

Hospitality: Save Money by Identifying Untapped Tax Credits

TAX CREDIT POTENTIAL

- 18-22% of new hospitality hires qualify for Work Opportunity Tax Credit (WOTC) or Welfare to Work (WtW).
- Estimated WOTC savings for a hospitality company with 3,500 employees is \$161,295 per year.
- 7 of the 9 WOTC target groups offer a maximum subsidy of \$2,400 per worker. The Disabled Veteran target group offers up to \$4,800 per worker, while the WtW target group offers up to \$9,000 per worker over two years.
- 3.5-7% of new hospitality hires qualify for other credits such as Federal Empowerment Zone and Renewal Community (EZ/RC) Employment Credits, state tax incentives, state point of hire credits, and employee training grants.
- EZ/RC Employment Credits can total up to \$3,000 per eligible new hire.
- Average credit earned by hospitality companies is \$1,000 per participating employee.



- The same study revealed that fewer than 8% of welfare recipients who obtained jobs were claimed by their firms for the WOTC or WtW credit.⁸

The Difficulty

Understanding new programs, keeping up with changing rules, gathering information, and completing complex applications requires a significant investment of expertise, time, and resources. Budget-constrained hospitality companies believe this is a luxury they cannot afford.

The ROI-Focused Solution

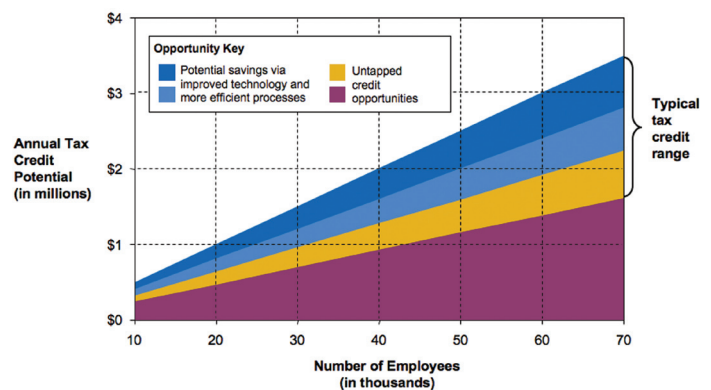
Using technology to improve processes, hospitality companies can be alerted to the changing rules, regulations, and nuances of the application process and identify potentially lucrative tax credits. Figure 1 provides a simple benchmarking tool to help you determine if there is an opportunity for your organization.

Hospitality's Untapped Opportunity

Because annual turnover in the hospitality industry hovers around 50%,¹ top hospitality companies can qualify for millions of dollars of tax credits each year through a combination of federal, state, and local programs.^{2,3} However, a review of these programs reveals two startling findings: A small percentage of corporations receive the majority of the benefits. And even those corporations currently receiving credits are not taking full advantage of the tax credits available. Consider this:

- By some estimates, nearly \$3 billion (or 90% of available tax credits) go unclaimed each year.^{4,5}
- The companies most likely to claim the tax credits are large firms that qualify for over \$100,000 per year in WOTC and WtW tax credits.⁶
- In one recent study, WOTC and WtW certifications were issued to only 11% of eligible employees.⁷

Figure 1 **What's Your Potential Tax Credit?***



How to use this chart

Step 1: Find the number of employees at your company on the horizontal axis.

Step 2: Chart the total tax credits received by your company on the vertical axis.

Step 3: Interpret the numbers to determine if there is an opportunity.

* Estimates include wage-based incentives only. Location-based and other non-wage-based incentives are another potential source of credits.

Hospitality: Tax Credit Services Case Study

Realizing ROI: One Hospitality Company's Story

Challenge

A major U.S. hospitality company with 5,200 corporate-owned restaurants and 100,000 annual new hires wanted to achieve social and financial benefits by fully taking advantage of federal and state tax incentive programs. First the company tried outsourcing the tax credit program, and later they ran the program in-house. Both approaches produced limited results. Seeking to gain a clearer picture of tax credit opportunities and hold managers accountable for eligibility screening, the company turned to ADP.

Action

ADP's tax experts perform a yearly incentive analysis to identify all possible tax opportunities, the potential financial benefit, and the actions needed to realize the credits. Working with a dedicated ADP account manager, the company receives timely, accurate reports on its tax savings and rapid responses to special requests for information. ADP helped the company determine that more than 20% of its new hires were eligible for government incentives.

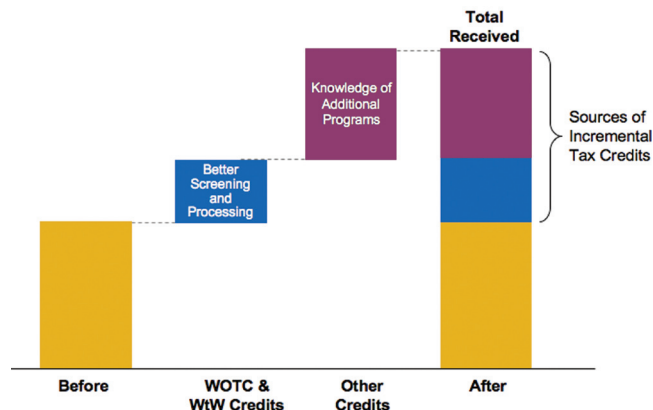
Results

With the help of ADP, the company has received the same amount of tax credits despite significantly reducing its number of stores and new hires. Over the past four years, the company has earned nearly \$9 million in tax credits, including more than \$5.3 million in state Enterprise Zone credits, nearly \$3 million in Federal Empowerment Zone/Renewal

Community credits, and \$436,000 in Investment, Business, and Job Development credits.

Figure 2 **Capturing Incremental Credits**

With a greater understanding of the tax credit landscape and improved screening and processing, companies are positioned to generate significant financial gains through tax credits.



- ¹ U.S. Bureau of Labor Statistics, 2007 data.
- ² U.S. General Accounting Office Study – GAO-01-329, March 2001.
- ³ U.S. General Accounting Office Study – GAO-03-39, December 2002.
- ⁴ Sarah Hamersma, "The Work Opportunity and Welfare-to-Work Tax Credits: Participation Rates Among Eligible Workers," National Tax Journal, Vol. LVI, No. 4, December 2003: 725-738.
- ⁵ Estimates based on data compiled by U.S. Department of the Treasury, Office of Tax Analysis.
- ⁶ Sarah Hamersma and Carolyn Heinrich, "Temporary Help Service Firms' Use of Employer Tax Credits: Implications for Disadvantaged Workers' Labor Market Outcomes," Working Paper, Updated 2007.
- ⁷ Sarah Hamersma, "The Effects of an Employer Subsidy on Employment Outcomes: A Study of the Work Opportunity and Welfare-to-Work Tax Credits," Draft 2007.
- ⁸ Ibid.

The ADP résumé

Experience: ADP certifies 45% of all WOTC certifications in the U.S.—exceeding 5.2 million screens annually—more than any competitor.

Tenacity: Approximately 20% of all WOTC certification applications are rejected. Historically, ADP successfully overturns more than 96% of these rejections.

Stability: Established in 1949, ADP possesses a AAA-rated credit quality by Standard and Poor's and Moody's.

Security: ADP is Sarbanes-Oxley compliant and SAS 70 certified.

Proven Results: In a head-to-head comparison, ADP captured 50% more tax credits than the nearest competitor.

Customer Satisfaction: Committed to the best service in the industry, ADP enjoys a 98% customer retention rate.



For information about ADP Tax Credit Services, visit us at:
www.taxcredits.adp.com

About ADP

ADP, with nearly \$8 billion in revenues and approximately 585,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging more than 55 years of experience, ADP offers a wide range of HR, payroll, and tax and benefits administration solutions from a single source. ADP's easy-to-use, cost-effective solutions for employers provide superior value to companies of all types and sizes.

About this report

The ROI Reporter is a periodic report detailing the expected ROI from partnering with ADP Tax Credit Services to take full advantage of available incentive programs. The ROI Reporter is a joint publication by ADP, Carlson Companies, Inc., and Peppers & Rogers Group.