
FTB Audit Procedures Hiring Credit Vouchers

Introduction/Background

To claim an Economic Development Area hiring credit, a taxpayer must obtain a *Form TCA EZ1* (voucher) that certifies the employee meets the eligibility requirements of a qualified employee. Failure to obtain the certification (voucher) results in the taxpayer not meeting all the qualifications of a qualified taxpayer eligible for the hiring credit. The California Revenue & Taxation Code requires taxpayers to retain a copy of the certification and provide it upon request to the Franchise Tax Board.

Franchise Tax Board continues to operate under the long-standing policy of accepting the vouchers issued as proof of eligibility absent information indicating the voucher may have been inappropriately issued. In recent months, information has become available to the Franchise Tax Board indicating that certain vouchers were inappropriately issued. Based on this information, and under the authority of California Revenue and Taxation Code sections 19032 and 19504, Franchise Tax Board staff began reviewing certain vouchers supporting enterprise zone hiring credits claimed on tax years under audit. Each taxpayer claiming hiring credits will be expected to properly substantiate their claim. Where appropriate, such substantiation may include documentation of an employee's satisfaction of the definition of "qualified employee," as set forth in the relevant provisions of the Revenue and Taxation Code. Vouchers where documentation is insufficient will be disallowed and the taxpayer will be given an opportunity to obtain a replacement voucher.

In various audit cases, tax representatives have raised the argument that FTB does not have the authority to look behind the voucher. If this argument is raised, click here to view [standard language](#) you can use in your correspondence.

General Audit Procedures

1. Use materiality and *auditor judgment* to determine whether to examine the credit.
2. **Request the complete voucher** from the taxpayer (click here for [standard](#)

language you can use.) The complete voucher is needed to verify the hiring credit. Depending upon the number of vouchers, you may wish to select a statistical sample.

If available information indicates the voucher has been inappropriately issued, the following general audit procedures are applicable.

3. ***Request a copy of the Employment Application.*** Many of the requirements may be met with the information on the application.
4. ***Request a copy of any other supporting information*** the taxpayer wishes to provide.
5. ***Determine the eligibility criteria*** upon which the voucher was issued. If there is sufficient information to establish eligibility for the credit, allow the credit.
6. ***If the voucher appears unsubstantiated***, document in your audit workpapers that there is not sufficient information to establish eligibility for the credit or that you are unable to determine the eligibility criteria based on the complete voucher and/or supporting documentation. **Note:** if you used confidential FTB information to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.
7. If additional information is not provided, notify the taxpayer of our findings and allow the taxpayer an opportunity to request another voucher.
8. If the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.

IMPORTANT NOTES:

- If you have questions about these procedures or other voucher questions, please contact Jaymie Mora or Susan Allair. The vouchering agents should not be contacted at this time to discuss the voucher.
- All requests for information should be issued to the taxpayer (employer). The employees should not be contacted to discuss the voucher or to ask for additional supporting documentation. The employee is not under audit.

Establishing Eligibility

The following voucher categories are available. For additional information on each, including relevant procedures and audit tips, click on the appropriate link.

- JTPA Program

- [JTPA 10% Category](#)
- [Economically Disadvantaged Individual \(Low Income\)](#)
- [Dislocated Worker](#)
- [Disabled Individual](#)
- [Veteran](#)
- [Ex-Offender](#)
- [SSI, AFDC, or other general assistance recipient](#)
- [Native American](#)
- [TEA resident](#)
- [IRC Section 51 targeted group](#)
- [GAIN Eligible/ CaLWORKS](#)

Jobs Training Partnership Act (JTPA) - CR&TC Section 17053.74/23622.7(b)(4) (A)(iv)(I)

The JTPA provided job-related training services for disadvantaged adults, youth and others who faced significant barriers to employment. In your audit work, you should review [available documentation](#) to determine if the employee met one of the criteria and in certain situations was economically disadvantaged. If all elements can not be verified, the voucher should be held unacceptable on this basis and the taxpayer should be provided an opportunity to obtain a new voucher prior to disallowance of the credit.

The JTPA program expired on June 30, 2000. Individuals hired on or after July 1, 2000 are not eligible to receive a voucher under this program and must be vouchered under another criteria.

For audit procedures and tips related to each category of the JTPA program, click on the relevant link below.

- [Adult Training Program \(Barriers and Economic Hardship\)](#)
- [Youth Training Program \(Barriers and Economic Hardship\)](#)
- [Dislocated Worker](#)
- [Veteran](#)
- [Native American](#)

- 10% Exception Category

Please refer to <http://www.thecre.com/fedlaw/legal12/jtpalaw.htm> for the complete JTPA code.

Adult Training Program

The Adult Training Program authorized training and services for individuals 22 years or older who faced significant employment barriers and were economically disadvantaged.

- Requirements of Category
- Audit Tips
- Procedures
- Typical Supporting Documents Used By Vouchering Agents

Requirements:

- General Eligibility:
 - Resident of area;
 - US Citizen or eligible to work in US; AND
 - Males born after 12/31/59 must be selective service registrant;
- Economically Disadvantaged is defined as any of the following:
 - Cash welfare recipient,
 - Family income at or below poverty line or 70% of the Lower living standard,
 - Receives food stamps or was determined eligible to receive in last 6 months,
 - Homeless per Section 103(a) & (c) of the McKinney Act,
 - Publicly supported foster child,
 - Individual with disability and own income at or below poverty line or 70% of the Lower Living Standard.
- Having at least one of the following barriers to employment:
 - Basic skills deficient
 - School Dropout
 - Cash Welfare recipient
 - Ex-Offender
 - Disability
 - Homeless
 - Senior (55 or older)

Audit Tips:

Evaluating Economically Disadvantaged: Generally, TI, INC, and EDD records can be used to determine the reasonableness of whether the employee meets any of the elements of economic disadvantage. Support staff is available to query these systems on your behalf. To obtain assistance from support staff, please provide the employee's name, social security number, known address, and hire date to Cynthia Chan. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.

Evaluating Barriers: If the economic disadvantage requirement was met, check available documentation relied upon at the time of vouchering or as requested during audit to verify barrier (hard to serve) was also met.

Procedures:

1. Review available documentation to determine if employee suffered a barrier to employment.
2. Review TI, INC, EDD information to determine if employee met the economic disadvantage requirement.
3. If documentation shows 1 & 2 are met – accept voucher. If not, proceed to step 4.
4. Evaluate available documentation to determine if employee readily qualifies to be vouchered under a different criterion. **Note:** If available documentation is inconclusive or incomplete to make this determination, skip this step.
5. If the employee's eligibility is still at issue, notify the taxpayer of our findings and allow the taxpayer an opportunity to request another voucher. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.
6. If the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
7. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents:

"SSI, AFDC, or other general assistance recipient"

- Public Assistance Award Letter
- Benefit printout

- Current food stamp identification card or award letter
- Social Security Insurance award letter or check stub
- Refugee Cash Assistance (RCA)
- Verification by Department of Social Services

"Ex-Offender"

- Court documents
- Letter of Parole
- Letter from probation officer
- Police records

"Disabled Individual"

- Physician's statement
- Rehabilitation Plan
- State Vocational Rehabilitation Letter
- Verification by State Rehabilitation Counselor

Youth Training Program

The Youth Training Program authorized training and services for individuals 14 to 21 years old who faced significant barriers and suffered an economic hardship.

- Requirements of Category
- Audit Tips
- Procedures

Requirements:

- General Eligibility:
 - a. Resident of area;
 - b. US Citizen or eligible to work in US; AND
 - c. Males born after 12/31/59 must be selective service registrant;
- Economically Disadvantaged is defined as any of the following:
 - a. Cash welfare recipient,
 - b. Family income at or below poverty line or 70% of the Lower Living Standard,
 - c. Receives food stamps or was determined eligible to receive in last 6 months,
 - d. Homeless per Section 103(a) & (c) of the McKinney Act,

- e. Publicly supported foster child,
- f. Individual with disability and own income at or below poverty line or 70% of the Lower Living Standard.
- Having at least one of the following barriers to employment:
 - a. Basic skills deficient
 - b. School Dropout or below grade level
 - c. Pregnant or parenting
 - d. Cash Welfare recipient
 - e. Ex- Offender
 - f. Disability
 - g. Homeless or runaway youth

Audit Tips:

Economically Disadvantaged: Generally, TI, INC, and EDD records can be used to determine the reasonableness of whether the employee meets any of the elements of economic disadvantage. Support staff is available to query these systems on your behalf. To obtain assistance from support staff, please provide the employee's name, social security number, known address, and hire date to Cynthia Chan. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.

Barriers: If economic hardship requirement was met, check available documentation relied upon at the time of vouchering or as requested during audit to verify barrier (hard to serve) was also met.

Procedures:

1. Review available documentation to determine if employee suffered a barrier to employment.
2. Review TI, INC, EDD information to determine if employee met the economic disadvantage requirement.
3. If documentation shows 1 & 2 are met – accept voucher. If not, proceed to step 4.
4. Evaluate available documentation to determine if employee readily qualifies to be vouchered under a different criterion. **NOTE:** If available documentation is inconclusive or incomplete to make this determination, skip this step.
5. If the employee's eligibility is still at issue, notify the taxpayer of our findings and

allow the taxpayer an opportunity to request another voucher. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click [here to view standard language](#) you can use to inform the taxpayer of your findings and avoid disclosure issues.

6. If the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
7. If the taxpayer presents another voucher, review accordingly.

Dislocated Worker – CR&TC sections 17053.74/23622.7(b)(4)(iv)(I) & (IV)

Generally, this category of eligibility is for those employees who previously suffered a period of unemployment and in certain situations were unable to find employment or continue their employment in the same occupation or industry. This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(IV). The requirements for either category are the same.

- Requirements of Category
- Audit Tip
- Procedures
- Typical Supporting Documents Used By Vouchering Agents

Requirements:

- ***Terminated/Laid Off*** - must have been terminated, laid off, eligible for or having exhausted entitlement to unemployment insurance benefits, and unlikely to return to his or her previous industry or occupation.
- ***Plant/Facility Closure*** - Employees who received vouchers under the criterion of "*Plant/Facility Closure*" must have been terminated, or have received notice of termination of employment as a result of any permanent closure or any substantial layoff at a plant, facility, or enterprise.
- ***Long term unemployed*** is defined as unemployment for 15 or more of the 26 weeks immediately prior to the determination of being a dislocated worker. Employees who received vouchers under this criterion must have limited opportunities for employment or reemployment in the same or similar occupation in the area in which the individual resides, including an individual 55 years of age or older who may have substantial barriers to employment by reason of age.
- ***Active Member of Armed Forces or National Guard as of 9/30/90*** -

Employees who received vouchers under the criterion of *"Active Member of Armed Forces or National Guard as of 9/30/90"* must be either involuntarily separated or separated pursuant to a special benefits program.

- **Seasonal or Migrant Workers** - Employees who received vouchers under the criterion of *"Seasonal or Migrant Workers"* must be a seasonal or migrant worker who experienced chronic seasonal unemployment and underemployment in the agriculture industry, aggravated by continual advancements in technology and mechanization.
- **Self-Employed** - Employees, who received vouchers under the criterion of *"Self-Employed"*, must have been self-employed prior to being hired. This includes farmers and ranchers. Individuals must be unemployed as a result of general economic conditions in the community in which he or she resides or because of natural disasters.
- **Department of Defense Civilian Employee** who was employed at a military installation being close or realigned under the Defense Base Closure and Realignment Act of 1990.
- An employee that has been terminated or laid off, or has received a notice of termination or layoff as a consequence of compliance with the Clean Air Act.
- **Displaced Homemaker** means an individual who has been providing unpaid service to family members in the home and who--
 - (A) has been dependent either--
 - (i) on public assistance and whose youngest child is within 2 years of losing eligibility under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.); or
 - (ii) on the income of another family member but is no longer supported by that income; and
 - (B) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

For 'displaced homemakers', vouchers are effective only for employees hired on or before the expiration date of the JTPA program on June 30, 2000 (this is not a valid category for employees hired on or after July 1, 2000). **Note:** Employers with vouchers issued under this category hired on or after July 1, 2000 should be offered an opportunity to obtain a new voucher under a different category.

Audit Tip:

The US Department of Labor Bureau of Labor Statistics website has information

regarding the common definition of employed and unemployed. For more information, visit the Labor Bureau website and search the glossary. www.bls.gov

Procedures:

1. Review available documentation to determine if employee suffered a period of unemployment. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.
2. Determine if employee was 'unlikely to return' or had "limited opportunities to return" to their current occupation or industry. This requires that an employee leave the previous industry or occupation for a new occupation with the taxpayer and is unlikely to return to the old occupation or industry.

Assume "unlikely to return" or "limited opportunity to return" is met if any of the following apply:

- Worked in a declining industry or occupation
- Worked in an industry or occupation for which there are limited job opportunities
- Was insufficiently educated and/or does not have the necessary skills for reentry to former industry or occupation
- Had physical or other problems, which preclude reentry into the former occupation.

Assume "unlikely to return" or "limited opportunity to return" is not met if any of the following apply:

- If the employee remains employed in the same industry or occupation (the employee merely changed employers).
- If the employee's skills allow him/her to readily get another job (for example, unskilled labor—an employee who works in fast food, can easily get another unskilled job with another employer).
- The employee has no prior work experience.
- If the employee advances or changes jobs for the same

employer.

1. If documentation shows 1 & 2 are met – accept voucher. If not, proceed to step 4.
2. Evaluate available documentation to determine if employee readily qualifies to be vouchered under a different criterion. **NOTE:** If available documentation is inconclusive or incomplete to make this determination, skip this step.
3. If the employee's eligibility is still at issue, notify the taxpayer of our findings and allow the taxpayer an opportunity to request another voucher. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.
4. If the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents:

"Terminated/Laid Off"

- Termination notice
- Copy of printed media article or announcement describing the layoff
- Employer or union representative letter

"Plant/Facility Closure or Substantial Layoff "

- Notice of plant closure or layoff Notice/Warn Notice
- Statement from employer
- Copy of printed media article describing the closure *and proof of employment at the company*
- Bankruptcy notice
- Internet search on plant closure

"Long term unemployed"

Any of the following documents, issued within 26 weeks prior to hire:

- Proof of receipt of unemployment benefits for at least 15 of the 26 weeks prior to the date of hire
- Unemployment Insurance Verification (benefits records)
- Unemployment Insurance award letter with claim history
- Workers Investment Act Displaced Worker Unit Verification
- Statement by an Unemployment Insurance representative

"Seasonal or Migrant Workers"

- Employer or union representative letter describing seasonal layoff
- Copies of termination notices

"Self-Employed"

- Prior year tax returns
- Newspaper articles or other community info to show that a natural disaster occurred or a military base closed resulting in the closure of a business.

Veteran - CR&TC sections 17053.74/23622.7(b)(4)(iv)(I) & (IV)

Generally, this category of eligibility is for those employees who are a veteran. A veteran is defined as an individual who served in the active military, naval, or air service, and who was discharged or released there from under conditions other than dishonorable. This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(V).

Procedures

Typical Supporting Documents Used By Vouchering Agents

Procedures:

1. Review available documentation to determine if the employee is a veteran.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the veteran status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the

credit will be denied accordingly.

5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents:

- DD Form 214, Certificate of Release or Discharge from Active Duty
- Veterans Administration Documentation
- Verification by State Veterans Agency

Native Americans –

Native American Programs are for Indian, Alaskan Native and Hawaiian Native communities. This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(VIII).

Procedures

Typical Supporting Documents Used By Vouchering Agents:

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents:

- Native American tribal record document
- Certified Degree of Indian Blood (CDIB) card, issued by the Bureau of Indian Affairs

JTPA 10% exception

The JTPA provided job-related training services for disadvantaged adults, youth and others who faced significant barriers to employment. This category is associated with the JTPA Adult and Youth Training Programs previously discussed and provided discretionary authority to JTPA administrators to allow individuals with barriers to employment, but with no corresponding economic hardship, to be enrolled in the JTPA program.

Due to the discretionary nature of this qualifying category of the JTPA program, this potential category is available only if EDD, or its authorized JTPA administrator, enrolled the individual in the JTPA program, or determined they were in fact eligible for enrollment in the JTPA program under this category. This determination takes into consideration the discretionary function of the category and recognizes the intent and inherent requirement of the JTPA program that required the JTPA program administrators to focus its efforts on those individuals that had a barrier(s) to employment and as a result likely suffered an economic hardship.

NOTE:

The JTPA program expired on June 30, 2000. Individuals hired on or after July 1, 2000 are not eligible to receive a voucher under the Adult or Youth Training Programs and must be vouchered under another criteria.

Procedures

Procedures

1. Review available documentation to determine if employee suffered a barrier to employment.
2. Review TI, INC, EDD information to determine if employee met the economic disadvantage requirement so that they qualify under the Adult or Youth Training Program. **Note:** if you used confidential FTB information (from INC, TI, etc.) to determine ineligibility based on economic hardship and you discuss this in your correspondence, click here to view standard language you can use to inform the taxpayer of your findings and avoid disclosure issues.
3. If documentation shows 1 & 2 are met – accept voucher. If not, proceed to step 4.
4. Evaluate available documentation to determine if employee readily qualifies to be vouchered under a different criterion. **NOTE:** If available documentation is inconclusive or incomplete to make this determination, skip this step.

5. If the employee's eligibility is still at issue, notify the taxpayer of our findings and allow the taxpayer an opportunity to request another voucher.
6. If the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
7. If the taxpayer presents another voucher, review accordingly.

Disabled Individual

The term "individual with a disability" means any individual who has a physical or mental disability, which for such individual constitutes or results in a substantial handicap to employment for the "individual with a disability". This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(V).

Procedures

Typical Supporting Documents Used By Vouchering Agents

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents

- Physician's statement
- Rehabilitation Plan
- State Vocational Rehabilitation Letter
- Verification by State Rehabilitation Counselor

Ex-Offender

JTPA Section 4 (17) provides that "offender" means any adult or juvenile who is or has been subject to any stage of the criminal justice process for whom services under this Act may be beneficial or who requires assistance in overcoming artificial barriers to employment resulting from a record of arrest or conviction. This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(VI).

Procedures

Typical Supporting Documents Used By Vouchering Agents

Procedures:

1. Review available documentation to determine if the employee is an Ex-Offender.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the veteran status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents

- Court documents
- Letter of Parole
- Letter from probation officer
- Police records

SSI, AFDC, or other general assistance recipient

This eligibility category allows an individual who immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible for or a recipient of any of the following:

- Federal Supplemental Security Income benefits.
- Aid to Families with Dependent Children.

- Food stamps.
- State and local general assistance.

This category is applicable under the JTPA program criteria (CR&TC sections 17053.74/23622.7(b)(4)(A)(iv)(I) and is a specific category of eligibility under CR&TC section 17053.74/23622.7(b)(4)(A)(iv)(VII).

Procedures

Typical Supporting Documents Used By Vouchering Agents:

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents:

- Public Assistance Award Letter
- Benefit printout
- Current food stamp identification card or award letter
- Social Security Insurance award letter or check stub
- Refugee Cash Assistance (RCA)
- Verification by Department of Social Services

GAIN Eligible / CalWORKS

This eligibility category allows an individual who immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) provided for pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions

Code, or its successor. CR&TC sections 17053.74/23622.7(b)(4)(iv)(II).

Requirements of Category

Procedures

Typical Supporting Documents Used By Vouchering Agents

Requirements:

1. Cash welfare recipient and custodial parent
2. Cash welfare recipient 16 or older

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Typical Supporting Documents Used By Vouchering Agents

- Public Assistance Identification Card
- Public assistance award letter
- Printout of benefits received

TEA resident

To voucher employees under "TEA Resident", employees must be a resident of a TEA immediately preceding commencement of employment. CR&TC 17053.74/23622.7(b)(4)(iv)(IX)

Audit Tips

Procedures

Audit Tips

Location Within TEA - TEA Internet Search. A search for "*Targeted Employment Area*" via any Internet search engine will identify multiple web sites listing TEA address ranges and designation dates, or visit the TTCA/HCD Website:

- <http://www.hcd.ca.gov/ca/cdbg/ez/> Go to the enterprise zone map & street ranges and select TEA Streets in each city. The employee address at the time of hire must be within a designated TEA. **NOTE:** Be sure to verify the designation date of the TEA

For cross-jurisdictional vouchers, you may also need to contact the zone of jurisdiction (zone where the business is located) to verify the TEA address range and designation date if the information is not available via the Internet. See Directory of Zone Contacts at <http://www.hcd.ca.gov/ca/cdbg/ez/>.

Procedures

Generally, vouchers issued under this category have been found to be substantiated upon review. Unless information available suggests otherwise, vouchers issued under the TEA category should be accepted without additional review. If additional review is needed, the following procedures are available:

1. **Verify the employee address is within the TEA.** The following items typically will provide information regarding the employee's address at the time of hire:
 - a. TI or INC
 - b. DMV or EDD data
 - c. Public information found on the Internet such as homeownership records
 - d. Payroll records
 - e. Employment application.
 - f. Form W-4.
 - g. Form W-2 (first year of hire)
 - h. Form I-9 (Immigration & Naturalization form).

IRC Section 51 targeted group - CR&TC sections 17053.74/26322.7(b)(4)(iv)(X)

This eligibility category allows an individual who is a member of a targeted group, as defined in section 51(d) of the Internal Revenue Code, i.e., Target Jobs Tax Credit and its successors, Welfare to Work and Work Opportunity Tax Credit (WOTC) to

qualify for a voucher.

Requirements of Category Procedures

Requirements:

The following are WOTC eligibility categories:

1. Qualified cash welfare recipient
2. Qualified veterans receiving cash welfare or Food Stamps
3. Qualified economically disadvantaged ex-felons hired no later than one year after conviction or release from prison.
4. A high-risk youth ages 18 through 24 who reside in an Empowerment Zone or Enterprise Community
5. Vocation rehabilitation referrals
6. Qualified summer youth ages 16 through 17 who reside in an Empowerment Zone or Enterprise Community.
7. Qualified Food Stamp recipients ages 18 through 24.

Generally, vouchers under this category are based on certification from received from the Welfare to Work and Work Opportunity Tax Credit Office.

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.
5. If the taxpayer presents another voucher, review accordingly.

Available Documentation

Preliminary documentation (voucher, job application, or other documentation)

obtained from the taxpayer, the Oakland database, FTB systems information and/or other public sources of information should be reviewed to determine the reasonableness of the voucher.

Some taxpayers have provided **Employment Applications** as support for hard-to-serve or dislocated worker categories. If the application reasonably supports that the employee was basic skills deficient, school dropout, public assistance, a veteran, an offender or disabled, unemployed etc. in this situation, accept as valid documentation.

Employee Survey Forms or Affidavits are also commonly relied upon documents when the voucher was issued. Compare these forms to the job application and if information is consistent, accept these items as reasonable documentation of the fact pattern at issue. If the documents are inconsistent determine if any public information is available to confirm the fact pattern or whether FTB has any information sources such as TI, INC, or EDD information. If none are available, request relevant information from taxpayer. **NOTE:** If the survey or affidavit is not accepted as proof, focus on the argument that the survey or affidavit is inconsistent with other information, rather than the fact that the survey or affidavit might constitute a self-serving document.

Proof of Age can be verified by using application forms, driver's license, and/or Form I9s.

Materiality

A case may not be material in one year, but have a material impact in a later year due to carryovers. Consideration of materiality should include later year impacts.

Oakland Vouchers

NOTE: Refer taxpayers to HCD if they want a copy of the MOU.

Standard Paragraphs

Request for vouchers and job application

"Pursuant to CR&TC § [enter applicable CR&TC section], the taxpayer shall (1) *Obtain a certification that provides that a qualified employee meets the eligibility requirements, and (2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.* Please provide the complete Hiring Credit Voucher (TCA

EZ 1) (all pages) for the employees listed in the computation of the Hiring Credit. In addition, please provide a copy of the job application for each employee listed and any additional information you have that substantiates the issuance of the voucher.

Request voucher and supporting documentation for Oakland voucher

"An Audit of the City of Oakland's Enterprise Zone conducted by the California Technology, Trade and Commerce Agency (as of January 1, 2004 the California Department of Housing and Community Development) indicates that the City of Oakland may have issued a number of hiring credit vouchers using invalid eligibility criterion and/or in the absence of appropriate documentation. As a result, please provide the following documentation to verify employee eligibility."

Request for supporting documentation

"We are unable to verify your eligibility for the hiring credit from [or "determine the eligibility criteria of"] the following vouchers, based upon the available information. As a result, please provide the following documentation to verify employee eligibility."

Language Addressing FTB 'looking behind the voucher'

California Revenue and Taxation Code § [enter applicable CR&TC section], states that a taxpayer shall obtain a certification that provides a qualified employee meets the eligibility requirements specified under CR&TC § [enter applicable CR&TC section], and the taxpayer shall provide it upon request by the Franchise Tax Board. Additionally, under CR&TC Section 19504, the Franchise Tax Board, for the purpose of administering its duties, shall have the power to require by demand any books, papers, or other data, which may be relevant to that purpose. Where appropriate, additional documentation may be requested and may include documentation of an employee's satisfaction of the definition of "qualified employee," as set forth in the relevant provisions of the Revenue and Taxation Code.

Supporting Documentation

This list of supporting documents has been identified in the Technical Assistance Guide (TAG) prepared by the United States Department of Labor for use by area administrators responsible for administering the local Jobs Training Partnership Act (JTPA) program. This TAG was prepared upon authority of JTPA statute 454. This list of common documentation examples can be provided to the taxpayer, however, if

other documentation exists that support the relevant inquiry, that documentation should be accepted.

Disclosure Paragraphs

You can use FTB confidential information sources, such as TI or INC to verify an employee's economic situation or job history. However, if this information indicates the employee did not qualify the employer for the hiring credit voucher, under the authorized disclosure rules applicable to the audit cycle, you can only disclose that information exists supporting ineligibility, but you cannot disclose what that information is in detail. To assist in your communication with the taxpayer, the following language has been drafted for use during the audit cycle. During the protest or appeals cycle, under the provisions of California Revenue and Taxation Code Section 19545, the taxpayer can obtain access to specific information regarding the information we used to determine ineligibility.

Language: Ineligibility due to the employee's economic situation (no economic hardship)

Information available to the department indicates [employee] does not meet the economic hardship requirement under the Jobs Training Partnership Act to qualify you for the enterprise zone hiring credit.

Language: Ineligibility due to our information being inconsistent with employment history noted on job application (typically Dislocated Worker)

Information available to the department is inconsistent with the employment information contained on [employee's] job application. Information available to the department indicates [employee] does not meet the Dislocate Worker requirements of the Jobs Training Partnership Act to qualify you for the enterprise zone hiring credit.

Economically Disadvantaged Individual 14 years or older

This eligibility category allows an individual who immediately preceding the qualified employee's commencement of employment with the taxpayer was an economically disadvantaged person age 14 or older. The definition of 'economically disadvantaged' is not included in the Revenue and Taxation Code; however, legislative history indicates the definition is contained in the Jobs Training Partnership Act and is set forth below under 'Requirements'. CR&TC sections 17053.74/23622.7(b)(4)(iv)(A)(III).

NOTE: This category is available only for individuals hired on or after January 1, 1997.

Requirements of Category

Audit Tips

Procedures

Requirements of Category:

Economically Disadvantaged is defined as any of the following:

- Cash welfare recipient,
- Family income at or below poverty line or 70% of the Lower Living Standard,
- Receives food stamps or was determined eligible to receive in last 6 months,
- Homeless per Section 103(a) & (c) of the McKinney Act,
- Publicly supported foster child,
- Individual with disability and own income at or below poverty line or 70% of the Lower Living Standard.

Audit Tips:

Economically Disadvantaged: Generally, TI, INC, and EDD records can be used to determine the reasonableness of whether the employee meets any of the elements of economic disadvantage. Support staff is available to query these systems on your behalf. To obtain assistance from support staff, please provide the employee's name, social security number, known address, and hire date to Cynthia Chan.

Procedures:

1. Review available documentation to determine if the employee meets the qualification.
2. If so, allow the credit. If not, proceed to step 3.
3. If the employee's eligibility is still at issue, request supporting documentation from the taxpayer AND/OR allow the taxpayer an opportunity to request another voucher.
4. If the employee's qualifying status cannot be substantiated or if the taxpayer declines to obtain another voucher, notify the taxpayer the voucher is unsubstantiated and the credit will be denied accordingly.

5. If the taxpayer presents another voucher, review accordingly.

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