask the questions and finish up with this panel. Then, if the rest of you would not object, we are going to go vote and then come right back. It should not be more than 10 minutes.

Mr. Coyne, do you have any questions?

Mr. COYNE. Thank you, Mr. Chairman.

Do each of your departments support merging WOTC and WTW tax credits?

Mr. BURMAN. We definitely support simplifying the program.

Mr. COYNE. Do you support merging them?

Mr. BURMAN. We have concerns about that particular proposal. I think we would like to work with you to see if there is a way to merge the two credits and still preserve the special characteristics of the Welfare-to-Work tax credit.

We have two concerns. One is that the credit rate for Welfare-to-Work would be reduced. We would also like the Welfare-to-Work credit to be confined to employees who have long-term jobs, not jobs between 120 hours and 400 hours. One-hundred-twenty hours is just 3 weeks of full-time employment. We are also concerned about keeping Welfare-to-Work credit particularly targeted at long-term welfare recipients.

But we like the idea of combining these together and making it simpler for employers.

Mr. BEVERLY. I share Mr. Burman's view that streamlining the program is something we want to focus on and achieve. As you may know, currently the certification process for both programs is the same. We would like to examine further streamlining proposals.

Mr. COYNE. Relative to expanding the Work Opportunity Tax Credit to tax-exempt organizations, if the problem is with allowing the Work Opportunity Tax Credit as payroll tax offset, what hiring incentive does Treasury suggest be used for charities?

Mr. BURMAN. We recognize that tax-exempt organizations play a vital role. We would like to support that role. There is, currently, authority under the TANF Program to provide assistance to nonprofit organizations to assist in Welfare-to-Work transitions. There are other examples of direct-spending programs that provide assistance. The Work-Study Program provides hiring incentives for college students. They could be hired by Government agencies, non-profits, and so on. The real concern we have is about using the tax system as a way of subsidizing tax-exempt entities.

Mr. COYNE. A number of employers have indicated that while the program is working well in most States, there are significant processing backlogs in about 8 to 10 States. What are those problems?

Mr. BEVERLY. Perhaps I can answer that question, since the Department of Labor is responsible for the certification process. As I have indicated, those problems, by and large, stem from the need to get information that is relevant to eligibility from those agencies that have them, such as welfare offices in the HHS network, and offices that are issuing food stamps, to the employment service that is certifying agency for both tax credits. That movement of information, sometimes, has been slow. States have been trying to work out arrangements for computerized exchange of information. Sometimes while those arrangements are being worked out, backlogs develop. It does seem to be the information flow issue that is responsible, by and large, for the problems that we have in those States you referred to.

Mr. COYNE. Would you support the idea of allowing employers to pursue eligibility information independently from State job services if the job services have failed to make an eligibility determination after a reasonable period of time?

Mr. BEVERLY. Currently employers—at least some employers—do cooperate with the job service in getting together information that is relevant to certification. We certainly support that cooperation and hope it continues and grows. However, we would like to see that support of the job service develop in such a way that we ensure that the job service's responsibility to be accountable for certification decisions is maintained.

Mr. COYNE. Thank you.

Chairman HOUGHTON. OK, good. Mr. Hulshof.

Mr. HULSHOF. Very quickly, Mr. Burman, in your written testimony you say the Administration would support an extension of the credits for longer than a year. But I take it that you would not agree with a permanent extension, is that true?

Mr. BURMAN. The concern we have about permanent extension right now is that the program is relatively new. It might be premature to make a permanent commitment. We think a longer-term extension is a good idea.

Mr. HULSHOF. Following up on Mr. Coyne's questions, I recognize the policy perspective regarding allowing tax-exempt entities to claim credits. As you have indicated on page 4 of your testimony, the Administration believes this would be a back-door mechanism providing income tax credits. Is that right?

Mr. BURMAN. Yes.

Mr. HULSHOF. But the question Mr. Coyne asked you was, does the Administration have any ideas or new incentives? I think what I heard from your answer was there is sufficient incentives that are already in law with TANF. Is that the position of the Administration: no new incentives are needed for the tax-exempts?

Mr. BURMAN. I am focusing on the tax policy issues. We would be willing to talk to the committee about other alternatives. But our view from a tax policy perspective is that they should be along the lines of the TANF Block Grant Program, which already exists—a direct program to target the special needs of tax-exempt entities.

Mr. HULSHOF. So the Administration would respond to whatever suggestions that the committee would have, but the Administration does not have any suggestions at this time. Is that a fair assessment of the statement you just made?

Mr. BURMAN. That is my view. It is possible there are programs in other agencies I don't know about.

Mr. HULSHOF. Fair enough. Thank you, sir.

Chairman HOUGHTON. Do have a question? OK, go ahead.

Mr. WELLER. Thank you, Mr. Chairman. I realize we are a little short on time.

I am proud to say Illinois is one of the States where the program is working well. The information that I have is that while it is working well in a number of States, several States have significant processing of backlogs. What do you see as the problems? Have we identified the problems as to why there are these processing backlogs?

Mr. BEVERLY. Again, we believe these processing backlogs are attributable to the need to find more efficient ways to exchange information between those agencies that have that information relevant to certification and the job service.

As you may know, some States, including Illinois, I believe, have used computer processing as a mechanism to do that. We hope to reinforce those efforts through appropriate Memoranda of Understanding with the Department of Health and Human Services, Agriculture and Treasury to reinforce the message that it is very important.

Chairman HOUGHTON. I need to cut this thing off. Why don't we come back and finish this? Is that all right?

The Committee will be in recess. We only have about 3½ minutes to vote. We will be right back.

[Recess.]

Chairman HOUGHTON. OK, can we begin? Thanks very much.

Mr. Weller.

Mr. WELLER. Thanks, Mr. Chairman. Mr. Beverly, you were responding to my question regarding the processing of backlogs that appear to exist in 8 to 10 States. You were sharing with us what you saw as the specific problems that are causing those backlogs.

Mr. BEVERLY. Yes. Again, we believe the primary cause is the need to be more efficient in moving information from those agencies that have information that is critical to the eligibility determination process to the job service that is, in fact, the certifying agency.

The use of computer technology has, in a number States, shown a significant efficiency impact. As you know, Illinois is one of the States that has moved in that direction and seen the benefits of using that technology. We hope to reinforce and underscore the importance of information sharing through continuing our work to execute Memoranda of Understanding between the agencies involved here in Washington, sending the message out to State systems that the importance of this information exchange is very much on our minds, and can, in fact, significantly improve the timeliness of certification decisions.

Mr. WELLER. What else needs to be done to fix the problem besides the memoranda?

Mr. BEVERLY. Again, I think we need to be out there working with the States, providing technical assistance, letting them know about the experience in States that have solved the problem, and how States have done that. I think we can be instrumental in transporting to States that are working on the problem solutions that have been found in other States.

Mr. WELLER. Which States do you see as really demonstrating the ability to very efficiently process it? What do you feel are the leading States?

Mr. BEVERLY. I am impressed by Illinois. [Laughter.]

Mr. WELLER. That will be struck from the record.

Mr. BEVERLY. And New York, as well. I think North Carolina, in fact, has been able to use technology in such a way, and has worked out working relationships with welfare agencies, food stamp agencies, and other agencies that has proven to be a good approach to all of this. We hope to be able to enlist their aid in our technical assistance effort, and, again, bring this learning to other places.

Mr. WELLER. I will certainly pass on your compliment to Linda Renee Backer, the director of the program in Illinois.

Mr. Burman, your conversation with Mr. Hulshof earlier touched on this. In the Administration's budget this year, you only propose a 1-year extension of the Work Opportunity Tax Credit and Welfare-to-Work. What do you believe is the minimum to make the program more attractive for employers to participate in this program? What do you feel is the minimum extension necessary to attract more participation?

Mr. BURMAN. We think the 1-year extension is very important. As I said, a longer extension would be worthwhile in a paid-for package. I cannot really say if 3 years is the right answer, or 4 years. Basically we support the idea of providing more certainty for employers, not having them worry each year as the program expires.

Mr. WELLER. You know, Mr. Chairman, as we look in 2 weeks moving the tax revision for the third Balanced Budget in 30 years, my hope is that we have a multi-year extension of the Work Opportunity Tax Credit. One of the successes of the low-income housing tax credit is its permanency. It has been successful.

I know in previous hearings when we discuss the difference between permanency in low-income housing tax credit and making it temporary, from 1993 to this point interest by the private sector has gone up sevenfold as a result of that. It is that permanency that attracts more people to participate and invest for the long term. I certainly hope that we are able as a fairness issue—fairness to the employer where they can have the confidence to participate—that we can extend the Work Opportunity Tax Credit for a number of years, at a minimum, rather than just 1 year at a time. Thank you, Mr. Chairman.

Chairman HOUGHTON. Well, thanks very much. You know it is not want you want. The question is: Is there any money there? That has been the holdup. Obviously, for planning purposes, you ought to have more than a 1-year throw-off here. We hope somehow, as the surpluses come along, we can get our budget in balance and be able to do that. Thanks very much.

I just have one quick question for you, Mr. Burman. I think that the Treasury is hung up on non-profits because the concept is that you offset an employer's income tax liability, rather than tax liability. I think our feeling, in terms of generating this bill, was that it is the overall tax implication, rather than an income tax implication—meaning, really, a payroll tax. You can say this hasn't been done. It is probably difficult to enact. You know, that is the status quo. You never get anything done if you don't take some chances. What is the matter with that approach?

Mr. BURMAN. I believe that it is inappropriate to try to target tax incentives to entities that are completely out of the income tax system. They are tax exempt, which is already as far as we can go in the income tax system.

Chairman HOUGHTON. No argument there. Income taxes are out. They don't pay them, but they do pay a tax—some of them, anyway.

Mr. BURMAN. I think we are just concerned that this would be a very dangerous precedent. It would be difficult to administer, because the payroll tax system and the income tax system are separate from each other. It would require transfers from the general fund to the Social Security and Medicare Trust Funds to make up the money that was diverted from the payroll tax system. I think there is a concern about fraud, as well. It would be hard for the IRS to monitor.

We would certainly be willing to look at any proposal that you, or other members, of this Committee put together, and to work with you to think about ways to help the tax-exempts.

Chairman HOUGHTON. I would just hope that we wouldn't draw a line in the sand—you take one position; we take another. We are going to go ahead with this thing. We would love to talk to you. We would love to do anything, but we feel very strongly about it. If there are any specific questions on this thing that we could talk about, other than the basic concept, I would love to.

Mr. BURMAN. We will be happy to work with you and your staff.

Chairman HOUGHTON. Good. Thanks very much. Thank you very much, gentlemen, for being here.

Now I would like to call the next witness. The next witness is Mr. Fred Grandy. Great to have you back, Fred. Fred, as everyone knows, is president and chief executive officer of Goodwill Industries International, a former Member of Congress, a former Member of the Ways and Means Committee. Are you a Member of the "Former Club"?

STATEMENT OF HON. FRED GRANDY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GOODWILL INDUSTRIES INTERNATIONAL, INC., BETHESDA, MARYLAND, AND FORMER MEMBER OF CONGRESS

Mr. GRANDY. I think I just joined the "Former Club," Mr. Chairman. I get so many invitations; I don't keep track of all of them.

Chairman HOUGHTON. Wonderful to have you here, Fred. Thanks very much. Would love to hear your testimony.

Mr. GRANDY. Thank you, Mr. Chairman, and Members of the Subcommittee. I am delighted, on behalf of Goodwill Industries International, to provide testimony in support of H.R. 2101, legislation to extend and improve the Work Opportunity Tax Credit.

I would point out at the outset that we are pleased that you have 24 Members of the full Ways and Means Committee already supporting this bill upon introduction, and want to highlight that we think it is critical it is enacted this year, and with the extension provided for in the legislation.

I would like to submit my written testimony for the record in its entirety and I will try to summarize it for the Committee.

I would like to begin, Mr. Chairman, by talking a little about what Goodwill Industries International is, as opposed to what a lot of people think it is. We are, essentially, a network of 175 community-based organizations situated across the United States. All of them are tax-exempt under section 501(c)(3) of the Internal Revenue Code. They are designed and chartered with the charitable mission of providing a broad variety of employment and job training services to individuals who are vocationally disadvantaged. These days, that spans the spectrum all the way from people with specific physical and cognitive disabilities, traumatic brain injury and various kinds of vision impairments, through and including single moms coming off welfare, non-custodial fathers, and everybody in between.

Because we are a community-based network all Goodwills, although they are connected through the charitable mission and the commitment to break down barriers to employment, deliver these services in unique and innovative ways designed to serve their communities. I would tell Mr. Coyne, if he were here, that the Pittsburgh Goodwill, in addition to providing the normal vocational rehabilitation services, has moved aggressively into Welfare-to-Work, and is using some of the dollars generated by our retail stores to invest in things like transportation for single moms who find that if they get a job and can't get to it, there is no distinction in finding employment.

To Mr. Lewis from Atlanta, if he were here, I would point out that one of our good partners in the central business district of Atlanta is Marriott Corporation, which will testify later today on behalf of the credit. In Atlanta alone, they have provided—I think—60 individuals, with some form of physical or cognitive disability, an opportunity to work in the Marriott Marquee, downtown.

Again, we have opportunities in Oklahoma City, Seattle—all of them tailored to serve various needs of those communities. Altogether, Goodwill last year served 320,000 individuals with some form of barrier to employment. What this basically breaks down to is about 75,000 people coming through our various doors looking specifically for job placement services. Of that number, 58,000 were placed in competitive employment. What that means in this field, Mr. Chairman, is that they found a job in their community and kept it. In terms of what that return of charitable investment means to the country and to the communities that they serve, it is roughly about $641 million in salary and wages, or $96 million in Federal, State, and local tax revenues. The point being, of course, that many of these folks were tax consumers and not tax payers before they found vocational opportunities through our organization.

So the nature of our operation in all of the communities we serve through the sale of donated goods, coupled with various contracts and services we provide, make us an employer of first resort, employing people who have little or no job experience, usually in our retail and contract service operations, and, importantly, giving them the skills necessary to obtain work and to advance in a very competitive labor market. Mr. Chairman, I want to stress that this is always paid training.

We now find that we can also be the employer of last resort, too, for individuals who have been unable to succeed in the competitive labor market, and who need a more structured work environment or longer term vocational related services. Again, as we dig down deeper into the ranks of hard-core unemployed with the Welfare-to-Work legislation that was enacted in 1995, States like California are finding themselves now servicing, through organizations like Goodwill, people who were formerly deemed unemployable by the Gain Program in California. This was their Welfare-to-Work program before they incorporated their new strategy into the Federal program.

So because we deal with individuals with several severe and multiple barriers, job placement specialists within Goodwill Industries regularly report that the utilization of the Work Opportunity Tax Credit can frequently mean a difference between a person finding a job, or simply remaining dependent on Government support payments.

There are two very critically important changes in this reauthorization of the WOTC that I would like to highlight. The first, of course, is to permanently extend the credit. Originally known as the target jobs tax credit, and now, the WOTC, Congress has traditionally reauthorized this employment incentive for 1 year, or 18-month periods, often allowing the credit to expire, and then retroactively extending it. This created an on-again, off-again approach that is considerably confusing to employers, personnel in State employment service offices who administer the program, and to placement specialists in organizations, such as Goodwill, who strive to match employers with individuals. That is essentially our core business, Mr. Chairman: matching employers and potential employees.

As of about 11 hours ago, the WOTC is again in limbo, because Congress now has the responsibility of reauthorizing this program, hopefully with a longer stay. We strongly advocate this committee to add stability to the program. Today's robust economy has produced labor shortages in many markets around the country, forcing employers to look for workers who previously have been deemed unsuitable for work. While the WOTC itself does not make an unsuitable individual work-ready, its use, combined with public and private resources for preemployment training, can often make the difference. With that modest financial incentive provided through the tax code, basically a partial offset can be used for higher initial employment costs, and usually these days post-employment job training costs associated with the WOTC-eligible populations. I will cite an example of that later in my testimony.

Let me talk, if I could for a moment, Mr. Chairman, about some of the criticism that have been leveled against the Work Opportunity Tax Credit, and formerly the targeted jobs tax credit, as being a form of "corporate welfare." Goodwill, and our colleagues in the non-profit community believe that is a mistaken characterization, because it does not necessarily reward businesses for people they would hire anyway. That is not happening. It is important to remember that employers are now competing for what we call in the workforce development strategy, "second-and third-tier levels of unemployed." We are way past the work-first and rapidly-attached individuals that have profited from a buoyant economy, and now have been employed under the new welfare legislation.

We are now dealing with a new a population and need new strategies to deal with that population. Countless studies and reports in the press point to the dramatic success of the Nation's welfare rolls with local economies at or near full employment. Let us get beneath those statistics and look at some of the things that face us as we look forward to reauthorizing the WOTC.

For example, at the end of 1998, we still have 2.8 million families, most of them single-parent, receiving welfare benefits. These are, again, the hardest of the hard-to-serve, in many cases with more than one barrier to employment: poverty, learning disabilities, substance abuse problems. We have more than 3.6 million individuals, between the ages of 18 and 64, on supplemental security income—another qualifying category under the WOTC. Many of these individuals have had no work experience. They are starting from absolute ground zero. They are a core constituency of Goodwill and its employment and training colleagues.

And among individuals with disabilities of working age, 18 to 64, 71 percent are still unemployed. This is 10 years after the enactment of the Americans with Disabilities Act (ADA). Last year the Harris study put out a definitive study on this. It said that regardless of whatever statutory changes that have happened in employment law, the relationship between the employer and employee for people with disabilities—most of whom want to work—still is keeping people out of the workplace.

I can add a little bit more color to that. I serve on the President's Committee on Employment for People With Disabilities, which is the small Federal Agency that oversees the ADA. We have recently run some projected statistics. We have about 54 million people with disabilities in this country. If just one million more of them were employed—less than two percent of that population—we project that would mean an increase of about $21 billion in annual earned income. So we are losing productivity by not putting people with disabilities to work. That is a population that is and could be greater served by the WOTC.

A permanent extension of the Work Opportunity Tax Credit will provide employers with a strong, consistent signal that the Federal Government supports their efforts to assist all citizens. Again, Mr. Chairman, I would like to cite one of the things that we are currently doing right now to help employers hire and retain individuals who are now having a harder time staying connected to the workplace.

In Omaha, the Goodwill has begun a program with First National Bank of Omaha, the largest financial institution in the city, called "Banking on Success." The Goodwill employment specialist there, among other things, helps participants with career planning, provides intensive assistance with logistical issues, such as back-up transportation, child-care planning, personal budgeting, financial planning, and money management. Most importantly, employment specialists will pool and coordinate community resources for more pressing issues, such as the need for counseling, housing, and education. This is a full-service business now, helping people back into the workplace and helping them stay there. The WOTC is an important tool.

With that in mind, Goodwill and the agencies from the non-profit community that are endorsing the extension of H.R. 2101 are very much in support of the proposal first offered in the 105th Congress by Representatives Nancy Johnson and Nita Lowey. It would permit charitable organizations exempt from income tax, under section 501(c)(3) of the Internal Revenue Code, to receive a credit against payroll taxes when they hire WOTC-eligible individuals. In a letter that Mrs. Johnson and Ms. Lowey sent to the House last year, they pointed out, "By not including non-profits, such as hospitals and community-based organizations, the current WOTC excludes some of the largest employers in our Nation's inner cities—areas where most of those eligible for WOTC reside."

That is truer today than it was last year. Inner-city hospitals, nursing homes, and large employment organizations like Goodwill are having the same problems attracting qualified labor, for our own business opportunities—as do many of the employers whom we serve. This provision would also allow entities such as colleges, universities, nursing homes, museums, and organizations that could hire significant numbers of entry-level workers to employ individuals from the WOTC-eligible populations.

Let me go to something that I know Mr. Hulshof and Mr. Coyne addressed, when they were talking to the representative from Treasury, as to whether or not the payroll tax forgiveness is an inappropriate extension of tax exemption for non-profits. First of all, let me say that non-profits—as you pointed out—do pay payroll taxes. Anything that is unrelated to charitable mission, we obviously pay unrelated business income tax. What we are asking for here is an opportunity to basically provide more training opportunities within our organizations to provide employers looking to perhaps enfranchise people with disabilities, or ex-felons, or any of the targeted categories under WOTC more opportunities to take these people and keep them in work.

But let us remember there is a significant difference between a for-profit and a non-profit, much of it having to do with our willingness, and in some cases mission-driven commitment, to tolerate inefficiencies in our workplace in the non-profit world. This is something that no for-profit business could afford to do, or should do.

In a very tight labor market, such as we see and such as we predict will extend well into the next century, we are having the same problems finding and keeping people, and providing those post-employment training needs that I talked about earlier. That is why we strongly think that this is the right time and the right place to create what was called last year the "Community Employment Partnership Act," but is now incorporated into the WOTC as an important opportunity for non-profits to hire, train, and in some cases, retain workers, particularly those with disabilities.

Under H.R. 2101, the 7.65 percent employer-paid Social Security and Medicare tax on wages paid to WOTC-eligible works would be offset, up to a maximum of $2,400 in the first year of employment. Those revenues could be used, for example, to provide the additional skills training to WOTC workers, or support an organization's charitable mission. It is also important to point out that this proposal would have no negative impact on the Social Security or Medicare trust funds. The amount of the tax-exempt employer's credit would be treated as payment toward the organization's payroll tax liability, with general revenues appropriated for payments to the trust funds.

Similarly, the WOTC employee's Social Security earnings record would not be negatively affected. Mr. Chairman, an analysis provided last year by the Joint Committee on Taxation costed out what was the Johnson-Lowey proposal at $119 million over 5 years, $29 million in the first year. It is our understanding that your version has slightly increased that, but not substantially. That seems a fairly small price to pay for the opportunity to put more people who are, despite a buoyant economy, locked in an unemployment situation that is ongoing.

A study published earlier this month by the National Center for the Study of Adult Learning and Literacy at Harvard University concluded that because welfare recipients remaining on the rolls have such low basic job skills, a vast majority of available jobs are not open to them. Similarly last year, McKinzie and Company published a report called, "Help Wanted," that basically said that customer skills are the ability to make people feel welcome, understand and respond to requests, and solve problems that deal with service failures are essential to service companies. Yet, only to 20–30 percent of applicants appear to have these skills. To a large degree non-profits, like Goodwill and other employment training based organizations, basically off-load that responsibility from employers so that when they do hire our workers, they come ready to go to work.

It is because of that, Goodwill Industries strongly supports the extension of the WOTC, and the incorporation of the Community Employment Partnership Act in it. Mr. Chairman, I would also point out that with my testimony is a list of the non-profit organizations, that are in support of H.R. 2101. They include, but are not limited to, the ARC, Easter Seals, National Association of Independent Colleges and Universities, National Industries for the Blind, National Mental Health Association, United Cerebral Palsy, as well as the National Assembly of Health and Human Service Organizations. I notice their executive director, Gordon Raley, is in the room today. That includes every major human service non-profit in the United States: American Red Cross, Girl Scouts, Catholic Charities, and Second Harvest.

So there is uniform support in the non-profit community for this. We strongly believe the time has come. I thank the Chair.

[The prepared statement follows:]

Statement of Hon. Fred Grandy, President and Chief Executive Officer, Goodwill Industries International, Inc., Bethesda, Maryland, and former Member of Congress

Mr. Chairman and Members of the Subcommittee: On behalf of the Goodwill Industries network, this opportunity to present testimony in strong support of H.R. 2101, legislation to extend and improve the Work Opportunity Tax Credit (WOTC), is appreciated. With 24 bipartisan members of the full House Ways and Means Committee cosponsoring this bill upon introduction, the critical need for enactment of this legislation is underscored.

Goodwill Industries International, Inc. is the corporate office of a network of 175 autonomous, community-based organizations operating throughout the United States. Each of these organizations, tax-exempt under Section 501(c)(3) of the Internal Revenue Code, provides a broad variety of employment and job-training services to individuals who are vocationally disadvantaged. Welfare recipients, individuals with physical and mental disabilities, dislocated workers, recovering substance abusers and ex-felons are among the populations typically served by a local Goodwill Industries.

While Goodwill is perhaps best known for its more than 1700 retail stores that provide consumers with quality clothing and household goods at reasonable prices, it is important to recognize how those revenues are used to support Goodwill Industries' charitable mission. In 1998, Goodwill Industries provided vocational services to more than 320,000 individuals, with nearly 75,000 people coming to Goodwill for assistance in finding employment. Of that number, 58,000 were placed into the nation's competitive work force as a direct result of Goodwill's efforts. We estimate that these newly-employed individuals earned $641 million in salaries and wages, generating an estimated $96 million in federal, state and local tax revenues. In effect, Goodwill Industries turns "tax consumers" into taxpayers. In addition, the nature of Goodwill's operations allows us to be the employer of "first resort," employing people who have little or no job experience in our retail and contract operations, allowing them to gain the skills necessary to obtain work and advance in the competitive labor market. Goodwill can also be the employer of "last resort" for those individuals who have been unable to succeed in the competitive labor market and who need a more structured work environment or longer-term vocational-related services.

Because we often deal with individuals with severe or multiple barriers to employment, job placement specialists within Goodwill Industries regularly report that utilization of the Work Opportunity Tax Credit often means the difference between a person finding a job or remaining dependent on government support payments.

H.R. 2101 calls for two critically important changes to the WOTC program. The first would permanently extend the credit. Originally as the Targeted Jobs Tax Credit and now as the Work Opportunity Tax Credit, Congress has typically authorized this employment incentive for 1-year or 18-month periods, often allowing the credit to expire and then retroactively extending it. This "on again, off again" approach has caused considerable confusion among employers, personnel in state employment service offices who administer the program and placement specialists in organizations such as Goodwill Industries who strive to match employers with individuals in need of a job. As of approximately 10 hours ago, the WOTC is again in limbo. Congress has consistently recognized the importance of the WOTC as evidenced by regular, albeit short-term, reauthorizations. Now is the time to add stability to the program. Today's robust economy has produced labor market shortages in many areas of the country, forcing employers to look for workers who previously would have been deemed as unsuitable for work. While the WOTC will not make an "unsuitable" individual work ready, its use combined with public and private resources for pre-employment training can often make the difference. The modest financial incentive for employers produced by the Work Opportunity Tax Credit allows for a partial offset of the higher post-employment job-training costs associated with WOTC-eligible populations.

Critics of the WOTC mistakenly characterize the credit as an example of "corporate welfare," rewarding businesses for hiring workers whom they would employ anyway. It is, however, important to recognize that employers are now competing for what we at Goodwill Industries call the second- and third-tier levels of the unemployed—individuals for whom "work first" or "rapid attachment" strategies have been unsuccessful because of the severity of their barriers to work. Countless studies and reports in the press point to the dramatic success in the reduction in the nation's welfare roles, with many local economies at or near "full" employment. Despite the strong economy, all is not well among the WOTC-eligible populations. For example:

• At the end of 1998, there was still an estimated 2.8 million families, mostly single-parent, receiving welfare benefits.

• More than 3.6 million individuals between the ages of 18–64 are on the Supplemental Security Income (SSI) roles.

• Among individuals with disabilities of working age (18–64), 71 percent are unemployed.

Given the above statistics, there is clearly a need for tax incentives for employers to hire from WOTC-eligible populations that experience chronic unemployment. A permanent extension of the Work Opportunity Tax Credit will provide employers with a strong, consistent signal that the federal government supports their efforts to assist all citizens to become productive members of the nation's work force.

A second, critically important element of H.R. 2101 is a provision that would substantially increase the effectiveness of the Work Opportunity Tax Credit by allowing charitable organizations to participate in the WOTC program. This proposal, first offered in the 105th Congress by Representatives Nancy Johnson and Nita Lowey, would permit charitable organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code to receive a credit against payroll taxes when they hire WOTC-eligible individuals. In a "Dear Colleague" letter to the House last year, Representatives Johnson and Lowey said:

> By not including nonprofits, such as hospitals and community-based organizations, the current WOTC excludes some of the largest employers in our Nation's inner cities—areas where most of those eligible for WOTC reside.

This provision would also encourage nonprofit entities such as colleges, universities, nursing homes and museums—organizations that often hire significant numbers of entry-level workers—to employ individuals from the WOTC-eligible populations.

Although exempt from taxation on income (except for income substantially unrelated to an organization's exempt purpose), charitable entities do in fact pay federal taxes on gross wages paid to employees. Under H.R. 2101, the 7.65 percent employer-paid Social Security and Medicare tax on wages paid to WOTC-eligible workers would be offset, up to a maximum of $2,400 in the first year of employment. The legislation would also provide charitable organizations with a second year of payroll tax offsets when they hire welfare recipients. For a newly-hired entry-level worker earning the current minimum wage, the payroll tax offset would come to nearly $800 for each WOTC-eligible worker. These revenues could be used, for example, to provide additional skills training to WOTC workers or to support an organization's charitable mission.

It is very important to recognize that this proposal would have no negative impact on the Social Security or Medicare trust funds. The amount of the tax-exempt employer's credit would be treated as payment towards the organization's payroll tax liability, with general revenues appropriated for payments to the trust funds. Similarly, the WOTC employee's Social Security earnings record would not be affected.

The cost of this proposal is surprisingly modest, an important factor in this era of fiscal restraint. An analysis prepared last year by the Joint Committee on Taxation on the original Johnson-Lowey proposal projected first-year costs of $29 million, with the provision estimated to cost $119 over five years. Because of modifications to the original proposal made in the Houghton-Rangel legislation, we expect that the first-year cost of H.R. 2101 will be slightly higher. The legislation would authorize this provision as a demonstration for three years in order to give Congress an opportunity to assess its effectiveness in creating employment opportunities within the targeted populations.

A study published earlier this month by the National Center for the Study of Adult Learning and Literacy at Harvard University concluded that because welfare recipients remaining on the roles have such low basic job skills, the vast majority of available jobs are not open to them. By expanding the Work Opportunity Tax Credit to include participation by charitable organizations, welfare recipients and other WOTC-eligible individuals will have a greater chance to take that first step into the nation's workforce. Accordingly, we urge favorable consideration of H.R. 2101 by the 106th Congress. A list of additional national organizations also supporting this measure is attached.

Again, this opportunity to testify on behalf of the Goodwill Industries network in support of H.R. 2101 is appreciated. I would be pleased to respond to any questions you may have.

Organizations Supporting H.R. 2101 (As of June 28, 1999)

In addition to Goodwill Industries International the following national organization support enactment of H.R. 2101:

American Network of Community Options and Resources
The Arc
Consortiun For Citizens with Disabilities—Employment and Training Task Force
Easter Seals
Epilepsy Foundation
Inter/National Association of Business, Industry and Rehabilitation
National Alliance for the Mentally Ill
National Assembly of Health and Human Service Organizations representing:

Alliance for Children and Families
American Association of Homes and Services for the Aging
American Camping Association
American Cancer Society
American Foundation for the Blind
American Humane Association
American Red Cross
Association for Volunteer Administration
Association of Jewish Family and Children's Agencies
Association of Junior Leagues International Inc.
Big Brothers Big Sisters of America
Boy Scouts of America Inc.
Boys & Girls Clubs of America
Camp Fire Boys and Girls
Campaign for Tobacco-free Kids
Catholic Charities USA
Child Welfare League of America
Citizens' Scholarship Foundation of America
Civil Air Patrol
Coalition for Juvenile Justice
Council on Accreditation of Services for Families and Children
Families, 4H, and Nutrition
Girl Scouts of the USA
Girls Incorporated
Habitat for Humanity International
Hostelling International—American Youth Hostels
Joint Action in Community Service
Lutheran Services in America
National Benevolent Association
The National Center for Missing and Exploited Children
National Coalition of Hispanic Health and Human Services Organizations (Cossmho)
The National Council on the Aging
National Crime Prevention Council
National 4-h Council
National Mental Health Association
The National Mentoring Partnership
National Network for Youth
National Urban League
Neighborhood Reinvestment Corporation
The Points of Light Foundation
The Salvation Army
Save the Children
Second Harvest
Sos Children's Villages—USA, Inc.
Street Law, Inc.
Travelers Aid International
United Neighborhood Centers of America
United Seamen's Service
United Way of America
Volunteers of America
Wave Inc.
Women in Community Service (Wics)
YMCA of the USA
Youth Service America
YWCA of the USA

National Association of Independent Colleges and Universities
National Association of Protection and Advocacy Systems
National Industries for the Blind

National Mental Health Association
National Rehabilitation Association
National Rehabilitation Facilities Association
NISH—National Industries for the Severely Handicapped
Paralyzed Veterans of America
United Cerebral Palsy Associations

Chairman HOUGHTON. Thanks very much, Mr. Grandy.

Well, we are honored to have Mrs. Johnson here, as a Member of the Ways and Means Committee. Would you like to make a statement?

Mrs. JOHNSON of Connecticut. I would. Thank you very much for giving me this opportunity to testify before one of the really important Subcommittees of Ways and Means.

Chairman HOUGHTON. You know this.

STATEMENT OF HON. NANCY L. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mrs. JOHNSON of Connecticut. I just came to make two points. I consider the Work Opportunity Tax Credit one of the most important sections of the Tax Code, particularly in this era, when we— I would have to say Republicans—are leading that effort to move away from a Government that supports non-work, to a Government that consciously, explicitly, and forcefully supports work. The WOTC is powerful in helping people who otherwise would be hard to employ to get into the work economy. It gives those very people a boost who most need it: people with no work records, no experience in coming to work, no references, and maybe a rather checkered history of one kind or another.

But I want to speak to two provisions: first of all, your enlargement of the WOTC to the non-profits; and second, to ask you to consider a proposal that is coming out of my Human Resources Subcommittee we are getting costed out at Joint Tax to include children coming off foster care under the Work Opportunity Tax Credit.

Kids aging out of foster care have a very, very tough time. They have often been from home to home. They often have had mighty little support. They weren't the kids that got into the work-study programs in high school. They normally don't have any employer recommendations to follow them. Often they are coming off rugged paths. We need badly for them to get established in decent jobs with a career pattern ahead of them. Those are the very kinds of jobs that the Work Opportunity Tax Credit can help them get into.

As soon as we get the fiscal note on that we will get that to you. We expect it to be very small. There is only 20,000 that age out of foster care every year. Many of those will go on to school or get jobs for which they don't need a credit. So it is going to be a very, very small cost. It is the principle of the thing. These are kids that need extra consideration as they go into the work force.

On this issue of non-profits, you know, most of the people who need the Work Opportunity Tax Credit live in cities. In my hometown of 70,000, the biggest employer is the hospital. So, in the cities, the non-profits play a major role. We need to be able to encourage them and support them in hiring difficult-to-hire employees.

Second, the constructive workshops, primarily located in the urban areas, are the ones with the most experience in getting people with disabilities into the work force. As we get more successful in making a Welfare-to-Work program, we are going to get down to more and more of the women on welfare who are there because they have mental health problems, or because they have addiction problems. As they both conquer those personal problems and move into the workforce, frankly, they need the knowledge, the experience, the supportiveness of the kind of environment that Fred is talking about.

During the great downturn of unemployment in Connecticut in 1991, the constructive workshops were loaded with work. Everyone was afraid to hire anyone because they were afraid the contracts wouldn't be there in a couple of months. So the constructive workshops opened their doors to normal employees. By working side-by-side with normal employees, the disadvantaged employees increased their productivity dramatically. It is good for everyone. The constructive workshops, along with the Salvation Army and all of these different groups, provide work and psychological, emotional, and practical advice that people need when they are making big changes in their lives. I would just urge you to move forward with your inclusion of non-profits, as you have in your bill, and to consider foster care kids aging out of the system.

Chairman HOUGHTON. Two good points.

Mr. GRANDY. Mr. Chairman, if I could just follow-up on something Mrs. Johnson said. Of course, what she is talking about is true in every city in the United States, not just cities in Connecticut. It is truer now than it was probably a year ago.

But there was reference made in terms of incentives already on the table for non-profits in the form of grants, TANF grants. I want to point out that organizations like Goodwill and the Y's do compete and win many of these grants. Like any grant process, it is complicated, time-consuming; the reimbursement is problematic, and they usually are the province of only large organizations like ours. Small, community-based organizations do not get in the game, unless they are able to stitch together a large partnership. Then they get only a small piece of the grant. That is why we advocate this change to extend the payroll tax to non-profits. That allows those community-based organizations that Mrs. Johnson is talking about to be on an equal playing field.

Chairman HOUGHTON. OK. You have any more? Thanks very much, Mrs. Johnson. We really appreciate it.

Mr. Coyne, do you have any questions?

Mr. COYNE. I just want to recognize Mr. Grandy's testimony and acknowledge the great work that Goodwill Industries is doing in the district that I represent. The 24-story office building where my office is manned by Goodwill handicapped workers who come in every day and do the maintenance work. They do an outstanding job in carrying that out. Thank you.

Mr. GRANDY. Thank you, Mr. Coyne.

Chairman HOUGHTON. Thanks. Ms. Dunn, do you have any?

Ms. DUNN. I just want give a big welcome to Mr. Grandy. It is great to see you again. Your appearance here on behalf of the Work Opportunity Tax Credit for non-profits is really just the last in a series of efforts you have consistently made. During your time in Congress, I recall your efforts to come out with a really good family and medical leave bill that would have answered some problems above and beyond the problems that were answered by the bill that we finally passed. I congratulate you on that. I am glad you are back.

Mr. GRANDY. Well, I must tell you, Ms. Dunn, it is much more fun to be on the delivery side of human services than on the debate side.

I would also point out—Mr. Coyne, I don't think you were in the room—that Goodwill Industries of Pittsburgh is one of the signature Goodwills in the country. It serves not only Allegheny County, but all the way down into rural West Virginia.

In Seattle, the representative district you are in, Ms. Dunn, that Goodwill concentrates on adult education and literacy because the need is so great in that community. So again, two Goodwills flying the same banner, but offering customized services because their communities need it.

Chairman HOUGHTON. Any more?

[No response.]

Fred, a question: You know the unemployment rate is very, very low.

Mr. GRANDY. It is 4.2 percent, as of May.

Chairman HOUGHTON. Yes. Does expanding the Work Opportunity Tax Credit to the non-profits have an impact on for-profit institutions?

Mr. GRANDY. Would it have any kind of negative impact?

Chairman HOUGHTON. Negative impact.

Mr. GRANDY. Well, considering the people that we are trying to get into the workplace, we don't look at that 4 percent figure. We look at the 71 percent figure of people with disabilities that are still unemployed. I think, quite honestly, it would allow us to serve the for-profit community better. It would allow us more training opportunities through our stores, the kinds of employment opportunities that hospitals or large nursing homes would provide—as we all do—that kind of transitional employment. When people come through Goodwill, they normally are working in our stores to get job skills they will need somewhere else in the workplace.

The reason I brought out that number of 58,000 employed last year is that those are people that came through Goodwill and got a job somewhere else in their communities. That is our measure of success.

We do hire a lot of folks, but it is usually with the understanding that they are using what they learn in a store, or a community facility of some sort, to get into the workplace and stay there at a time when the labor market is projected to be so tight, when customer skills are absent, when the need is for skills formerly thought of as things only managers would need. Technological aptitude, problem-solving skills, and good communication skills are now front-line worker skills, Mr. Chairman. Those are the kinds of things we teach, day in and day out.

So if competent labor supply is important to the for-profit community, I don't see how giving this extension of payroll tax forgiveness through the WOTC does anything but help those businesses find the labor they need.

Chairman HOUGHTON. OK. Well, I don't have any questions. Do you have any more questions? Kenny Hulshof has a question.

Can we recess for just a minute? I am going to go vote. I will be back. I think he will be back.

Mr. GRANDY. I will be glad to stay.

Chairman HOUGHTON. I think also Rob Portman will be back. If you could just hold on here a moment, Fred. Great. Thanks.

[Recess.]

Mr. PORTMAN [presiding]. We are going to reconvene the hearing.

Fred, thank you for staying. I know we have some questions for Mr. Grandy, however, Mrs. Johnson had to go vote.

We will get into some questions, then we will move on to the next panel and keep the hearing going. I would like to call on Mr. Hulshof.

Mr. HULSHOF. Thank you, Mr. Chairman.

Mr. Grandy, in the written testimony of Mr. Burman regarding the idea of letting tax-exempts claim credits against FICA tax liability, he says it is unprecedented. What that suggests to me is that this would be a new policy direction. Is that your understanding? Has this ever been allowed before, where other groups get to take tax credits against FICA tax liability?

Mr. GRANDY. Mr. Hulshof, I do not know of any Federal precedent where FICA taxes would be forgiven. That is not to say that they don't exist somewhere at the State level in some kind of provision that might be incorporated, either municipally or at a statewide level.

Going back to the question that you addressed, I am not sure that you heard my response to that. The incentives that do exist in the Code, which Treasury would have you believe are plentiful, are really very limited in scope. If we are talking about grants, as I pointed out to Mr. Houghton, those TANF grants, which organizations like ours and other non-profits compete for and in some cases win, are large, cumbersome, and complicated like most Federal competitive grants. Sometimes they are based on prohibitive State formulas. But in almost all cases they are limited to large non-profits, not community-based organizations that are small and doing the very important local work of getting people who would otherwise be totally disconnected from the workplace into meaningful employment.

So I guess I would argue that, yes, it is unprecedented, but there has probably never been a better time to create that precedent. We are looking at labor shortages which produce on paper a full-employment economy, but still keep about 71 percent of the disabled population out of the work force. The curve to get those folks ready and able to stay in the workplace takes more time.

The other point that I made—I am not sure you were in the room—is that organizations like Goodwill, which use their stores as training facilities, and are like-minded vocational rehabilitation organizations that use work programs in a similar way, tolerate inefficiencies that for-profits would not and should not. We will spend more time with a worker, because that product is what we produce—not old clothes, not surplus goods—but workers who are able to get into the workplace and stay there. Because of that, we would invest more time in that product that a for-profit business simply could not afford to do. So that is the incentive for us behind the payroll tax forgiveness.

Mr. HULSHOF. Let me play devil's advocate, Mr. Grandy. First of all, you are aware that on instances like the Ticket-to-Work, we are trying to remove some of the disincentives—the barriers—that are in the way for the disabled to return to the work force. This committee has been high-profile on that, not only in this Congress, but in the last Congress.

From the policy perspective, since we are talking about a fairly significant shift, the devil's advocate position is this: if Goodwill or other tax-exempts were allowed to claim the WOTC, would that be in competition with the for-profit companies to attract workers—some sort of bidding up for wages at the entry level? I mean, is this something we should be concerned about, or not?

Mr. GRANDY. No. Again, as I pointed out, we are in business to provide a service between employers and employees. In many cases, the real barrier that we have to break is the public attitude toward people with disabilities. A lot of employers, particularly small employers, are not going to be inclined to hire somebody with a disability—ADA notwithstanding, WOTC notwithstanding—because they say, "I would like to do something along these lines, but I have very narrow margins."

Right now with this tight labor market, you are seeing increased costs of hiring and retention. More and more companies are turning to us as intermediaries and saying, "Can you help us probe these markets: people coming off welfare, ex-felons, SSI recipients, people with a variety of disabilities? What is the cost of training them and keeping them in our workplace? What are the post-placement services that we will need?"

This tax credit allows us more opportunity to do that. So I think the people that we would hire would continue to be those transitional employees that we would then perhaps turn over to a business—a Marriott Corporation, or a TJX. That would enhance their bottom line, because they would get competent workers that would not cost them the money that otherwise they would have to spend out of their HR budgets.

So I think there is no argument to be made that we are somehow competing. We are trying to mine what we think is a potential source of workers that have been left out of the mix, even in the most buoyant economy. That is the sole reason we support H.R. 2101 at this time.

Mr. HULSHOF. Thanks for your answers.

Mr. GRANDY. Thank you, Mr. Hulshof.

Mr. PORTMAN. If you could stay for awhile, I have a couple of follow-up questions. I appreciate your being here. I know you were in the Congress when we had a big debate over the old targeted jobs tax credit. I was one of those who expressed a lot of concerns about that program. It came out of concerns raised locally, actually, from some of my businesses who, when I solicited their input on this, said, "Rob, we would have hired them anyway." It was a windfall.

These are companies in a relatively low—at that time—unemployment area of the country, the greater Cincinnati area.

They said, "Frankly, we would bring these people in just as we would have, anyway. Then we look around and see who can qualify for the tax credit." Therefore, I like the new WOTC. I think it is better. I think folks on preemployment certification is a good idea. I think targeting groups, such as the disabled, is a good idea. I have been more supportive of this program.

We also now have a change of circumstance of an even tighter labor market, nationally. It may be more comparable to what we had in greater Cincinnati 4 or 5 years ago. I think the latest unemployment figures are near 4.2 percent. You mentioned earlier that is practically full employment. Many economists consider that a full employment situation.

I guess my question is a general one. First, having experience on this side of the dias, and having been on the policy side—if you could put that hat on—What additional incentives do we need in that kind of a full employment marketplace? For the disabled workers, in particular, and these other targeted areas, isn't it enough to simply incentivize these companies to go to Goodwill, or to go to a for-profit intermediary, which I understand many of them do now?

Mr. GRANDY. Yes, they do now. As a matter of fact, we compete with companies like Lockheed and EDS, now, for employment and training dollars, because they are in that business.

Mr. PORTMAN. Is there not enough incentive in the system now, with this relatively full employment economy we have, to provide that downstream to you, as compared to establishing what you said is a precedent? You said it may be a good precedent to expand on. I am very concerned about that precedent.

We have, in our Medicare and Social Security systems a crisis. We can argue about how serious the situation is, but we simply do not have the payroll taxes coming in to pay for the benefits starting in 13 years. That projection is relatively conservative because of baby-boomers, people living longer, and lower fatality rates.

So to get into the payroll area and create that precedent, not just here, but maybe as an alternative to what some people have talked about with minimum wage. Forget minimum wage; just take it out of the payroll taxes. People have talked about it in terms of the EITC. Forget the EITC, which is a terrible program to administer. There are a lot of problems with EITC in terms of missed payments and fraud. Take it out of the payroll tax.

If we go down this road of payroll taxes, which could start here, I think we are going to find ourselves in even more of a quandary. So I just ask you, is there a way to enrich this program, or simply depend on what we have now, which is a tight labor market, to make sure those benefits slow down to the Goodwills of the world?

Mr. GRANDY. Well, first of all, Mr. Chairman, what I would say is that there is every indication that this tight labor market that I reference in my testimony is going to be with us for some time. At the same time, there is a labor surplus and a growing skill deficit. The people that are being hired do not have the skills to perform the jobs. That does not necessarily just include the people that traditionally have been served by Goodwill.

That is forcing organizations like ours to get much more into remedial education kinds of training, much of which continues after somebody has been placed. For example, the New York City Goodwill has created a program called "Member for Life." You get a little plastic card with a toll-free number on it. That tells the employee and the employer that if this employment situation does not work out, we will go back, either retrain or replace the employee, and simultaneously find the employer somebody whose skill sets are more harmonious with his or her workplace.

But just to give you an idea of the kinds of things we are seeing in our training facilities right now that we know will be ongoing and sustained, we do an enormous amount of computer skills training, because it is so much in demand. What we learn in almost every facility that is doing basic computer skills, word processing and things of that nature, is that our classes are being increasingly staffed with students that cannot read, let alone understand computer language. They don't understand English, or Spanish, or whatever their native tongue is. So we are finding, as every employer is finding, that the cost of training is significant.

Goodwill essentially runs like a business. If our stores don't make money, we don't fall back on grants and loans. We are 95 percent capitalized by private sector dollars. It is very rare that we get Federal, or even State pass-throughs. What we find is that if we can't generate the revenues to increase our training portfolio, we will not be competitive in this business. We will not be able to supply that qualified labor force, whether they are disabled, ex-felons, or welfare moms—or all three.

So, I would again say I can understand from a policy point of view piercing the veil of using a payroll tax in this very narrow instance. I would be the first one to say that I would not use this as a precedent to expand, for whatever laudable social purpose you would want to fund after this. I would say that based on what we have seen with the Welfare-To-Work law, with the Workforce Investment Act, and with Kennedy-Jeffords—all of which are trying to make our organizations more outcome-based and customer focused, and putting dollars into the consumers' hands, as opposed to just going to Government programs, we need to be more competitive. These kinds of tax credits are infinitely better for our organizations to flourish in this competitive environment than broad-based grant programs or some kind of pass-through to the State level.

Mr. PORTMAN. Thank you, Mr. Grandy. I appreciate, again, your testimony. Mr. Houghton, would you like to take the gavel and ask questions?

Chairman HOUGHTON [presiding]. OK, let us have our next panel.

So I am going to introduce everybody. While everybody is getting arranged, I want to thank them very much for being here.

We have the Honorable Don Balfour, a State Senator from Georgia, vice president of the Waffle House, Incorporated, and member of the Executive Committee of the National Council of Chain Restaurants. Thanks very much, Senator, for being here.

Howard Schechter is chief executive officer of PenOp Corporation in New York. Mr. Schechter, I guess I see you over there. How are you? Nice to see you. You are going to have some visuals?

Mr. SCHECHTER. Yes.

Chairman HOUGHTON. Then we have Carlos Espinosa, policy specialist for the Center for Community Change. William Signer—where have I seen you, Mr. Signer? Mr. Signer from the National Employment Opportunities Network; Mark Jacobson, vice president, Corporate Human Service, TJX Companies, and Fred Kramer, director, Community Employment Training at Marriott International.

So why don't we begin? Mr. Balfour, would you give us your testimony?

STATEMENT OF HON. DONALD BALFOUR, VICE PRESIDENT, WAFFLE HOUSE, INC., ATLANTA, GEORGIA, AND MEMBER, EXECUTIVE COMMITTEE, NATIONAL COUNCIL OF CHAIN RESTAURANTS

Mr. BALFOUR. Thank you, Mr. Chairman. I have written remarks that I have brought to the Subcommittee. I ask that they be put into the record in their whole.

I am Don Balfour, vice president with Waffle House. I am appearing today as a member of the executive committee of the National Council of Chain Restaurants.

NCCR represents 40 of the Nation's largest multiunit and multichain restaurant companies. Collectively, these 40 companies own, operate, or franchise more than 80,000 restaurant establishments. NCCR companies, many of which you are familiar with: Waffle House, Pizza Hut, McDonald's, Ryan's, Applebee's, Taco Bell, Little Caesar's, Cracker Barrel, KFC, and Burger King, just to name a few.

NCCR strongly supports and recommends a permanent extension of the WOTC program. Our industry is ideally suited to utilize these tax incentives to facilitate the employment of individuals. NCCR member companies offer convenient locations, entry-level positions with opportunities for advancement, and a steady need for workers.

Since the WOTC was crafted in 1996, over 600,000 individuals have been hired, 86 percent of whom were previously public assistance recipients. In the last 6 months, Waffle House has reached in the local community throughout the Nation and pre-screened over 15,000 individuals. Every one of the 3,000 persons it found eligible were offered employment. Those accepting employment were given extra attention, training, and retention considerations from the unit manager, who in turn was given a bonus for his extra effort. The unit manager also gets a larger retention bonus the longer the employee stays with the company.

In our opinion, the single best reform that can be made to improve the efficiency and effect of the program is to make it permanent, or at least make it a long-term extension. The shortness of the program—1 year, or 9 months—makes it very hard for companies to start the program and to continue it. Permanent renewal makes it easier for companies like ours to make it part of their business strategy. Permanent renewal makes it easier for employers to develop local community outreach programs, and so forth.

Earlier I heard some of you voicing concerns over some of the States, and some of the things that were going wrong in some of the States. I can speak from experience. In Georgia we had some problems. Some of the problems occurred because of the fact that it expired. After it expired, the three or four employees that were doing WOTC the Governor put someplace else they were needed. Four or five months later when it was finally extended, there was a program, but no employees. There was no one who had any history of how the program worked. It was basically started all over again. I cannot over-emphasize the need to make this a permanent extension.

Mr. Chairman, the National Council of Chain Restaurants has a long record of involvement on these programs. As an advocate of the WOTC program, NCCR would recommend that it is a valuable way to reach out and attract workers in an increasingly demanding labor market. Someone had mentioned earlier today about unemployment being close to zero. We may debate if that is the case. But I would suggest to you that those that are left on unemployment at this point in time are the hard-core unemployed. They are the hardest of the hard-core unemployed. If the program were needed, it is needed more now than ever.

I encourage Congress to proceed with the passage of H.R. 2101, and the permanent extension of the WOTC program. Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Donald Balfour, Vice President, Waffle House, Inc., Atlanta, Georgia, and Member, Executive Committee, National Council of Chain Restaurants

Mr. Chairman and Members of the Subcommittee, I am Donald Balfour, Vice President of Waffle House, Inc. I am appearing today as a member of the Executive Committee of the National Council of Chain Restaurants (NCCR). NCCR represents forty of the nation's largest multi-unit and multi-state chain restaurant companies. Collectively, these forty companies own, operate or franchise more than 80,000 restaurant establishments. Chain restaurants are busy in neighborhoods all over America, and you know us as Waffle House, Pizza Hut, McDonald's, Ryan's, Applebee's, Taco Bell, Little Caesar's, Cracker Barrel, KFC, Burger King, and a host of other well known food service brands.

Last night at midnight, the law that brings us all together today—the Work Opportunity Tax Credit (WOTC)—expired again. That is unfortunate for the thousands of disadvantaged individuals who are, or could be, moving from welfare to work under this program. For at least one of the targeted groups eligible for WOTC, 16- to 17-year-old youths working during the summer that live in empowerment zones or enterprise communities, the timing of this expiration is particularly unfortunate. However, it is encouraging to know, Chairman Houghton and Representative Rangel, that you and 22 of your colleagues on the Ways and Means Committee are supporting H.R. 2101, a bill that calls for a permanent adoption of the WOTC. None of the targeted groups should be left without the avenues to employment this statute is intended to provide at all times of the year. Today state employment service offices are taking their WOTC application materials off their desks because under the law WOTC wages ". . . shall not include any amount paid or incurred to an individual who begins work after . . ." midnight last night.

You see, there is a real difference between reinstating the expiring research and experimentation (R&E) tax credit and the Work Opportunity Tax Credit. Corporate accountants can always come back without much difficulty and make the calculations necessary to account for a retroactive reinstatement of the R&E credit. However, business managers who will be making thousands of employment decisions during the period of WOTC expiration don't have that luxury. The real victims of this approach are welfare recipients who want to work but who lack basic skills to get that first job.

NCCR strongly supports and recommends the permanent extension of the WOTC. Our industry is ideally suited to utilize these tax incentives to facilitate the employment of individuals that have extra supervisory costs associated with their initial hiring and training. NCCR member-companies offer convenient locations, entry level positions with opportunities for advancement, and a steady need for workers. Since the WOTC was crafted in 1996, over 600,000 individuals have been hired, 86% of whom were previously public assistance recipients.

Mr. Chairman, between January 1 and June 21, 1999, Waffle House reached out to local communities throughout the nation and pre-screened over 15,000 individuals. Every one of the 3,000 persons eligible for WOTC was offered employment. Those accepting were given extra attention, training and retention consideration from their Unit Managers, who in turn, were given a bonus for their extra effort. The Unit Manager not only gets a bonus for hiring the eligible person, but also gets a larger bonus for retaining that person.

The single greatest deterrent to the full utilization of WOTC is the on-again and off-again nature of the credit. That is true within our industry, and it must be true in others. By advocating a permanent extension, we are not suggesting we are opposed to oversight or changes in the program. We can only report to you that expirations and short-term extensions are counterproductive to those that manage, promote or depend on the WOTC to facilitate the transition to private sector employment.

In our opinion the single best reform that can be made to improve the efficiency and effectiveness of the program is to make it permanent. Here are the reasons why:

- Permanent renewal makes it easier for any business to incorporate WOTC into their routine business strategies and operations.
- Permanent renewal will allow employers to develop local community outreach programs to locate and hire targeted individuals. Several NCCR member companies have such programs, and more companies would if it were not for the interruptions in WOTC itself.
- Permanent renewal would permit the state employment services offices to be more effective administrators of the program. Just as the on-again, off-again nature of the program keeps employers from committing resources to fully utilize WOTC, it keeps the state agencies from committing resources to properly administer the credit.

Finally, Mr. Chairman, the Work Opportunity Tax Credit has been a valuable tool for the Governors in meeting their responsibilities under the welfare reforms enacted in 1996. Quick passage of H.R. 2101 is critical for the reasons I have mentioned. It would demonstrate the contribution of national and state governments in combination with the private sector to achieve the mutual goal of encouraging self-sufficiency in the workplace.

Mr. Chairman, The National Association of Chain Restaurants has a long record of involvement with this program and its predecessors. I hope that our comments have helped the subcommittee today. As an advocate of the WOTC, the NCCR can recommend it as a valuable way to reach out and attract workers in an increasingly demanding labor market. Many of the additional improvements you are suggesting in this legislation seem worthy. These include expanding the definition of wages eligible for the WOTC to include accident and health plan benefits and employer contributions; educational assistance; and dependent care assistance.

NCCR encourages Congress to proceed expeditiously with the passage of H.R. 2101 and the permanent extension of the WOTC.

Thank you.

Chairman HOUGHTON. Yes. OK, Mr. Schechter.

STATEMENT OF HOWARD SCHECHTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PENOP, INC., NEW YORK, NEW YORK, ACCOMPANIED BY YOLANDA PARKER, MANAGING PARTNER, KMS CONSULTING, HOUSTON, TEXAS

Mr. SCHECHTER. Thank you, Mr. Chairman and the Committee. I appreciate the opportunity to speak here. I think our perspective is a little bit different today.

I would also like to introduce Ms. Yolanda Parker, who is the Managing Partner of KMS Consulting, who has helped with designing the technology system infrastructure for Randalls Food Market in Texas in terms of meeting all of the HR requirements. That includes the submission of the WOTC 8850 Forms, which is currently only able to be submitted today in paper. That is the issue that we would like to address and demonstrate to you.

First, I would like to request that my full statement be put into the record.

Chairman HOUGHTON. Without objection.

Mr. SCHECHTER. I am going to be very brief and turn to the technology, eventually, when we can see it. Let us see if it will, in fact, work. This is always the tricky part. I don't know if you are going to be able to see the screen.

Chairman HOUGHTON. Somebody ought to turn the lights down.

Mr. SCHECHTER. I will get there in a second. Some very brief remarks. First, I applaud the committee in previously directing the IRS, in particular, to move to an all electronic submission process for all of us. I think we clearly see that trend taking place in businesses across the United States, and, in fact, around the world, where we are trying to remove paper from our daily processing environment.

In fact in the Government itself in the regulatory bodies like FDA, EPA, and in the States have all used, or are enacting legislation to allow the ability to sign and execute documents electronically. In fact, the governor of Nebraska used our technology to sign into legislation their signature of law. This allows them to accept work today as if it were pen and paper.

Chairman HOUGHTON. You might pull that microphone a little closer to you.

Mr. SCHECHTER. I will surely do that. I think the one anomaly today in the WOTC is the 8850 Form, which is required to be submitted in paper. We think this is putting a burden on the employers who are making a concerted effort to streamline their business processes and be able to deliver an all-electronic medium.

The way we look at it is to simplify not only the work process, but to be able to ensure that it is legal, secure, and something cultural for both the employees and the employer. There seems to have been a question and concern of fraud. I would contend that paper has as much fraud in it today as any other methodology. In fact, I will contend that some of the electronic technology—and hopefully what we will show you today—will show that there is an ability to reduce the fraud process.

With that, I would really like to show you the technology. I think it makes it very simple. In fact, we have gone to the IRS web site and pulled down the 8850 Form, which you can have electronically, but you need to be able to sign it. We have inserted several icons on this document for where signatures would be placed. This is the one of the job applicant.

I would ask someone from the committee or one of the other panelists if they would like to volunteer and sign this document. In essence, what we are doing is asking for the name of the signatory. Do we have any particular volunteers that we might be able to induce to do this? Everyone is afraid that it will be binding. [Laughter.]

Mr. SIGNER. I will sign, but you may not be able to read it.

Mr. SCHECHTER. That is OK. I am just going to type in your name.

Mr. SIGNER. William Signer.

Mr. SCHECHTER. A-R?

Mr. SIGNER. S-I-G-N-E-R.

Mr. SCHECHTER. S-I-G-N-E-R.

Mr. SIGNER. Right.

Mr. SCHECHTER. OK. If you will read the intent statement. Just like any person who is walking into any employment office for any company that taking place in WOTC, they would have the name of the individual. They would have the reason they are signing a document to create that legally-binding environment. Once you have read that, we will say, "Sign." We are encrypting this document to protect it from being altered. If you will just sign on the dotted line like you would anything else. We will hit "Enter."

The document is signed, and it is almost ready to be submitted with the entire package for employment, including an I–9, which can be submitted electronically. I will now sign this document. I will tell who I am and why I am signing. I will effect a signature. By doing so, this form is now ready for sending off.

I have done a couple of things here.

Chairman HOUGHTON. Is that your signature?

Mr. SCHECHTER. Well, I intentionally signed it poorly for a particular reason. I want to address the concern over fraud and alteration to the document.

We are all familiar with what we do on a piece of paper. We make an assumption that once it is signed on a piece of paper, no one touches it or does anything with it. That may or may not be quite true.

If I go into any one of these paragraphs and bring up the tool to eliminate some text, which I have just done, and tap on "a signature," I can check this document and verify whether anything has changed. It says it has changed since it was last signed. When it does that, it will come back and invalidate that signature. So it protects the document from being altered in any shape and form, ensuring that when it is sent electronically, it will stay in the permanent form.

The other aspect is from an employer standpoint, given my policies and procedures inside my company, I can take my particular signature and enroll me so that I have signatures on file that I can compare—my signature dynamics. If you look at the laws in Texas, Nebraska, and soon to be New York, this is required. I can compare it against any other signature I have on file. Lo, and behold, it says that signature does not look like anything that I have ever signed before. My policies and procedures inside my company would not accept that, and therefore would not process this form. This would hopefully eliminate any of the potential fraud that could circulate around the filing of this document.

With that, thank you.

[The prepared statement follows:]

Statement of Howard Schechter, President and Chief Executive Officer, PenOp, Inc., New York, New York

Chairman Houghton, Congressman Coyne and Members of the Subcommittee, my name is Howard Schechter, Chief Executive Officer of PenOp, Inc. I am pleased to testify before this subcommittee on the Work Opportunity and Tax Credit (WOTC). I am accompanied by Ms. Yolanda Parker of Randalls Food Markets Inc. of Texas.

By way of background, PenOp is a New York-based developer of software for electronic signatures. As a Chief Executive Officer of an electronic commerce company, I congratulate both you Mr. Chairman and members of the Subcommittee in incentivizing the Internal Revenue Service (IRS) to achieve 80% electronic filing of income tax returns by 2007. As a business man I am also supportive of the IRS's efforts to develop a new model of account management to increase electronic filing.

That is why I am puzzled by the IRS's reluctance to allow the electronic filing of IRS Form 8850. Mr. Chairman as you know, IRS Form 8850 is the form utilized by the IRS and the employer to establish a record that the job applicant is a member of the Work Opportunity Tax Credit (WOTC) target group and/or the Long Term Family Assistance group. Presently, under IRS rules, IRS Form 8850 must be prepared and signed by employers and employees in ink. It is my understanding that IRS regulations do not allow this form to be filed electronically because they might be subject to increased fraud.

We at PenOp share the IRS's concern about fraud, however we also believe that the service's insistence on paper and ink is an unnecessary and costly burden to employers. A particular example of such an employer is Randalls Food Markets Inc. of Texas.

Randalls Food Markets is one of the many companies participating in the WOTC program. As a corporation, Randalls is committed to welfare reform and has hired hundreds of individuals off the welfare rolls. Randalls believes that the WOTC program is an effective means of incentivizing private employers to hire individuals who, but for this program, might still be on welfare. However, this subcommittee must understand that there are certain costs, some unnecessary, which a private corporation must incur to participate in this worthwhile program.

It is Randalls' belief that the Congress and the IRS have developed the WOTC application and certification process with the intent of safeguarding against fraud but also that it be efficient and easy for employers to use. By insisting on a pen and ink signature as the only acceptable means to guard against fraud, the IRS has increased the inefficiencies and cost in obtaining the credit. In my opinion, this creates a serious disincentive for willing companies to participate.

Randalls Food Markets Inc. like many other companies, has invested significantly in the automation of their application and hiring processes. Currently all employment applications and other hiring paperwork with the exception of the WOTC applications are completed electronically. The anomaly in this process is Form 8850 and it's requirement that the form be completed and signed in ink. Processing of this single piece of paper, in an otherwise electronic process, therefore becomes quite expensive.

Adding to the frustration, is a current backlog of WOTC certifications that exists in the state of Texas. Randalls has received certifications of less than half of their WOTC eligible new hires. Based on budgetary constraints and technological challenges, it is likely that this backlog will continue for some time.

As I indicated previously, we at PenOp are concerned about possible fraud in the application process. While we believe that fraud is the exception rather than the rule, we in the private sector and you in the Congress must not underestimate the IRS's concern.

However, we at PenOp believe that there are other and more cost efficient ways to safeguard against fraud while expediting the application and certification process. We believe that the fraud risk can be addressed by utilizing secure electronic signatures technology. In fact, we believe an electronic version of form 8850, bearing a secure electronic signature, is a greater deterrence to fraud than paper form.

A secure electronic signature involves a person, whether employee or employer, picking up an electronic stylus or pen and using it to sign the person's autograph on a digital tablet attached to a computer. Software in the computer would measure the unique qualities of the person's signature and attach those measurements, together with an image of the signature, date and time and other auditing information, to an electronic version of Form 8850. The proper use of cryptography would prevent anyone from clipping the signature from one document and pasting it to another. The reliability of this process, and the quality of the evidence gathered, could be much greater than that provided by paper and ink.

I recommend that this subcommittee consider legislation authorizing electronic signatures or a comparable authentication process as an acceptable method under the application and certification procedure.

The secure signature method proposed here is regularly used in consumer sales transactions by insurance companies such as American General Life and Accident Insurance Co.. Before beginning to use the method in the 26 states where American General does business, the company received approval from the relevant state insurance commissioners.

I further suggest that the following rules would apply:

1. A "secure handwritten signature" would satisfy these standards:

a. It would capture an image and forensic measurements of the signature.

b. It would store the image and measurements, plus date/time, name of signer, checksum of the Form and reason for signing, in an electronic envelope.

c. The checksum would have to ensure that the envelope is reliably connected to the content of the Form.

d. The envelope would be encrypted.

2. Secure handwritten signatures would be captured at the employer's location on an electronic version of Form 8850.

3. The employer or its agent would undertake to store the original electronic form and signature the required number of years.

4. The employer or its agent would transmit to the relevant state employment security agency the type of image of the signed Form (including image of the signatures) desired by the agency. This could be either (a) the electronic version sent via electronic communication, (b) a fax of the Form, or (c) a paper printout delivered physically. With this transmission the employer would undertake to store the original electronic record and make it available for audit.

Mr. Chairman, I once again thank you, the members of your subcommittee and the staff for allowing me to testify. Both Ms. Parker and I would be pleased to answer any questions.

Chairman HOUGHTON. Thank you very much. That is fascinating. OK, now, Ms. Parker.

Ms. PARKER. I am here to answer questions.

Chairman HOUGHTON. You are here to answer questions. OK. We will move along to Carlos Espinosa.

STATEMENT OF CARLOS ESPINOSA, POLICY SPECIALIST, CENTER FOR COMMUNITY CHANGE

Mr. ESPINOSA. Good morning, Mr. Chairman and Members of the Subcommittee. My name is Carlos Espinosa, and I am a policy specialist with the Center for Community Change, a national non-profit organization that provides assistance to organizations in low-income communities across the country.

I appreciate this opportunity to testify before you today to discuss our concerns with the Work Opportunity Tax Credit. In my testimony today, I would like to summarize my extended comments by making the following points.

We are concerned that the Work Opportunity Tax Credit is not generating new jobs. There is some evidence that suggests employers may be using WOTC in a manner that turns over low-wage workers in order to maximize the value of the credit by replacing existing employees with new credit-bearing workers. The program's current design makes it impossible to assess whether WOTC is resulting in new job creation, or whether it is extensively promoting the churning and displacement of workers no longer eligible for the credit. In addition, we believe there is a correlation between the companies with the greatest turnover, and those receiving the largest windfalls.

The first step in improving the program's effectiveness is to collect and disclose information that focuses on the worker, by tracking retention periods after the credit is exhausted. This would uncover whether the program is facing some underlying challenges.

Also, the Labor Department's employment and training administration should, as part of WOTC's annual self-evaluation, disclose the names of the companies receiving the credit in excess of $100,000. This accountability too will help expose companies who are abusing the program.

We strongly believe the WOTC's effectiveness could be increased if more programmatic information were disclosed, and regulations written for the program. Specifically, the regulations should include, but not be limited to information that discloses the number of WOTC employees, and total number of employees in the same job categories that WOTC employees are being hired into, and disclose the number of WOTC employees who continue to work for the company 6 months after the credit is exhausted, as well as the number who are no longer so employed with the company.

This information, which is vital to the program's management, will allow the ETA to better track individuals and employers participating in the program in order to determine whether a deliberate turnover of non-WOTC-eligible employees is occurring in the same periods employers are hiring WOTC-eligible applicants. This collection of additional information that focuses on results-oriented assessments will provide administrators the ability to draft more extensive evaluations of the program, which, in turn, would allow Congress to make better policy recommendations.

Moreover, we believe there is a strong correlation between the companies receiving the greatest windfalls and those with the highest turnover of non-WOTC-eligible workers. Therefore, in order to maintain accountability, and create a disincentive for abuse, an addendum ought to be included in the program's annual self-evaluation that lists the companies for the fiscal year receiving the credit in excess of $100,000.

Clearly, whatever your perspectives on the merits of this program, the disclosure of information can only make for better public policy. Thank you, Mr. Chairman. That concludes my testimony.

[The prepared statement follows:]

Statement of Carlos Espinosa, Policy Specialist, Center for Community Change

Good morning Mr. Chairman and members of the committee, my name is Carlos Espinosa and I am a policy specialist with the Center for Community Change. I appreciate this opportunity to testify before you today to discuss our concerns with the Work Opportunity Tax Credit.

THE CENTER FOR COMMUNITY CHANGE

The Center for Community Change is a national non-profit organization that provides technical assistance to community-based organizations in low-income and predominantly minority communities around the country. We work with a broad range of organizations, all of which are working to improve the quality of life in their neighborhoods through a range of strategies. These strategies include community organizing, housing and community economic development, service provision, and advocacy. The organizations we work with are governed and controlled by low-income people.

Introduction

For over twenty-five years, many have raised concerns about the validity of employment tax credits. Theoretically, the credit is an inducement to cover the additional costs associated with hiring 'hard-to-employ' individuals from disenfranchised backgrounds. Over this time period, billions in forgone tax revenue were lost to companies participating in these employment programs. But to what result? Is this the best use of limited resources? In the end, we do not know because the program lacks access to data that would allow us to assess the program's merit.

Similarly, the program has faced several programmatic challenges over its existence. These challenges have not been accurately addressed partly because vital performance information is not sought by administrators, nor reported to the public. These challenges compromise the program's effectiveness and intended goals -to provide disenfranchised populations the opportunity of entering the labor market.

Summary

In my testimony today, I'd like to make the following two points:

(1) We are concerned that the WOTC program is not generating new jobs, but rather replacing old 'credit-less' workers with new 'credit-bearing' ones. There is some evidence that suggests some employers may be using WOTC in a manner that turns over low-wage workers in order to maximize the value of the credit. The program's current design makes it impossible to assess whether WOTC is resulting in extensive and pervasive churning and displacement. In addition, we believe there is a correlation between the companies with the greatest turnover and those receiving the largest windfalls.

(2) The first step in improving the program's effectiveness is to collect and disclose information that focuses on the worker by tracking retention periods after the credit is exhausted. This would uncover whether the program is facing some underlying challenges. Also, the Labor Department's Employment and Training Administration should disclose the names of companies receiving the credit in excess of $100,000 in an addendum to the program's annual self-evaluation. This accountability tool will help expose companies who are abusing the program.

Churning and Displacement: Is this Really Occurring?

Critics have long been concerned that the WOTC program promotes the churning and displacement of employees whose credit was exhausted. Unfortunately, data is not collected in a manner that allows administrators to determine whether employers are intentionally turning over their non-WOTC eligible workforce. Program audits conducted by the Department of Labor's Office of Inspector General (OIG) on WOTC's predecessor—the Targeted Jobs Tax Credit (TJTC)—uncovered several concerns, but never openly addressed the issue of churning, nor displacement. Clearly, these issues should actively be pursued by DoL administrators.

In 1991, a small scale OIG audit of Tennessee's TJTC program briefly highlighted the concern. The audit discovered that "some employers were laying off employees in the same job classifications and in the same quarters in which they were hiring TJTC applicants" (DoL OIG 1991).

This statement was disputed by the Tennessee Department of Employment Security, citing that ". . . it would be extremely difficult to draw any valid conclusions regarding employer exploitation of the TJTC program without performing on-site audits of employer personnel records and their employment practices" (1991).

In Baltimore, Maryland, a group of workers under a living wage contract at Patterson High School where laid off and replaced by a private for-profit company who hired low-wage welfare recipients. Without the disclosure of additional information and more detailed evaluations, we cannot know whether WOTC is generating *net new* jobs, or whether it is contributing to an already volatile low-wage labor market.

The Windfall and its Effects on Churning and Displacement

Audits by the Department of Labor's Office of Inspector General (OIG) indicate that employment tax credits provide no incentive for businesses to hire individuals from targeted populations, yet the public has no access to the names of these companies and amount of public subsidy they receive. In 1994, for example, the OIG found that "nationally, we project that employers, . . . would have hired 92 percent of the individuals even if the credit had not been available" (DoL IOG 1994). This finding, echoed in a 1993 audit of Alabama's program, discovered that employers would have hired 95 percent of participants regardless of the tax subsidy.

Linda Levine of the Congressional Research Service (CRS) wrote in her review of TJTC from 1978 to 1994 that "[p]erhaps somewhere between 70 percent and 90 percent of the credits claimed under the TJTC program were for hiring that would have occurred without benefit of the credit. It appears, then, that amendments to the TJTC which Congress enacted to minimize windfalls did not often achieve their purpose" (Levine 1995).

Another CRS report on TJTC described the windfall from another angle. In their assessment of TJTC from 1978 to 1987, employers were increasingly using management assistance companies (MACs) to screen already hired workers for firms—that is they identify TJTC-eligibles after firms have made their hiring decision, but before the individuals started working. Consequently, the report discovered that "most of the certifications generated by MACs represent windfalls to employers" (LeGrande 1987).

Clearly, the financial windfall generated by this program is a natural phenomenon that cannot be eliminated. However, given the program's current design and lack of disclosure, no one knows the extent to which taxpayer dollars are being wasted or whether companies receiving the greatest windfall are turning over workers in order to maximize the credit.

The First Steps to Improving the Program: Disclosure

We strongly believe that WOTC's effectiveness could be increased if more programmatic information was disclosed and regulations written for the program. The following information should be disclosed:

- An addendum to WOTC's self-evaluation that reports retention rates of participants by tracking individuals during and for a period of time after their credit has exhausted. This information, which is vital to the program's management, will allow them to better track individuals and employers participating in the program in order to determine whether the deliberate turnover of non-WOTC eligible employees is occurring during the same periods employers are hiring WOTC eligible applicants. The collection of additional information will also provide the Employment and Training Administration the ability to draft more extensive evaluations of the program, which in turn will allow Congress to make better policy recommendations.
- Another addendum to the evaluation should list the companies, for that fiscal year, receiving the credit in excess of $100,000. We believe there is a strong correlation between the companies receiving the greatest windfalls and those with high turnover of non-WOTC eligible workers. Therefore, in order to maintain accountability, provisions should be included to authorize the ETA to include this listing.

Thank you, Mr. Chairman. That concludes my testimony.

Chairman HOUGHTON. Thank you very much. We really appreciate that.

OK, now we go to Mr. Signer.

STATEMENT OF WILLIAM A. SIGNER, CHAMBERS ASSOCIATES INC., AND COUNSEL, NATIONAL EMPLOYMENT OPPORTUNITIES NETWORK

Mr. SIGNER. Good morning. My name is Bill Signer. I am here today in my capacity as counsel to the National Employment Opportunities Network, "NEON," a group of management assistance companies who provide technical services to thousands of employers who have hiring tax incentive programs.

I would like to begin by noting, and it has already been noted this morning, that this hearing is taking place on the first day of the Work Opportunity and Welfare-to-Work Tax Credits having expired. From past experience, we know these interruptions have a dramatic adverse impact in the programs' effectiveness.

Employers must evaluate whether they want to continue assuming the extra costs and risks of hiring welfare recipients. Some decide not to. Others scale back their efforts. Perhaps most damaging, a program hiatus always results in dramatic increases in processing backlogs in the States. This inevitably leads to certification denials due to lost or misplaced paperwork. That is why NEON and the thousands of employers we work with are pleased to support Chairman Houghton and Mr. Rangel's bill, H.R. 2101, which calls for a permanent extension, and a merger of the two programs.

Because DOL and IRS have done their jobs, most States have well-run programs. Employers are responding. They actively search for WOTC-eligible workers. For your review, I have attached to the back of my testimony an example of the type of outreach program that is going on. Outreach is conducted in various ways by a lot of employers.

They pre-screen all job applicants. They have retrained hiring managers and made adjustments to integrate unskilled individuals into the workplace. These changes are disruptive, frustrating, sometimes rewarding, and always expensive. The bottom line: Employers have expanded their hiring pool to dramatically increase the number of public assistance recipients and others with limited job skills they interview and hire.

Over 80 percent of those hired under WOTC came off the public assistance rolls. That is a record, Mr. Chairman, which you, Mr. Rangel, and this Committee should be proud of. The tax credits make this possible. Without them, most employers would drastically reduce or eliminate their welfare hiring programs.

While generally the program is working well, there are two concerns the WOTC community hopes can be addressed this year. The first is the fact that few males are being certified in the program. Second, as you have heard earlier, in about 8 to 10 States there are significant processing backlogs.

We estimate that only 21 percent of the program participants are male. Most employers participating in the program would like to target more males. Despite their best efforts, young men coming from households dependent upon public assistance are not being certified. While better cooperation between the State job services and food stamp offices could help, we also recommend that you modify the definition of who is a member of a family on welfare to include the parents, the step-parents, the siblings, the step-siblings, and legal guardians living in the household of a child on welfare. Such individuals living in a welfare household share the same obstacles to finding work as those currently being certified.

The problem of processing backlogs is also very frustrating. Most States process requests for certification within 30 days. Some States have significantly longer backlogs. In those States, employers question the value of the program. We have been working with both DOL and Treasury, and have made significant modifications in some of our proposals to reflect those concerns. We are currently working with the State job services to further refine our proposal. We hope to have something for you by the time of markup.

At this point, our thinking is that we would like to propose that the committee, to help ensure a reasonably timely certification process, leave it up to the employers who are saying, "Look, if we can't get something out of job services, we are willing to go over to the agencies that are responsible for verifying eligibility." The employer wuold go in and have the agency fill out a form, which we have talked to DOL about putting together.

As John Beverly talked about earlier, DOL has conditional certifications. We would like that to be used for the purposes of the employers' gathering the information and providing it to the job services so that they have what they need to make a determination whether someone is eligible. At that point, we would ask that the job services, in a timely, expedited process, make a decision as to whether the person is or isn't eligible.

There are number of other issues which we would like to bring to the Committee's attention. We strongly oppose the Administration's proposed processing fee that was in their budget. Employers already incur more costs than are offset by the credit.

Because the pre-screening form is now part of the job application, any program modification necessitating a change in the form poses a real problem. We heard the discussion about adding foster care this morning. The problem for employers is that it will be difficult to retrieve the existing job applications. If they file the wrong form they will not get a certification. Employers would like some sort of grace period in which they could file the existing pre-screening form, as long they are hiring somebody from an existing category.

Finally, I was very impressed by what I saw this morning. We are concerned that the integrity of the program is dependent upon making certain that the pre-screening notice is filled out and signed by the job applicant before he or she is offered a job. Thus, we would support allowing the faxing—which is not allowed now—of a signed pre-screening form. We have no objections to the electronic filing, as was shown here, of the pre-screening form so long as safeguards are put into place to ensure an original form is signed by the job applicant, and is maintained on file so that it can be verified at audit.

Again, please let me thank you for the opportunity to present the views of NEON, and the thousands of employers we work with.

[The prepared statement follows:]

Statement of William A. Signer, Chambers Associates Inc., and Counsel, National Employment Opportunities Network

Good morning, my name is Bill Signer, and I am pleased to have this opportunity to appear before the Subcommittee today in my capacity as Counsel to the National Employment Opportunities Network (NEON). NEON is comprised of management assistance companies who provide technical services to thousands of employers who have established hiring tax incentive programs. The services they provide include: designing a system for an employer to participate in welfare to work hiring tax incentives; training hiring managers in how to pre-screen those eligible; establishing sophisticated outreach programs designed to maximize the pool of Work Opportunity and Welfare to Work Tax Credit eligible job applicants interviewed; helping complete, file, and track the paperwork required to ensure that an employer receives the certification needed to claim the credit; and working directly with state employment services to assure that persons eligible for the tax credit are certified by the states.

I would like to begin by noting that this hearing is occurring on the first day after the Work Opportunity and Welfare to Work Tax Credits expired. As you know, last year the program experienced a 3½-month hiatus. From past experience, we know these interruptions have a dramatic adverse impact on the programs' effectiveness.

First of all, employers who are currently participating in the program must evaluate whether they want to continue assuming the extra costs and risks associated with participating. Some decide not to. Others scale back on their efforts. Employers not currently participating either defer their decision or lose interest all together. Perhaps most damaging, a program hiatus always results in dramatic increases in processing backlogs by the state job services. This inevitably leads to certification denials due to lost or misplaced paper work.

That is why NEON and the thousands of employers we work with are pleased to support Chairman Houghton's and Mr. Rangel's bill, H.R. 2101, The Work Opportunity Tax Credit Reform and Improvement Act of 1999, which calls for a permanent extension and merging into one program both the Work Opportunity and Welfare to Work Tax Credits. I also want to commend the principal sponsors on the fact that their bill enjoys the support as co-sponsors of almost every member of this Subcommittee as well as a majority of both Republicans and Democrats on the full Committee.

The disruptions that result from a hiatus are particularly unfortunate in light of the fact that in the vast majority of the states the WOTC/Welfare to Work community believes that the program is working extremely well. This is in large part due to the excellent job that has been done by the Department of Labor's United States Employment Service headed by John Beverly, and the IRS team headed by Robert Wheeler. Both have done an incredible job in setting up the program and in being responsive to the concerns of employers.

But what is even more encouraging is that over the past two years and nine months since the inception of WOTC, employers have responded positively to what this Committee and the Congress wanted. Employers participating in the programs have embraced the idea that in order for the program to work correctly they had to dramatically change their hiring practices. They have willingly done that and, as a result, have expanded the breadth of their hiring pool to include public assistance recipients and others with limited job skills and minimal work experience. Over 80% of those hired under the two tax credit programs came off the public assistance rolls, that is a record, Mr. Chairman, of which the Congress should be proud.

Since October of 1996, employers have responded in a number of ways to the enactment of the WOTC program. These include:

- Making sure that the mandated "Pre-Screening Form" is filled out as part of the job application provided each entry level applicant;
- Establishing extensive corporate wide training programs for hiring managers to inform them of the company's commitment to hiring those eligible as well as to instruct them in how to help a job applicant fill out a pre-screening form;
- Providing hiring and retention bonuses for store and hiring managers;
- Establishing extensive corporate outreach programs designed to maximize the number of WOTC/W-t-W hires; and
- Undertaking mentoring programs to insure a successful transition into the work place.

Because of the added costs involved in setting up and operating those activities as well as the added training costs and relatively high drop out rate involved, few companies could afford to justify such extensive efforts without the partial financial offsets provided by the Work Opportunity and Welfare to Work tax credits. Certainly, the extensive efforts and costs involved should dispel any notion that hiring tax incentives are a windfall to the employer.

While, generally the program is working well. There are two concerns that the WOTC/Welfare to Work community hope can be addressed this year. The first is the fact that few males are being certified in the program. Second, in about ten states there are significant processing backlogs.

We estimate that only about 21% of program participants are male. This conclusion is based on a large sampling of about 90,000 hires in calendar year 1997 and another 96,000 in 1998. Most employers participating in the program would like to hire more males, but despite their best efforts, young men coming from households dependent upon public assistance are not being certified. There are two reasons for this. First, the vast majority of states are qualifying very few people through the food stamp program, the category under which young men and women were originally supposed to qualify. Second, the definition of a member of a family on welfare has been so narrowly interpreted that it only includes those on the welfare grant and not those living in the household once they turn 18 and are no longer eligible for welfare.

While better cooperation between the state job services and food stamp offices could help to alleviate this problem, we also recommend that you modify the definition of who is a member of a family on welfare to include the parents, stepparents, siblings, step-siblings and legal guardians living in the household of a child on welfare. We believe that anyone who is living in a household with a child on welfare who meets this definition is the type of person who the Committee originally intended to assist through WOTC and Welfare to Work Tax Credits. Inevitably, such individuals living in a welfare household share the same obstacles to finding work as those currently qualifying under the program and so deserve assistance. We urge the Committee to make this change.

The problem of processing backlogs is even more troubling. Most states process requests for certification within 30 days of receiving the paperwork from the employer. Yet some states are backlogged anywhere from 6 months to as much as 2 years. In those states, the employers involved have a great deal of difficulty in motivating their hiring managers to actively participate in the program and some employers have discontinued their WOTC programs in certain problem states. If employers are going to continue to participate in the national welfare to work initiative, they need the assurance that the program will work the way it was intended to.

To address this problem, we recommend that the Committee proscribe a series of steps that will ensure a reasonable certification process. Employers have indicated that when there are unreasonable delays, they are willing to assist the job service to obtain the information needed to verify eligibility. Thus, we propose that if a state job service has not acted on a certification request within a specified period of time after an employer has filed the necessary paperwork, the employer would have the right to go to the agency responsible for verifying eligibility (welfare, Social Security, food stamps, parole officer, etc.) and ask it to fill out a DOL form that verifies eligibility. That form would then be filed with the job service which would either issue a certification or provide specific reasons as to why the applicant is not eligible. A 90-day processing standard is what DOL already expects from the states in the WOTC/Welfare to Work Handbook. We would propose that similar procedures also apply to employer appeals of denials of certifications.

We have had extensive discussions with both DOL and Treasury about this proposal and have made significant modifications to reflect the concerns they raised with us. We are currently working with the state job services to further refine our proposal and hope to have the details worked out before you go to mark up.

There are a number of other issues we would like to bring to the Committee's attention.

• Since the pre-screening form (IRS form 8850) is now part of the employer's job application, program modifications that necessitate a change in the 8850 are very costly for employers, especially if they must change over to the new form in a relatively short time frame. Employers would find it much less burdensome if they could have a grace period which would allow them to replace the pre-screening form through their normal process of restocking job applications.

Thus, we would propose that for at least one year after any change is adopted that requires a modification of the 8850, employers could use either the old or new 8850. This grace period would not apply if they hired someone from a newly added category. In that situation, they would be required to use the new form.

• We are opposed to the Administration's FY 2000 Budget proposal to charge employers a user fee in order to receive a certification. Many employers participating in WOTC and the Welfare to Work Tax incentives are doing so despite the added costs that are not fully being offset by the credits provided. To expect employers to make cash payments to the government on top of the extra costs already incurred when hiring welfare recipients, would in many cases result in their abandoning the programs.

In addition, $20M a year has been appropriated out of Wagner-Peyser Trust Fund for the state job services to administer WOTC and W-t-W. The Unemployment Insurance Tax funds the Wagner-Peyser Trust Fund, which in turn funds the services provided to employers and workers from the state job services. Thus, in effect, if employers were required to pay for certification services, they would be asked to pay for something they have already paid for through the unemployment tax. Charging a user fee would almost certainly discourage many small businesses from participating in the program by adding a new up front cost to what many of them already believe is a program which presents too many administrative hurdles to be worth participating in.

• As a community, we are concerned about recent proposals to allow electronic filings of the pre-screening notice IRS form 8850. We believe that the integrity of the program is dependent upon making certain that the pre-screening notice is filled out and signed by the job applicant before he or she is offered a job. Therefore, if electronic filing is to be permitted, we recommend that employers be required to maintain an original pre-screening form for at least 5 years after a certification has been granted. This would provide a legitimate control against undercutting the Committee's original intent in requiring that the pre-screening form be filled out and signed before the job offer is made.

As an intermediate step, we would encourage the Committee to allow the faxing of pre-screening forms since that would result in a signed form being filed with the local job service.

• To reduce the paperwork burden on employers, we would encourage that the pre-screening form and the Individual Characteristics Form (ICF) be made into one form. The ICF is a DOL form which provides the backup information the job service needs to verify eligibility. While we have no problems with the form itself, employers would find it much easier to fill out and file a single comprehensive form.

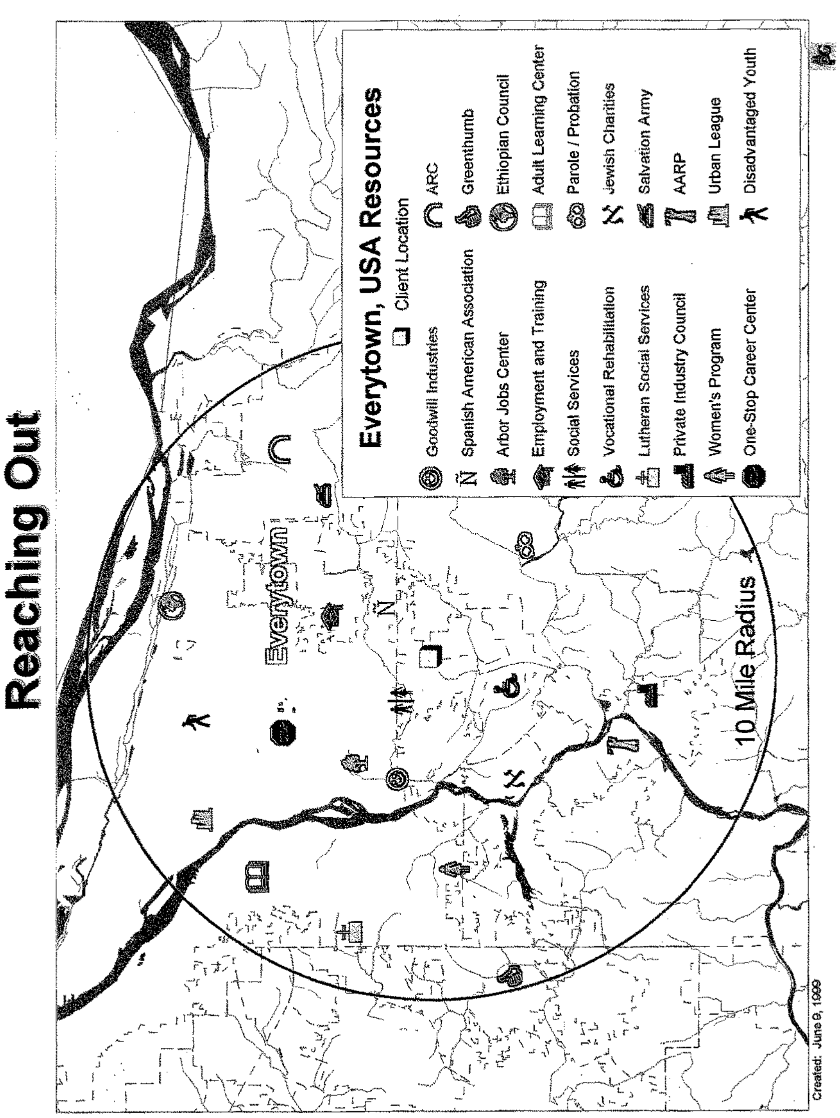
• Finally, while the entire WOTC/Welfare to Work Tax Credit Community actively supports a permanent extension of the program, past experience indicates that this may be difficult. On this point, we urge the committee to reflect on three points:

1. Hiring tax credits are no longer an experiment. The results are in. They work very well. Tax measures that do what they are supposed to should be made permanent.

2. If revenue constraints prohibit a permanent extension, I urge you to grant a multi-year extension. The program suffers significantly with annual extensions, and fewer welfare recipients get jobs.

3. If you are forced by circumstance to grant a multi-year extension, please move the expiration date from June 30. Based upon past experience Congress never completes a tax bill by June 30, and rarely finishes before the end of the fiscal year. Thus a June 30 expiration virtually assumes a disruptive program hiatus. Since the money needed to administer the program is provided on a fiscal year basis we would urge that the Committee move any expiration date to September 30 or December 31.

Again, please let me thank you for this opportunity to present the views of NEON and the thousands of employers they represent.


Reaching Out
Everytown, USA Resources
Client Location
Goodwill Industries
Spanish American Association
Arbor Jobs Center
Employment and Training
Social Services
Vocational Rehabilitation
Lutheran Social Services
Private Industry Council
Women's Program
One-Stop Career Center
ARC
Greenthumb
Ethiopian Council
Adult Learning Center
Parole / Probation
Jewish Charities
Salvation Army
AARP
Urban League
Disadvantaged Youth
Everytown
10 Mile Radius
Created: June 9, 1999

REACHING OUT

Resources for Everytown, U.S.A.

Greater Everytown Works Project
Private Industry Council of Everytown
8510 Career Path Drive
Everytown, US 12345
800-555-2200 (phone)
800-555-2201 (fax)

Ethiopian Community Development Council
121 Church St.
Everytown, US 12345
800-555-9987 (phone)
800-555-9988 (fax)

Arbor Jobs Center
1319 Goodjob Rd.
Everytown, US 12345
800-555-5591 (phone)
800-555-5592 (fax)

Everytown Office of Employment & Training
Department of Labor and Industry
111 Bureaucrat Drive
Everytown, US 12345
800-555-6363 (phone)
800-555-6362 (fax)

Department of Social Services
1817 Welfare Ave.
Everytown, US 12345
800-555-8899 (phone)
800-555-8898 (fax)

United Jewish Charities Jobs Readiness Cntr
1014 Main St., NW
Suite 200
Everytown, US 12345
888-555-9137 (phone)
888-555-9134 (fax)

Salvation Army of Everytown
55 14th St. SE
Rm 301
Everytown, US 12345
800-555-1000 (phone)
800-555-1003 (fax)

One-Stop Career Center
1200 First Street, NW
Everytown, US 12345
888-555-9999 (phone)
888-555-1111 (fax)

ARC
1492 Dove St.
Everytown, US 12345
800-555-9874 (phone)
800-555-9871 (fax)

Greenthumb of Everytown, Inc.
121 Wye Knot Blvd.
Everytown, US 12345
888-555-6321 (phone)
888-555-6322 (fax)

Spanish American Civic Assoc.
8917 Main St. NW
Everytown, US 12345
800-555-5500 (phone)
800-555-5550 (fax)

ESO Women's Program
1917 Smith Court
Everytown, US 12345
888-555-2233 (phone)
888-555-2234 (fax)

Adult Learning Center
55 Helping Hand Drive
Everytown, US 12345
800-555-5440 (phone)
800-555-5541 (fax)

AARP
1255 Whippersnapper Rd.
Everytown, US 12345
800-555-1000 (phone)
800-555-1001 (fax)

Office of Parole & Probation
Dept. of Correctional Services
100 Jailhouse Rd.
Everytown, US 12345
800-555-0911 (phone)
800-555-0912 (fax)

Everytown Urban League
654 Get Smart Lane
Everytown, US 12345
888-555-3333 (phone)
888-555-3332 (fax)

Lutheran Social Services
Job Readiness Center
166 18th St., SE
Everytown, US 12345
888-555-8888 (phone)
888-555-8889 (fax)

Ben Stern Center for Disadvantaged Youth
9814 Broken Heart Parkway
Everytown, US 12345
800-555-8581 (phone)
800-555-3371 (fax)

Goodwill Industries, Inc.
9811 Pine St.
Everytown, US 12345
800-555-6654 (phone)
800-555-6655 (fax)

Department of Vocational Rehabilitation
1313 Getwell Rd.
Everytown, US 12345
800-555-7391 (phone)
800-555-7392

June 9, 1999 Courtesy of APG, Inc.

[An attachment is being retained in the Committee files.]

Chairman HOUGHTON. Thanks, Mr. Signer, very much.
Mr. Jacobson.

STATEMENT OF MARK JACOBSON, VICE PRESIDENT, CORPORATE HUMAN SERVICES, TJX COMPANIES, FRAMINGHAM, MASSACHUSETTS

Mr. JACOBSON. Good Morning. My name is Mark Jacobson.

Chairman HOUGHTON. Pull that just a little closer to you—the mike—will you?

Mr. JACOBSON. How is that?

Chairman HOUGHTON. Fine.

Mr. JACOBSON. I am here today in my capacity as the vice president of corporate human services for the TJX Companies. We are in Framingham, Massachusetts.

TJX is a leading national and worldwide off-price retailer of apparel and home fashions. I hope that you know us across the United States under the name of T.J. Maxx stores, Marshalls stores, regionally as HomeGoods, and our newest business that we are optimistic about, A.J. Wright. We are in 47 States. We have seven distributions centers scattered across the Nation. We have nine regional offices. We employ approximately 65,000 associates.

I am here today in support of H.R. 2101, the Work Opportunity Tax Credit Reform and Improvement Act of 1999, which the Chairman and Mr. Rangel have introduced. We are especially appreciative that H.R. 2101 would make the Work Opportunity and Welfare-to-Work Tax Credit programs permanent. This would bring a desperately needed continuity to the program, and allow us to dedicate additional resources for Welfare-to-Work efforts.

Two years ago, our chief executive officer, Ben Cammarata, pledged to the President that TJX would hire 5,000 welfare recipients. As soon as we heard that number, we were terrified because we wondered how we were going to do that. We set our goal to do that by the end of the Year 2000.

I am proud to announce that we have not only met our goal, but we have exceeded it. With the assistance of the hiring tax incentives, in just over 2 years' time we have hired more than 9,700 individuals who were previously on public assistance. During these past 2 years, we at TJX have learned what everyone else in the country who has participated in this national Welfare-to-Work initiative has come to understand: most of the individuals coming off of welfare really want to work. Even more importantly, they do become productive and prized employees.

Our experience tells us that those on welfare face numerous barriers to succeeding in the workplace. All of these challenges have real costs associated with them. In our corporate environment, we have to offset those costs. The way that we do that is partially through the Work Opportunity and Welfare-to-Work Tax Credits. This has made it economically feasible for us to devote the resources and the creativity to try to address some of the challenging problems that make it difficult for us to be successful.

Early on in our efforts, we realized that if we were to achieve our goal of hiring 5,000 welfare recipients, even with the help of hiring tax incentives, we could not just sit back and wait for those eligible to come to us. Rather, we had to establish a corporate hiring policy, and impress on each of our store and hiring managers that this was not only something that we wanted them to do—that we thought was good for the company and good for the country, but that we expected them to do it. This required a significant corporate-wide effort to communicate our new hiring policy, to incorporate into every job application the pre-screening form, and, of course, to train our hiring managers on how to assist job applicants in filing out the pre-screening form.

In addition, to help ensure that we have a sufficient number of qualified welfare job applicants, TJX utilizes an extensive outreach program. This entails the use of an employment hotline, through which local service providers are alerted to our job openings.

There are several keys to TJX's success. We establish strong relationships with service providers across the country. We match new hires with experienced associates to help alleviate some of the pressure of entering, or reentering the work force. TJX reinforces the benefits of the program through conferences and newsletters with other employers and with our own associates. We have aggressively tried to spread the word to other employers, predominantly in Massachusetts, but also in other locations where we have a major presence. Finally, we continually work to improve our Welfare-to-Work involvement.

I want to use this opportunity to compliment this Committee on one aspect of welfare reform that has, for the first time, made the types of outreach programs we engage in a real success. Up until welfare reform, community-based organizations were provided funds to train people, but never to place them. For the first time, TANF provided resources to actively place welfare recipients. As a result, community-based organizations have become active partners of the private sector, and now serve as excellent job application referral resources.

I also want to take this opportunity to raise two problems with the program not addressed presently in H.R. 2101. First is that while the vast majority of States are doing a terrific job administering the program, in some of the States there are significant processing backlogs. The second issue is that the program is overwhelmingly slanted in favor of hiring women. In our job applicant pool we see many young men seeking to work who are over 18, that come from families who are on welfare or food stamps. Yet we rarely seem to be able to qualify them for the program. It is our hope that the committee will be able to address this problem.

Let me conclude by saying we consider WOTC essential to helping offset the cost of hiring welfare recipients, and helping them advance in their jobs and in their careers. Thank you, Mr. Chairman and Committee Members, for addressing this issue today.

[The prepared statement follows:]

Statement of Mark Jacobson, Vice President, Corporate Human Services, TJX Companies, Framingham, Massachusetts

Good morning, my name is Mark Jacobson and I am here today in my capacity as Vice President of Corporate Human Services for The TJX Companies, Framingham, Massachusetts. TJX is the leading national and worldwide off-price retailer of apparel and home fashions. In the U.S., TJX operates T.J. Maxx, Marshalls, HomeGoods, and A.J. Wright with 60,000 employees and 1120 stores in the United States.

I am here today to support H.R. 2101, the Work Opportunity Tax Credit Reform and Improvement Act of 1999, which the Chairman and Mr. Rangel have introduced along with 22 of their Ways and Means colleagues. We are especially appreciative that H.R. 2101 would make the Work Opportunity and Welfare to Work Tax Credit programs permanent. This would help to bring continuity to the program and allow us to dedicate added resources to our welfare-to-work efforts.

Two years ago, our CEO, Ben Cammarata pledged to President Clinton that TJX would hire 5,000 welfare recipients by the year 2000. Today, I am proud to announce that TJX has not only met that goal—we have exceeded it.

In just two years time, we have hired more than 9,700 individuals who were previously on welfare. During these past two years, we at TJX have learned what everyone else in the country who is participating in the national welfare-to-work initiative has come to understand—many of the individuals coming off of welfare want to work. And even more importantly, they can become productive and prized employees.

Our experience tells us that those on welfare face numerous barriers to succeeding in the workplace. These barriers range from low self-esteem to the lack of basic work skills such as how to dress and how to appropriately interact with the public.

There are many obstacles to success in the workplace. All of these challenges have real costs associated with them and, in the corporate world, these costs have to be offset. The way we do that is through the Work Opportunity and Welfare to Work Tax Credits which have made it economically feasible for us to devote the resources to our welfare to work effort.

Early on in our efforts, we realized that if we were to achieve our goal of hiring 5,000 welfare recipients, even with the help of hiring tax incentives, we could not just sit back and wait for those eligible to come to us. Rather, we had to establish a corporate hiring policy AND impress on each of our store and hiring managers that this was not only something that we wanted them to do, but that we expected them to do.

This required a significant corporate-wide effort to:

- communicate our new hiring policy;
- incorporate in every job application the pre-screening form; and
- train our hiring managers on how to assist job applicants in filling out the pre-screening form.

In addition, to help ensure that we have a sufficient number of qualified welfare job applicants, TJX utilizes an extensive outreach program. This entails the use of an employment hotline that store managers call when entry-level positions are available. Through this hotline, local service providers are alerted to job openings. These service providers then alert those eligible that a position exists; what special skills, if any, are required; and how much the job is paying.

There are several keys to TJX's success:

- We establish strong relationships with service providers because these providers will ensure that individuals receive help with child care and other issues that arise as people make the transition from welfare to work.
- TJX matches new hires with experienced associates to help alleviate some of the pressure of entering or re-entering the workforce. This "buddy" system helps to ensure that former welfare recipients are not intimidated by their new responsibilities.
- TJX reinforces the benefits of the program through conferences and newsletters with store managers.
- Finally, TJX is continually working to improve its welfare to work involvement. For example, we have conducted focus groups with associates formerly on welfare, to learn how to better ease the transition.

I want to take this opportunity to compliment the Committee on one aspect of welfare reform that has for the first time made the types of outreach programs we engage in a real success. Up until welfare reform, community-based organizations were provided funds to train people, but never to place them. For the first time, TANF provided resources to actively place welfare recipients. As a result, community-based organizations have become active partners with the private sector and now serve as excellent job applicant referral resources.

I also want to thank the Committee, especially Chairman Archer for his press release in which he stated that the extenders, including WOTC, would be extended retroactively this year. As a result, we at TJX will continue to participate in our Welfare-to-Work program. While this does provide us with a short-term reassurance, we are forced to continually reassess whether we can incur the added costs involved in actively participating in our extensive Welfare-to-Work initiative. This concern is only increased as the flow of certifications on new hires ceases during the program hiatus.

I also wanted to take this opportunity to raise two problems with the program not addressed in H.R. 2101. The first is that while the vast majority of states are doing a terrific job administering the program, in some states there are significant processing backlogs. The second issue is that the program is overwhelmingly slanted in favor of hiring women. In our job applicant pool, we see many young men seeking work who are over 18 and come from families that are on welfare or food stamps. Yet, we rarely seem to be able to qualify them for the program. I hope the Committee will be able to address these problems.

I want to thank the Committee for addressing this issue today. We consider WOTC to be essential to offsetting the costs of hiring welfare recipients and helping them advance in their jobs and careers.

Chairman HOUGHTON. Thank you, Mr. Jacobson.
Mr. Kramer.

STATEMENT OF FRED KRAMER, DIRECTOR, COMMUNITY EMPLOYMENT AND TRAINING, MARRIOTT INTERNATIONAL, ON BEHALF OF JOB OPPORTUNITIES BUSINESS SYMPOSIUM (JOBS)

Mr. KRAMER. Thank you, Mr. Chairman and Members of the Subcommittee. My name is Fred Kramer. I am the director of Community Employment and Training Programs for Marriott International. I am also testifying on behalf of the Job Opportunities Business Symposium, a coalition of major employers who use the Work Opportunity and Welfare-to-Work Tax Credits.

My company is in enthusiastic support of the WOTC and Welfare-to-Work Tax Credits for a very simple reason: they do what they are supposed to do; namely, to persuade employers like Marriott to find, hire, train, and retain public assistance recipients. My company has a proud history of corporate citizenship. With or without hiring tax credits, I think it is fair to say that we would do our part to help those less fortunate. We might even have a modest program to help welfare recipients. But WOTC changes the dynamics greatly. The tax credits allow us to be far more aggressive in reaching out to this population.

Make no mistake about it, hiring from the world of public assistance recipients, and other socially at-risk persons is expensive. It requires enormous amounts of time and effort. People with poor job skills and no work experience have little to offer an employer. Such persons usually have low self-esteem, and they expect to fail. It is a huge challenge to break that cycle.

We have even provided new employees with alarm clocks, to teach them to use them and to explain why being on time is important. We have to give our supervisors special training for dealing with these workers. Our managers learn to cope with transportation, child care, creditor, and other matters that they normally would not have time for. They often must provide new workers special attention.

As we teach job skills and the importance of dependability to these new workers, we may get help from community-based organizations which provide support services. We also have what we call "associate resource lines," which gives employees access to trained professionals who can help them with the life problems that so often interfere with job performance.

Mr. Chairman, we desperately want these persons to succeed, to become part of the Marriott family, and to climb our corporate ladder. We are proud of our success in developing some very loyal employees who are excellent performers, who will spend their careers at Marriott, or who will take the Marriott-learned job skills and apply them productively elsewhere. These successes are not just Marriott's; they are yours, as well. Our success would not have occurred without your tax credits, because success costs money.

Besides, for all of our successes, there are also costly failures. Who pays these costs? Marriott does. That is why the tax credits are so important. They don't offset all of our costs, but they provide enough for us to continue what has become a successful private-public partnership. But please understand, without the credits our program would either shrink dramatically, or disappear altogether.

As you decide how to best continue WOTC, let me make two other points. First, I urge you to make the program permanent. Every time there is a hiatus, the program suffers. Starting today, States stop certifying new workers. Some States will even stop certifying eligible workers who are already on the job. Think about the message that sends. We did our part, but we are being denied the tax credits we have earned. Even when the program is renewed retroactively, our credits will be delayed. In some cases, by 6 to 9 months, or even longer.

Fairly or not, this looks like a lack of commitment by the Congress. It makes it that much harder for us to convince management to stick with the program. If a permanent extension is not possible, please give us at least 3 years. Let us show you what we can do when we are not constantly in the start-stop mode of operation.

We also urge you to find a way to improve the performance of a handful of States who are not doing their job. Most States do a good job, but a few fall short. We employers are short-changed in the near term. Over time, we end up hiring fewer welfare recipients. Poor performance by a few States is a fixable problem, but it will require your active involvement.

Thank you for giving me the chance to share Marriott's experience and views.

[The prepared statement follows:]

Statement of Fred G. Kramer, Director, Community Employment and Training, Marriott International, on behalf of Job Opportunities Business Symposium (JOBS)

Mr. Chairman, Members of the Subcommittee, I am Fred Kramer, the Director of Community Employment and Training for Marriott International. I am also testifying on behalf of the Job Opportunities Business Symposium (JOBS), a coalition of major employers who use the Work Opportunity and Welfare-to-Work tax credits. My company is an enthusiastic supporter of the WOTC and Welfare-to-Work tax credits for a very simple reason—they do what they are supposed to do—namely, to persuade employers like Marriott to find, hire, train and retain public assistance recipients.

My company has a proud history of corporate citizenship. With or without hiring tax credits, I think it is fair to say that we would do our part to help those less fortunate. We might even have a modest program to help welfare recipients. But WOTC changes the dynamics greatly. The tax credits allow us to be far more aggressive in reaching out to this population.

Make no mistake about it—hiring from the world of public assistance recipients and other socially at-risk persons is expensive. It requires enormous amounts of time and effort. People with poor job skills and no work experience have little to offer an employer. Such persons usually have low self-esteem, and they expect to fail. It is a huge challenge to break the cycle.

Often, we even provide the new employees alarm clocks, teach them to use them, and explain why being on time is important. We have to give our supervisors special training for dealing with these workers. Our managers learn to cope with transportation, child care, creditor, and other matters that they wouldn't normally have time for. They often must provide these new workers special attention.

As we teach job skills and the importance of dependability to these new workers, we may get help from community-based organizations which provide support services. We also have what we call the "Associate Resources Line," which gives employees access to trained professionals who can help them with the life problems that so often interfere with job performance.

Mr. Chairman, we desperately want these persons to succeed, to become part of the Marriott family, and to climb our corporate ladder. We are proud of our success in developing some very loyal employees who are excellent performers, who will spend their careers at Marriott, or who will take their Marriott-learned job skills and apply them productively elsewhere.

But these successes are not just Marriott's. They are yours as well. Our success would not have occurred without your tax credits, because success costs money. Besides, for all our successes, there are also costly failures. Who pays these costs? Marriott does. That is why the tax credits are so important. They don't offset all our costs, but they provide enough for us to continue what has become a successful public/private partnership. But please understand—without the credits, our program would either shrink dramatically, or disappear altogether.

As you decide how best to continue WOTC, let me make two other points: first, I urge you to make the program permanent. Every time there is a hiatus, the program suffers. Starting today, states stop certifying new workers. Some states will even stop certifying eligible workers already on the job. Think about the message that sends. We did our part, but we are being denied the tax credits we earned. Even when the program is renewed retroactively, our credits will be delayed—in some cases by six to nine months, or even longer. Fairly or not, this looks like a lack of commitment by the Congress, and it makes it that much harder for us to convince management to stick with the program. If a permanent extension is not possible, please give us at least three years. Let us show you what we can do when we are not constantly in this start/stop mode of operation.

We also urge you to find a way to improve the performance of a handful of states who are not doing their job. Most states do a good job, but a few fall short. We employers are short-changed in the near term, but over time, we end up hiring fewer welfare recipients. Poor performance by a few states is a fixable problem, but it will require your active involvement.

Thank you for giving me the chance to share Marriott's experience and views.

Chairman HOUGHTON. Thank you very much, Mr. Kramer.

Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Kramer, how well is Marriott doing relative to retention periods after the credit is exhausted?

Mr. KRAMER. I haven't done a study on retention periods after credit, per se. We do have some localized Welfare-to-Work training programs that we do some special training with. We have a retention rate of 65 percent after 1 year of employment. For the industry, the average of folks coming in off the street and not getting extra training is about 50 percent. It is a higher retention rate.

Mr. COYNE. But you don't have a records kept about the WOTC employees?

Mr. KRAMER. No.

Mr. COYNE. Why is that?

Mr. KRAMER. I really haven't seen the need to do it, yet.

Mr. COYNE. Well, wouldn't it be helpful to know how many of these employees continue on in the employment after the credit period?

Mr. KRAMER. As I have said, we do a kind of focus study on a group that goes through a specific training program above and beyond the WOTC program. That retention is 15 percent higher.

Mr. COYNE. Does your company, Mr. Jacobson, have any retention records for employees?

Mr. JACOBSON. We do. I don't know if I have the specific answer that you are seeking. Let me tell you that we are very concerned about retention in general. We have a high turnover within our organization, and have had traditionally. Within the Welfare-to-Work population, we have a much stronger retention rate than we have with our normal statistic: 0.7 percent versus 1.1 percent.

We have hired someone to interview two thousand people who left us, out of a population of 20,000, in a 12-month period. Three-hundred-thirty-six of those were people that had come off of the welfare rolls. What I don't know is whether all of those qualified for the WOTC credit. I can't link it to that.

Mr. COYNE. Mr. Espinosa.

Mr. ESPINOSA. Yes, sir. In my written testimony that was submitted to the committee, we only have data from 1994, which was the last Office of Inspector General study that was done of WOTC predecessor, TJTC. Clearly, there is no new study to support whether or not churning or displacement is happening. Maybe one of the things that the committee could suggest you all do is perform an audit of the program. It is coming into its third year now. Perhaps it would be time for one to be done.

Mr. COYNE. So your position is that you are not against the program. You would just like to have a little bit better record keeping relative to retention.

Mr. ESPINOSA. Yes, sir. We are actually very much in support of the program, however there are a few holdups. Those happen to focus on the retention period after the individual has exhausted their credit. Is this just something that gets them a job for a short term, and then they are let off after their WOTC experience expires? Or is it something where they become loyal to the company, stay with the company, and actually have a career ladder opportunity associated with the employment opportunity?

Mr. COYNE. Mr. Signer.

Mr. SIGNER. Mr. Coyne, New York State has looked at this issue. The way they did that is they looked at the unemployment insurance rolls. What they found was that when people left the job—and people do leave the job, and in many cases, they leave, before they have earned the full $6,000—what is happening is there is no break in their UI payments. This means they are going on to another job.

The study also said that when they are moving, they are going to a job that is paying at least a dollar more. So what is happening with this program is that people are deciding to get the entry-level training. They may work at a K-Mart or they may work at a Wal-Mart. They get that experience. They become a trained employee. They can take that experience and go someplace else. A lot of them are staying with the employers that they began with, at least the ones that are making it to 400 hours. So from that perspective, we feel the program is a success, because they are staying within the job market and getting higher-paying jobs.

Mr. COYNE. Thank you. Thank you.

Chairman HOUGHTON. OK. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman. It is clear from the testimony that has been given here there are two issues I see emerging from the witnesses. No. 1, of course, is the processing backlog in the States. Also, the temporary nature of the tax credit and how it impacts the psychology of those who would like to participate.

Mr. Signer, you seem to represent a group of employers that participate with the backlogs in certain States. The information I have is that there are 8 to 10 States where there is significant processing backlogs. In those States where we have that type of backlog, how does that impact the participation in the program?

Mr. SIGNER. Well, the problem is that this program has to work on local level. It has to work in a local store. What we begin to see, and I think some of the other companies can talk about that, is that it is harder to keep the local hiring manager involved in the program. What he ends up saying is, "Well, I don't want to go through the whole process of helping the applicant fill out the job form if I am not going to get the tax credits I feel I am entitled to because they are not getting processed."

That really has a cooling-off effect on the local hiring managers. We are seeing that in those 8 to 10 States. In other States it is working great. The employers are participating. They are very happy with it.

Mr. WELLER. Mr. Balfour, what do you suggest be done in those States to correct backlog?

Mr. BALFOUR. Well, in some of these States that I have been to, and talked to their Governor's offices and different people about the situation, the most important thing is to make the program more like a permanent program—a 2- or 3-year extension.

I know personally, in Georgia the problem we had a number of years ago, we had an 18-month hiatus. The Governor did what was appropriate which was to take those employees and put them into a job that needed to be done in the State. When the program finally came back, there was no one with any history of what needed to be done. So they were starting from scratch.

On our unit manager side, you are giving us an incentive to hire economically disadvantaged people. We, as a company, pass that credit right back down to the unit manager, because he is the one doing the hiring. When he goes through all this work process and the State doesn't do anything, he finally gives up on the program. He says, "I am not going to do that anymore. I not going to reach out and try to do this, that, and the other, because I am not going to get any credit on my P&L, anyhow."

Back to your question. There are a couple of things that need to happen. One is the temporary nature needs to go away. When that happens, you will have more people that are there on a regular basis.

Someone else mentioned in one of the other panels—and correctly so—it needs to be more automated. North Carolina has done a great job of automating. Georgia has done a great job of automating. When you get this automated to a point that they are not having to go to the different departments inside the State Government to get the information, they are pulling it right up on their computer screens. When they can do that, it is less people that have to run the program. It is more consistent.

Mr. WELLER. Mr. Kramer, Mr. Jacobson, do you have anything you would like to add?

Mr. KRAMER. We are in a similar situation where we really try to encourage our unit operation managers to take part in the program. In some cases we actually do directly incent them to follow through with the necessary paperwork, and the additional training for the WOTC-eligible individuals. We do promise them tax credits for their operation and they don't come through. That does cause some frustration, definitely.

Mr. WELLER. Mr. Jacobson.

Mr. JACOBSON. The only thing I would add is that the population that remains to be served—to be brought into the work force—is going to be even more difficult than what we have already accomplished. Anything we can do to overcome some of the impediments that discourage those who want to use the opportunity to step away from the program is a plus. Even though as committed as we are, we still have naysayers within the organization.

Mr. WELLER. Just to follow up on that on the impact whether an employer would want to participate—in the Administration's budget, they propose a user fee when a employer is applying to be certified to participate. If that user fee is adopted, what would be the impact on employers who may be considering participating? Mr. Signer?

Mr. SIGNER. Mr. Weller, we have looked at this. One of the biggest concerns that has been expressed to us is that small businesses are not participating at a level that people would like to see. As a group, NEON has tried to work with the Welfare-to-Work partnership, offering free services to small businesses who are a member of the partnership.

What we see is that small businesses clearly are not going to pay money up front. Probably, at least 50 percent of those people who you hire and think are eligible are not going to get certified. So whatever the charge is, the cost is doubled. A lot of those people will not even make it to the threshold of 120 hours. A lot of them will move on to another job.

Twenty million dollars is what is being appropriated now. If you calculate that out based upon the number of people who are using the program, which is about 320,000 at this point in WOTC, it could be anywhere from $40 per certification. This is going to be very costly. For a company like Marriott, they would have to pay money up front for thousands and thousands of workers. It is just going to discourage people from participating.

Mr. WELLER. Mr. Espinosa, do you have any comments on that?

Mr. ESPINOSA. We have had studies in the past that have shown that the majority of the employers would have hired these individuals regardless of the credit. The additional costs that many of the employers are speaking to aren't necessarily the ones brought upon them. Really, it is the costs that are associated with the intermediaries, the management assistance companies, that are really playing the brokering role between the employer and the Department of Labor in this whole process. Clearly, those are the folks who are bearing the burden of the costs.

Employers who are seeking to employ these populations would have incurred those costs naturally, without the credit, if they so wanted those employees. So in terms of additional costs, it is an issue that is underlying. But to what extent are those costs real? That is something that we just don't know. There is no information that is collected to let us determine whether or not the costs are excessive enough that the credit is no longer providing the benefit that it is intended to provide.

Mr. WELLER. Mr. Chairman, I see my time has expired. Thank you.

Chairman HOUGHTON. OK, thank you. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. I appreciate all the testimony. I feel very strongly that this ought to be a seamless program. I think it is unfortunate that we get into a situation as we are in today, where States around the country are being told that this is not being extended. They are slowing down. Businesses are slowing down. We end up with dislocation that is unnecessary. I think there is an understanding that we will extend the tax credit for another year.

Mr. Chairman, there are a lot of ways to look at this. This is not an issue that is before the Subcommittee today, but we have to figure out a way to make it seamless so that the program can operate with certainty.

I had some concerns about the targeted jobs tax credit. I was not a big fan of it. I didn't think it was working well. I thought it was corporate welfare to a certain extent. Businesses would have hired the folks anyway. It was a windfall.

I think this program is a lot better. But it is just unfortunate for us not to have it continue year after year. Maybe it should be 2 years, and we should extend the year prior to its expiration.

I also feel that we need to have better measurements of success. That is one of the arguments, as you know, for having the annual process we are going through now. The main reason for it is revenue—just so everybody understands that. This is not a policy reason. It is because we don't want to put as much revenue loss into our tax bills, because we have other needs out there for tax relief. But there is, I guess, some good that comes out of this, which is, annually we have to go through this process of taking a look at it.

What I would ask the members of this panel is whether you disagree with what Mr. Espinosa said, which is, we ought to be devoting more time toward measuring our success, particularly looking at whether there is, indeed, the kind of retention—as compared to retention generally?

In this job market, retention at companies represented here is not going to be something that anybody is particularly proud of. People are moving quickly. There is a lot more mobility. There will be even more in the next century, according to the Labor Department projections.

But do you have any concerns about what Mr. Espinosa laid out in his testimony, or response to his questions?

Mr. BALFOUR. From what I heard of his testimony, most of the data that was talked about was under the old TJTC program, not under the new WOTC program. It has a lot of restrictions and changes that were placed in the program by the chairman's wisdom, and others that were on the committee at the time.

The theory that we are out churning employees is nuts. It is totally nuts. I am not going to keep an employee for a year if they are a terrible employee, just because of WOTC. If they are a terrible employee, I am going to fire them. The opposite is also true. When the year runs out, if I have employed them and they have been a good employee for that year, to say that my management would fire them and then go out and hire someone else and retrain to get the credit is nuts.

Mr. PORTMAN. As a result of the costs incurred in training somebody?

Mr. BALFOUR. No. Forget about the costs. You have a good employee. If you have a good employee, you are going to keep that employee.

The neat thing about the WOTC program is that it gives an incentive to my unit manager. He has to hire someone and there are five people sitting there. One person is WOTC-qualified. It gives him an incentive to say, "Well, maybe I ought to give this guy a chance." Then once my management hires them, they give credits for longevity for keeping him, and so forth. The longer they stay, the more money that unit manager can make.

But at the end of the year when there is no more WOTC credit, the idea that anyone in business is firing them to make another $3,000 by hiring someone else that they don't know is going to stay 120 days where they might get any money at all, or may stay 3 months, then quit—is nuts. I would like to see one example. If you give me one line of example at Waffle House, I will fire the unit manager. He is the most ridiculous unit manager that was ever in the world. You would never do this in the business.

Mr. PORTMAN. Let me follow up on that. We don't have the data. Are you saying that it isn't important to find out whether that is happening around the country? This is a significant tax expenditure. It is an incentive. We don't know the answer to that.

Now churning is kind of a pejorative term. Let us just talk about retention.

Mr. BALFOUR. OK. Well, you saw some numbers here. I can show you the numbers of Waffle House of how long they have stayed for that year. For that year, is how long we have the tax credit for.

But the other question, I don't know how you would get to it. You would have to interview different people. It isn't whether they have stayed a year, or they stayed 5 years. If they left in a year, did they go to a better-paying job? Did they improve?

Mr. PORTMAN. The point that Mr. Signer made is that some of these folks are getting into the work force, maybe for the first time. They are coming in at an entry-level. They do well enough that they have other opportunities at another dollar or two an hour. They leave. There is nothing wrong with that. That, in fact, is one of the reasons we have this tax credit. It is to get people into the work force and into meaningful jobs. That should be taken into account, clearly.

Mr. BALFOUR. I am not sure how you do it. You can look at the mathematics. I could probably run to my computer department and run the mathematics of how long someone qualified for WOTC stays, even for a longer period of time. But I can't tell you what they did afterwards.

What I can tell you from the specifics I know that I don't like is the guy at T.J. Maxx that ends up hiring him for a dollar more than I paid him. I don't like that because he hired him. But he hired him because he had some job skills that I trained him with that you help incentivize me to give him that first job.

Mr. PORTMAN. You talked about the five people sitting on the bench. The unit manager goes out and makes a decision, partly based on WOTC.

Mr. Signer, in his testimony, implied—at least I infer from what you said—that the costs associated with WOTC exceed those that are covered by the tax credit. In other words, of those five people, I think what you were saying—correct me if I am wrong—is that there really wasn't an incentive to pick the WOTC person, because the costs associated with that were greater than the tax credit. As compared to the other four, is that true as well? Do you see what I am getting at?

Mr. SIGNER. I think the answer to that is that what this is designed to do and what it does do is not offset all the costs involved in hiring somebody. It is designed to level the playing field. Say that you have five people on the bench. The welfare person is probably not going to be picked without something to help level the playing field. They don't have the job skills. They don't have the experience. What this does is that it brings them up to the same level. All things being equal, you will pick the welfare recipient.

Mr. PORTMAN. Now Mr. Kramer and Mr. Jacobson, do you agree with that on a general level?

Mr. JACOBSON. I do.

Mr. KRAMER. Yes, I definitely agree with that. Depending on the individual, and how much extra training and extra support they need, if you count on mentoring, and managers and supervisors spending extra time as well, the cost in manhours often exceeds the amount of tax credit we will get.

Mr. PORTMAN. I have other questions, but I have already exceeded my time. Thanks for the indulgence, Mr. Chairman.

Chairman HOUGHTON. Well I just have one final question. Anybody can answer it. Obviously your businesses—the quick service and retail industries—absorb a great many of these people we have been talking about.

There is a head of steam on a minimum wage increase. I would assume that nobody has any objection to coupling this, if the minimum wage comes along, with that. Anything we can do to help the small business people offset what that additional cost is. How do you feel about that?

Mr. BALFOUR. Mr. Chairman, many of our industries that are getting the WOTC credit were probably the industries that are going to be hit hardest by a minimum wage increase. Coupling WOTC permanent extension with a permanent increase in minimum wage, I think, would be advisable. It would be something that we would hope would happen.

Chairman HOUGHTON. Right. Anybody else have a comment on that?

Mr. ESPINOSA. Mr. Chairman, we would also support the marriage of those two programs. But given that we provide a little extra focus to the WOTC, particularly on the back end of the program that focuses on retention. Just so we can at least put to bed the notion that if there is churning going on, let us find out if it is actually going on. Let us find out if displacement is deliberately going on.

Mr. SIGNER. Mr. Chairman, we have no position on the minimum wage issue. We just would like to point out that for every dollar you increase it, WOTC offsets 40 percent of it.

Chairman HOUGHTON. Anybody else?

Mr. JACOBSON. We don't have a corporate position on that.

Chairman HOUGHTON. Just one other comment. You know we talk about a seamless program. Clearly, I think all of us would like to see at least a 2-year, and at best a permanent extension. I think your point is right. If you have a permanent extension of minimum wage, you have to have a permanent extension on something like this. But there is a retroactivity clause in here, assuming this thing goes through—which I think it will.

Thank you very much. I certainly appreciate your time and your patience. We will see you again soon.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

[Submissions for the record follows:]

FOOD MARKETING INSTITUTE
June 30, 1999

The Honorable Amo Houghton
Chairman, Subcommittee on Oversight
House Ways and Means Committee
Washington, D.C. 20515

Dear Chairman Houghton:

On behalf of the Food Marketing Institute, your neighborhood supermarkets, I submit this statement as part of the hearing record for the July 1 Subcommittee on Oversight hearing regarding extension of the Work Opportunities Tax Credit (WOTC) and the Welfare-to-Work (WWTC) tax credit.

We strongly support legislation making the credits permanent and retroactive to July 1, 1999. For the labor-intensive food retailing industry, the WOTC has helped integrate economically disadvantaged Americans into the national work force and often in grocery stores within their own neighborhoods. Our industry believes these credits are an effective approach for encouraging private sector employers to hire individuals from groups that otherwise would have difficultv securing employment in either good or bad economic times.

We also support the improvements to the programs proposed in H.R. 2101, authored by you and Rep. Charles Rangel to consolidate the WOTC with the WWTC. With more individuals entering the workforce from welfare, our neighborhood supermarkets are increasingly training and hiring those who are less skilled and more costly to train.

Supermarkets play an important role in creating and maintaining strong neighborhoods. Our members are significant employers in many inner city and rural communities across America. They provide basic products and services essential to life and health. They are places where neighbors gather and interact in productive ways. Many young people find their first job in a supermarket. They provide flexible work schedules, with many stores open 24 hours a day, 365 days a year. These characteristics provide supermarkets with the unique opportunity to play a leadership role in developing programs to address the social and economic challenges of the neighborhoods and communities they serve.

The WOTC program has provided incentives for employers to take a risk they might not normally have taken. For employees, it has taught skills, helped to develop good work habits, established independence, created a positive job profile and helped with employment history. New hires have started as cashiers, baggers, deli, grocery or produce clerks and over time remain with the store, gaining experience and receiving important benefits, such as health care coverage.

Since WOTC was first enacted in 1996 on an experimental basis, with WWTC following a year later, hundreds of thousands of welfare recipients have moved into the productive work force. The credits offset a portion of the higher costs of recruiting, hiring, training and supervising those with few job skills and little or no work experience. Unfortunately, the 1-year extensions granted in the past 2 years have limited the program's effectiveness. Last year's 3½–month hiatus prompted some companies to stop participating, while others reduced their hiring efforts. Also, if the minimum wage is increased, there will be less of an incentive to hire the hardest-core unemployed.

By making these credits a permanent part of the tax code, companies will have a longer planning horizon, better outreach to eligible workers and the ability to develop more cost effective recruitment and training programs. Thank you for considering FMI's views.

Sincerely,

JOHN J. MOTLEY III
Senior Vice President
Government and Public Affairs

Statement of International Mass Retail Association, Arlington, VA

The International Mass Retail Association ("IMRA") is an organization whose members include the fastest growing retailers in the world—discount department stores, home centers, category dominant specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores and off-price stores—and the suppliers who supply them with merchandise and services. IMRA retail members operate more than 106,000 American stores and employ millions of workers. One in every ten Americans works in the mass retail industry, and IMRA retail members represent over $411 billion in annual sales.

IMRA strongly supports Congressional efforts to extend the work opportunity tax credit ("WOTC"), which expired only yesterday. In particular, IMRA supports the bill introduced by House Ways and Means Oversight Subcommittee chairman Amo Houghton (H.R. 2101) that would modify and permanently extend the program.

WOTC gives employers a tax incentive to hire and invest in the training of individuals who have traditionally had difficulty entering and remaining in the work force. WOTC does not provide a windfall to employers to hire employees that they would have hired anyway. Rather, WOTC provides employers with an incentive to bear the costs of training public assistance recipients and other hard-to-employ individuals and provides these individuals with job-related skills that give them a chance to gain a foothold in the job market. This is the goal of WOTC, and IMRA member companies have historically played a large and important role by employing and training these targeted individuals in achieving this, the goal of WOTC.

In order to better achieve the full potential of WOTC, the program should be made permanent, or at least be given a longer-term extension. Short-term extensions of WOTC greatly limit the program's effectiveness.

With the passage of the Small Business Job Protection Act of 1996 (P.L. 104–188), Congress designed a WOTC program with which employers can work. Unfortunately, since the inception of the program, employers have never been assured that WOTC would last for more than 1 year. The program was initially set up to last only 12 months, until September 30, 1997. The Taxpayer Relief Act of 1997 reauthorized the program for just 9 months, through June 30, 1998. The most recent extension expired only yesterday, June 30, 1999.

Short extensions of WOTC underestimate the considerable time, effort, and resources that companies must expend to identify, recruit, and train targeted workers and provide outreach to communities or work-related assistance such as childcare and transportation for those individuals. If employers were assured that the credit would be available for more than just 1 year, they could better justify the costs of recruiting and training public assistance recipients and other hard-to-employ individuals.

Too often in the past, when WOTC and its predecessor, the targeted jobs tax credit, have expired and have later been extended retroactively, administrative problems have arisen due to the lack of continuity in the program. For example, difficulties have taken place with getting some State employment security agencies to certify as members of a WOTC target group new employees hired during the interim period. Extending the program for a number of years or, better yet, making it permanent would eliminate such administrative and wholly unnecessary headaches.

While it was certainly welcome, the statement by Ways and Means Committee Chairman Archer and Finance Committee Chairman Roth that expiring tax provisions will be extended with an effective date of July 1, 1999 in the reconciliation bill due to be reported by the tax-writing committees in July does not guarantee extension of WOTC and does not allow companies to operate as if WOTC had been extended.

For WOTC to achieve its full potential and become an effective program for encouraging businesses to help move targeted individuals off of public assistance, businesses must have a greater degree of certainty that the program will continue, and will continue for a long enough time to make the administrative costs worthwhile.

IMRA is grateful to Chairman Houghton for convening today's hearing on this important issue and for recognizing that the significant and laudable goals of WOTC can best be achieved by making the tax credit permanent.

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