


EMPLOYMENT AND TRAINING ADMINISTRATION ADVISORY SYSTEM U.S. DEPARTMENT OF LABOR Washington, D.C. 20210	CLASSIFICATION Wt.WTC/IRS Ruling 2003-112
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TRAINING AND EMPLOYMENT GUIDANCE LETTER NO. 20-04

TO: ALL STATE WORKFORCE AGENCIES
ALL STATE WORKFORCE LIAISONS

FROM: EMILY STOVER DeROCCO 
Assistant Secretary

SUBJECT: Revenue Ruling 2003-112 Issued by the Internal Revenue Service (IRS) and Its Relation to the Work Opportunity Tax Credit (WOTC) Program

- 1. Purpose.** To transmit to the State Workforce Agencies (SWAs) the IRS revenue ruling on the statutory definition for the “Qualified IV-A Recipient” target group as it relates to the period of time for receiving Temporary Assistance to Needy Families (TANF) under the WOTC and Welfare-to-Work Tax Credits (WtWTCs) and provide guidance on its implementation.
- 2. References.** IRS Revenue Ruling 2003-112, Internal Revenue Bulletin 2003-45, November 10, 2003; the Ticket to Work and Work Incentives Improvement Act of 1999 (P.L. 106-170); Internal Revenue Code of 1986, as amended, Section 51, “Amount of Credit,” and Section 51A, “Temporary Incentives for Employing Long-Term Family Assistance Recipients;” and ETA Handbook 408, Third Edition, November 2002.
- 3. Background.** The legislation that created the Work Opportunity Tax Credit Program, the Small Business Job Protection Act of 1996 (P.L. 104-188), created seven target groups with their statutory definitions. One of the seven groups is the “Qualified IV-A Recipient” of Aid to Families with Dependent Children (AFDC) or its successor program TANF. In 1997, the Taxpayer Relief Act of 1997 (P.L. 105-34) created the WtW Tax Credit and introduced the “Long-Term Family Assistance [or TANF] Recipient” target group.

At the October 2002 WOTC National Training Conference, a number of WOTC State Coordinators asked the IRS to clarify the statutory definition for this target group. It was not clear if a “member of [the] family” listed on the grant but receiving TANF assistance for less than the specified period could be certified as eligible.

RESCISSIONS	EXPIRATION DATE Continuing
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4. **Information.** The IRS analyzed the legislative language related to the TANF target group and the 1996 analysis by the Senate Finance Committee, and issued IRS Revenue Ruling 2003-112 on November 10, 2003. The IRS revenue ruling (attached) addressed the eligibility issue by presenting four different possible scenarios the SWAs may face when determining eligibility for IV-A TANF target group. The IRS determined:

“An individual whose family receives assistance for the requisite period meets the requirements to be certified as a qualified “IV-A Recipient” under Section 51(d)(2)(A) of the Code if the individual is included in the grant (and thus receives assistance) for some portion [i.e., one day equals one month] of the specified period.”

The IRS further stated that the revenue ruling’s principles apply when determining whether an individual meets the corresponding family membership requirements for two additional WOTC (Food Stamp Recipients and Veterans) and one WtWTC (Long-Term TANF Recipients) target groups.

5. **Technical Assistance.** The following “Questions and Answers” are the result of a joint ETA and IRS effort to address the most common issues and concerns that may arise when applying this revenue ruling. These questions/situations and answers are not all inclusive. SWAs may encounter a number of different situations and are encouraged to use this information as a general guide.

Qs and As:

- Q1.** When are states expected to implement the IRS Revenue Ruling 2003-112?
- A1.** States must apply this revenue ruling’s interpretation to all affected certification requests in inventory filed on or after November 10, 2003, the date the IRS issued the ruling. The IRS position affects all certification requests pertaining to the target groups in the revenue ruling.
- Q2.** A number of states have automated processing and many of them have completely automated the TANF, Welfare-to-Work and Food Stamp validation process and generation of notices. These changes will mean that significant logic rewrites and program modifications will need to be made. Will resources be made available from the Federal government to cover the cost incurred in making these modifications?
- A2.** States may use existing WOTC program administration funds or Wagner-Peyser Act, Section 7(a) and/or 7(b) funds to implement this ruling.
- Q3.** How do these eligibility criteria affect the rules and regulations as outlined in the November 2002, Third Edition of ETA Handbook 408?
- A3.** The revenue ruling affects only the following target groups: qualified IV-A recipient, qualified veteran, qualified food stamp recipient, and long-term family assistance recipient.

Q4. How will this clarification of eligibility affect individuals who may be under a welfare program sanction for not complying with educational, work and/or training requirements?

A4. Individuals under a welfare program sanction (e.g., who do not comply with educational, work, and/or training requirements) that prevents them from receiving grant monies but whose families continue to receive their grants, meet the revenue ruling interpretation only if the individuals are included on the grant for some portion of the specified period (i.e., one day equals one month).

Q5. Will the household have to meet the target group criteria in order for the individual to be eligible?

A5. If the statutory definition of a target group imposes a requirement on the family of an individual, the family must meet that requirement before the individual can be certified as a member of that target group. The revenue ruling does not change this requirement.

Q6. What if the individual is in the household for one day, but that day is not one of the days in the required timeframe?

A6. If an individual is a member of a family receiving benefits for one day and that day is not included in the period specified in the statute, the individual does not meet the requirements of the target group.

Q7. How does the revenue ruling affect the eligibility criteria of an “able-bodied adult without dependents (ABAWD)?”

A7. The revenue ruling does not affect Section 6(o) of the Food Stamp Act (FSA) of 1977. The November 2002, Third Edition of ETA Handbook 408, page II-12, defines an ABAWD as an individual who is subject to the requirements in Section 6(o) of the FSA. According to the provisions in this Section, to comply with these requirements, an ABAWD must: (A) work 20 hours or more per week, averaged monthly; or (B) participate in and comply with the requirements of a work program for 20 hours or more per week, as determined by the SWA; or (C) participate in and comply with the requirements of a program under Section 20 or a comparable program established by a state or political subdivision of a state.

Under the revenue ruling, if an ABAWD is not on the family grant for some portion (i.e., one day equals one month) of the applicable period, the ABAWD is not a “Qualified Food Stamp Recipient.”

- Q8.** With regard to veteran status, would the household have to have received Food Stamp benefits any three consecutive months and the individual have to be in the household one day within any of those three months, or in the household for one day in any of the 15 months?
- A8.** The veteran must be a member of the family and on the grant for some portion (i.e., one day equals one month) of the three-month period.
- 6. Previously Denied Requests.** The national office and the IRS are currently working together on issues relating to the reconsideration of requests that were denied before the issuance of IRS Revenue Ruling 2003-112 solely because of a statutory interpretation more conservative than the interpretation in the revenue ruling. When the issues have been worked out, a TEGL will be issued to address any necessary processing requirements.
- 7. Action Required.** State Workforce Agency administrators should assure that all WOTC/WtWTC state coordinators and related staff receive this information and guidance and the following action is implemented immediately:
- a) Adopt and apply all the provisions in IRS Revenue Ruling 2003-112 to all certification requests in inventory on November 10, 2003, or filed after that date for the three WOTC and one WtWTC target groups.
- 8. Inquiries.** Direct all questions to the appropriate Regional WOTC/WtWTC Coordinator.
- 9. Attachment.** IRS Revenue Ruling 2003-112, Internal Revenue Bulletin 2003-45, November 10, 2003.

Internal Revenue bulletin

Bulletin No. 2003-45
November 10, 2003

HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

SPECIAL ANNOUNCEMENT

Announcement 2003-66, page 1049.

The Sixteenth Annual Institute on Current Issues in International Taxation jointly sponsored by the Internal Revenue Service and the George Washington University Law School, will be held on December 11 and 12, 2003, at the J. W. Marriott Hotel in Washington, DC.

Announcement 2003-68, page 1050.

This announcement delays the implementation of rolling renewals applicable to enrolled agents, whose social security numbers end with 0, 1, 2, or 3, under section 10.6(d)(1) of the Regulations Governing Practice Before the Internal Revenue Service, Treasury Department Circular No. 230, 31 CFR part 10.

INCOME TAX

Rev. Rul. 2003-111, page 1009.

2003 base period T-bill rate. The "base period T-bill rate" for the period ending September 30, 2003, is published as required by section 995(f) of the Code.

Rev. Rul. 2003-112, page 1007.

Work Opportunity Tax Credit (WOTC). This ruling concerns the eligibility criteria for the Work Opportunity Tax Credit. The ruling clarifies that an individual whose family receives assistance for the requisite period meets the requirements to be certified as a qualified IV-A recipient under section 51(d)(2)(A) of the Code if the individual is included on the grant (and thus receives assistance) for some portion of the specified period.

Rev. Rul. 2003-114, page 1012.

Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate. For purposes of sections 382, 1274, 1288, and other sections of the Code, tables set forth the rates for November 2003.

EMPLOYEE PLANS

Notice 2003-73, page 1017.

Retirement plans; year 2004 section 415(d) limitations. This notice sets forth certain cost-of-living adjustments effective January 1, 2004, applicable to the dollar limits on benefits under qualified defined benefit pension plans and to other provisions affecting (1) certain plans of deferred compensation and (2) "control employees."

EXCISE TAX

Rev. Proc. 2003-78, page 1029.

This procedure provides instructions for establishing exemption from the section 4371 foreign insurance excise tax under certain United States income tax treaties. Rev. Proc. 92-39 superseded in part.

(Continued on the next page)

Finding Lists begin on page ii.



Department of the Treasury
Internal Revenue Service

TAX CONVENTIONS

Announcement 2003–63, page 1015.

Dutch agreement on MAP Administrative Arrangements.

A copy of the news release issued by the Director, International (U.S. Competent Authority), on October 7, 2003 (IR-2003-116), is set forth.

Announcement 2003–60, page 1049.

This document contains corrections to final regulations (T.D. 9083, 2003-40 I.R.B. 700) that relate to the treatment of golden parachute payments under section 280G of the Code.

ADMINISTRATIVE

Rev. Proc. 2003–75, page 1018.

Automobile owners and lessees. This procedure provides owners and lessees of passenger automobiles (including trucks, vans, and electric automobiles) with tables detailing the limitations on depreciation deductions for passenger automobiles first placed in service during calendar year 2003 and the amounts to be included in income for passenger automobiles first leased during calendar year 2003. Separate tables are provided for passenger automobiles qualifying for additional first-year bonus depreciation under section 168(k). In addition, this procedure provides the maximum allowable value of employer-provided automobiles first made available to employees for personal use in calendar year 2003 for which the vehicle cents-per-mile valuation rule provided under section 1.61–21(e) of the regulations may be applicable. Rev. Procs. 2001–19 and 2002–14 amplified.

Rev. Proc. 2003–79, page 1036.

Annual accounting periods; partnerships; S corporations. Procedures are provided under which partners or shareholders of S corporations may elect, under certain circumstances, to take into account ratably over four taxable years the partner's or S corporation shareholder's share of income from the partnership or S corporation that is attributable to a short taxable year ending on or after May 10, 2002, but before June 1, 2004. Rev. Procs. 2002–38 and 2002–39 modified.

Rev. Proc. 2003–80, page 1037.

Per diem allowances. This procedure provides rules for deeming substantiated the amount of certain reimbursed traveling expenses of an employee as well as optional rules for determining the amount of deductible meals and incidental expenses while traveling away from home. Rev. Proc. 2002–63 superseded.

Rev. Proc. 2003–81, page 1046.

This procedure provides issuers of qualified mortgage bonds, as defined in section 143(a) of the Code, and issuers of mortgage credit certificates, as defined in section 25(c), with a list of qualified census tracts for the Northern Mariana Islands, American Samoa, and Guam. The qualified census tracts are based on data from the 2000 census. Rev. Proc. 2003–49 supplemented.

Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

Section 25.—Interest on Certain Home Mortgages

26 CFR 1.25-3T: *Qualified Mortgage Credit Certificate.*

The qualified census tracts for the Northern Mariana Islands, American Samoa, and Guam are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-81, page 1046.

Section 42.—Low-Income Housing Credit

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of November 2003. See Rev. Rul. 2003-114, page 1012.

Section 51.—Amount of Credit

26 CFR 1.51-1: *Amount of credit.*

Work Opportunity Tax Credit (WOTC). This ruling concerns the eligibility criteria for the Work Opportunity Tax Credit. The ruling clarifies that an individual whose family receives assistance for the requisite period meets the requirements to be certified as a qualified IV-A recipient under section 51(d)(2)(A) of the Code if the individual is included on the grant (and thus receives assistance) for some portion of the specified period.

Rev. Rul. 2003-112

ISSUE

Does an individual whose family receives assistance for the requisite period meet the requirements to be certified as a qualified IV-A recipient under section 51(d)(2)(A) of the Internal Revenue Code (Code) if the individual is included on the grant (and receives assistance) for less than the specified period?

FACTS

Situation 1. H and W, a married couple, lived together with their children until March 1, 2002, when H moved away and established a new residence for himself. On March 25, 2002, W applied for *Temporary Assistance for Needy Families*

(TANF) payments for herself and her children, and TANF payments began on April 1, 2002. On January 1, 2003, H returned to live with W and their children. H obtained employment on January 10, 2003 (the hiring date). H was not included on the grant at any time prior to the hiring date.

Situation 2. The facts are the same as in Situation 1, except that H was included on W's TANF grant effective February 1, 2003, and did not obtain employment until February 10, 2003 (the hiring date).

Situation 3. H and W, a married couple, lived together with their children. On August 25, 2001, H and W applied for TANF payments for themselves and their children, and TANF payments began on September 1, 2001. In November 2001, H moved away and established a new residence for himself. H was removed from the grant effective December 1, 2001. W and the children continued to receive TANF payments through December 2002. H obtained employment on August 1, 2002 (the hiring date).

Situation 4. H and W, a married couple, lived together with their children, S and D. On January 10, 2002, H and W applied for TANF payments for themselves, S, and D. TANF payments began on February 1, 2002. S's 18th birthday was on March 15, 2002. S was removed from the grant effective April 1, 2002. H, W, and D continued to receive TANF payments through December 2002. S obtained employment on December 15, 2002 (the hiring date).

In each of the situations, the state makes monthly TANF payments prospectively on the first day of the month.

LAW AND ANALYSIS

Under section 51 of the Code, an employer who hires an individual belonging to one of nine targeted groups may be entitled to a credit equal to 40 percent of qualified first-year wages for the taxable year.

Section 51(d) of the Code lists the targeted groups and defines each of them. An individual who is a qualified IV-A recipient is a member of a targeted group. Section 51(d)(2)(A) defines a "qualified IV-A recipient" as an individual who is certified by the designated local agency (state employment security agency) as being a *member of a family receiving assistance*

under a IV-A program for any 9 months during the 18-month period ending on the hiring date. Section 51(d)(2)(B) defines a "IV-A program" as any program providing assistance under a state program funded under part A of title IV of the Social Security Act (now Temporary Assistance for Needy Families Block Grants for States; formerly Aid for Families with Dependent Children) and any successor of such program.

Before the amendment of section 51(d) by the Small Business Job Protection Act of 1996, the corresponding targeted group was limited to individuals who were certified as "being eligible for financial assistance under part A of title IV of the Social Security Act and as having continually received such financial assistance during the 90-day period which immediately precedes the [hiring date]. . . ." Section 51(d)(9) as in effect for workers hired before October 1, 1996.

In its explanation of the amendment of section 51(d) by the Small Business Job Protection Act of 1996, the Senate Finance Committee described a qualified IV-A recipient as follows:

An eligible recipient is an individual certified by the designated local employment agency as being a member of a family receiving benefits under AFDC or its successor program for a period of at least nine months part of which is during the nine-month period ending on the hiring date. For these purposes, each member of the family receiving assistance is treated as receiving such assistance and therefore is treated as an eligible recipient.

S. Rep. No. 104-291, 104th Cong., 2d Sess. 33-34 (1996).

The language above does not reflect the amendment of section 51(d) by the Taxpayer Relief Act of 1997, Pub.L. No. 105-34, § 603(b)(1) (1997). The Taxpayer Relief Act replaced the requirement that the family receive assistance for a period of at least nine months part of which is during the nine-month period ending on the hiring date with the current requirement that the family receive assistance for "any nine months during the 18-month period ending on the hiring date."

The 1996 amendment of section 51(d) and the legislative history evidence a clear

intent to eliminate the requirement that a IV-A recipient receive assistance for the entire period specified. The corresponding targeted group before the 1996 amendment was explicitly limited to individuals who continually received assistance during a specified period. There is no such limitation in the definition of a qualified IV-A recipient; instead, a qualified IV-A recipient is required only to be a member of a family that receives assistance during the specified period.

Neither section 51(d) nor the legislative history specifies the persons who are members of the family receiving assistance. In the absence of other guidance, it is appropriate to look to the TANF rules to determine who is a family member. Thus, if an individual receives assistance under TANF as a member of a family, even if only for a day, the individual will be treated as a member of the family for purposes of section 51(d)(2)(A). Conversely, if the individual never receives assistance under TANF as a member of a family, the individual will not be treated as a member of the family for such purposes.

Accordingly, if the family receives assistance for the required period, and the individual is included on the grant for some portion of the period, the individual is a qualified IV-A recipient.

In *Situation 1*, H was not included on the family's TANF grant for any month and is therefore not a qualified IV-A recipient.

In *Situation 2*, the family received assistance for at least 9 months during the 18-month period ending on the hiring date and H was included on the grant for part of the period during which the family received assistance. Accordingly, H is a qualified IV-A recipient.

In *Situation 3*, H's hiring date was August 1, 2002. The 18-month period ending on the hiring date began February 2, 2001. The family received assistance for at least 9 months during the 18-month period ending on the hiring date, and H was included on the grant for part of the period during which the family received assistance. Thus, H is a qualified IV-A recipient.

In *Situation 4*, the family received assistance for at least 9 months during the 18-month period ending on the hiring date and S was included on the grant for part

of the period during which the family received assistance. Accordingly, S is a qualified IV-A recipient.

HOLDING

An individual whose family receives assistance for the requisite period meets the requirements to be certified as a qualified IV-A recipient under section 51(d)(2)(A) of the Code if the individual is included on the grant (and thus receives assistance) for some portion of the specified period.

The principles of this revenue ruling also apply for purposes of determining whether an individual meets the corresponding family membership requirements to be certified as a qualified veteran under section 51(d)(3)(A), a qualified food stamp recipient under section 51(d)(8)(A), or a long-term family assistance recipient under section 51A(c)(1)(A).

DRAFTING INFORMATION

The principal author of this revenue ruling is Shoshanna Tanner of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this revenue ruling, contact Ms. Tanner at (202) 622-6080 (not a toll-free call).

Section 61.—Gross Income Defined

26 CFR 1.61-21: Taxation of fringe benefits.

This procedure provides the maximum value of employer-provided automobiles first made available to employees for personal use in calendar year 2003 for which the vehicle cents-per-mile valuation rule provided under section 1.61-21(e) of the Income Tax Regulations may be applicable. See Rev. Proc. 2003-75, page 1018.

Section 62.—Adjusted Gross Income Defined

26 CFR 1.62-2: Reimbursements and other expense allowance arrangements.

Rules are provided under which a reimbursement or other expense allowance arrangement for the cost of lodging, meal, and incidental expenses, or of meal and incidental expenses, incurred by an employee while traveling away from home will satisfy the requirements of section 62(c) of the Code as to substantiation of the amount of the expenses. See Rev. Proc. 2003-80, page 1037.

Section 103.—Interest on State and Local Bonds

26 CFR 1.103-1: Interest upon obligations of a State, Territory, etc.

The qualified census tracts for the Northern Mariana Islands, American Samoa, and Guam are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-81, page 1046.

Section 143.—Mortgage Revenue Bonds: Qualified Mortgage Bond and Qualified Veterans' Mortgage Bond

26 CFR 6a.103A-2: Qualified mortgage bond.

The qualified census tracts for the Northern Mariana Islands, American Samoa, and Guam are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-81, page 1046.

Section 162.—Trade or Business Expenses

26 CFR 1.162-17: Reporting and substantiation of certain business expenses of employees.

Rules are provided for substantiating the amount of a deduction of an expense for meal and incidental expenses, or for incidental expenses only, incurred while traveling away from home. See Rev. Proc. 2003-80, page 1037.

Section 168.—Accelerated Cost Recovery System

This procedure provides owners and lessees of passenger automobiles (including electric automobiles) with tables detailing the limitations on depreciation deductions for automobiles first placed in service during calendar year 2003 that qualify for the additional first-year bonus depreciation allowance under section 168(k) of the Code. See Rev. Proc. 2003-75, page 1018.

Section 274.—Disallowance of Certain Entertainment, etc., Expenses

26 CFR 1.274-5: Substantiation requirements.

Rules are provided for an optional method for substantiating the amount of ordinary and necessary business expenses of an employee for lodging, meal, and incidental expenses, or for meal and incidental expenses, incurred while traveling away from home when a payor provides a per diem allowance under a reimbursement or other expense allowance arrangement. Rules are also provided for an optional method