

Retail: Strategies to Save Money Through Undiscovered Tax Credits

TAX CREDIT POTENTIAL

- 12-14% of new hires in discount and mass retail qualify for Work Opportunity Tax Credit (WOTC) or Welfare to Work (WtW) with an average annual credit of \$2,000.
- The WOTC offers a maximum subsidy of \$2,400 per worker.
- The WtW program offers a maximum subsidy of \$9,000 per worker over two years.
- Federal Empowerment Zones and Renewal Communities offer additional tax credits of up to \$3,000 per eligible new hire.
- Additional state and local incentives offer tax credit savings of up to \$31,000 per eligible new hire over a 5-year period.



Retail's Untapped Opportunity

Because annual turnover in the retail industry approaches 56%,¹ top retailers can save millions of dollars each year through various federal, state, and local employment-based tax credit programs.^{2,3} However, a review of these programs reveals two startling findings: A small percentage of corporations (typically just the largest) 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 subsidies 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
- The same study revealed that fewer than 8% of welfare recipients who obtained jobs were claimed by their firms for the WOTC or WtW.⁸

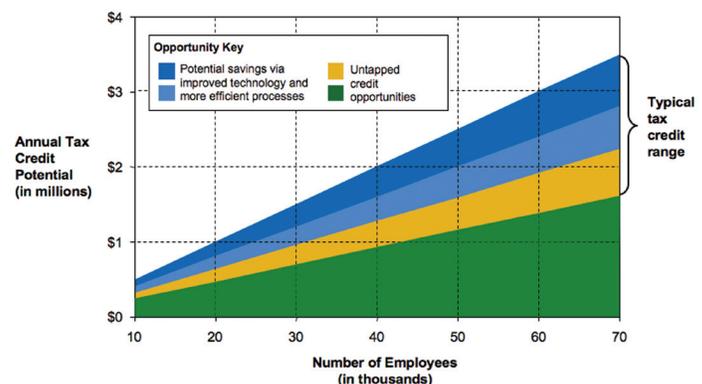
The Difficulty

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

The ROI-Focused Solution

Using technology to improve processes, retailers can stay on top of the changing rules, regulations, and nuances of the application process. Figure 1 provides a simple benchmarking tool to help you determine if there is an opportunity for your organization.

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.

RETAIL: TAX CREDIT SERVICES CASE STUDY

Realizing ROI: One Retailer's Story

Challenge

A leading U.S. retailer approached ADP with a two-pronged problem. Though the company was successfully capturing a significant amount in tax credits each year, it knew it was missing many opportunities for greater savings. But the company also realized it lacked the resources to pursue those additional credits.

Action

First, ADP used its established and proven screening process to identify eligible employees for federal, state, and local tax credits. Next, ADP cross-checked employee work histories, background information, and residential history against its proprietary database of the latest federal, state, and local tax credit programs to find “hidden” opportunities for tax savings.

Results

ADP applied its experience and the largest back office in the industry to determine that the retailer was claiming only about 25% of the federal, state, and local tax credits for which it was eligible. With ADP's help, the retailer realized an additional \$3.4 million in tax credits—and added virtually the full amount to the bottom line.

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.

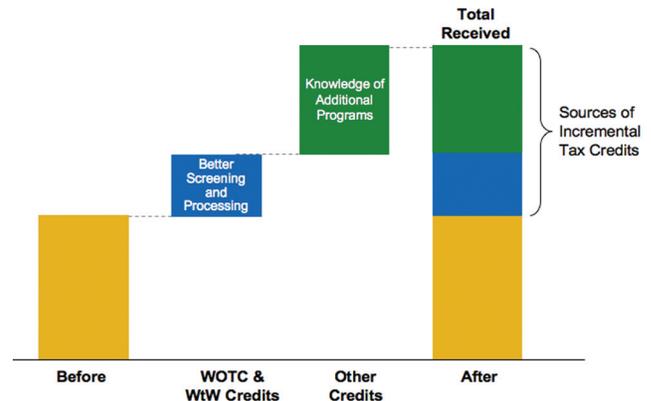
Customer Satisfaction: Committed to the best service in the industry, ADP enjoys a 98% customer retention rate.



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

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, 2006 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.

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 the incentive programs available. The ROI Reporter is a joint publication by Automatic Data Processing, Carlson Companies, Inc., and Peppers & Rogers Group.