

# Improving Disabled Veterans' Employment Prospects Using Tax Credits

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Following the large increase in unemployment brought about by the recession of 2007–2009, policymakers have expressed considerable concern regarding the economic problems faced by veterans, particularly those disabled since 9/11. This concern has motivated a range of new federal programs aimed at improving veteran employment spread across several agencies, including the Departments of Labor, Defense, and Veterans Affairs. One key component of the recent federal effort is the expanded use of tax credits. Such credits have been available since 1996 through the Work Opportunity Tax Credit program (WOTC), which gives employers financial incentives to hire individuals belonging to certain disadvantaged groups. New legislation passed in 2007 expanded WOTC to provide single-year tax credits of up to \$4,800 for employers who hired disabled veterans; in subsequent years, eligibility for the credits was extended to include unemployed veterans, and the maximum value of the credits increased. However, there has been little attempt to gauge the effectiveness and relative costs of many programs focused on reducing veteran unemployment, including WOTC.

RAND researchers undertook a study designed to **measure the impact of the 2007 tax credit expansion on the employment and earnings of disabled veterans**. Data were taken from the 2005–2008 editions of the American Community Survey (ACS), a large, nationally representative survey that captures information about the demographic and economic characteristics of the U.S. population. RAND researchers estimated the effects of the credits by comparing employment among individuals who became eligible for the tax credits because of the 2007 law change with that of similar individuals who were not eligible. ACS data revealed that 1.4 million disabled veterans qualified for the new tax credit

## Key findings:

- A recently established tax credit added 32,000 disabled veterans to the employment rolls in 2007 and 2008 and increased target group earnings by 40 percent.
- Veterans aged 40 and over and veterans who were not receiving Social Security payments benefited most from the program, and employment grew for veterans with both cognitive and physical disabilities.
- The tax credits cost roughly \$10,000 or less per job-year, on par with other tax credit programs and substantially less than some larger-scale federal employment initiatives.

in 2008, and almost two-thirds of this group had served during the Vietnam era.

Researchers found that **the new tax credits expanded employment** among the target group of disabled veterans by a statistically significant 2 percentage points in 2007 and 2008, corresponding to an additional 32,000 employed veterans in each of those years. These new jobs were primarily full- rather than part-time. Earnings of the target group also rose by around 40 percent, representing more than \$1 billion in additional yearly income for these disabled veterans.

However, **the effects of the tax credits were not uniform**. Most of the benefits of tax credit eligibility appear to have accrued to disabled veterans aged 40 and above rather than younger veterans and to veterans not receiving Social Security payments rather than those receiving payments through such programs as Social Security Disability Insurance. Both those who reported cognitive impairments due to psychological, emotional, or physical problems and those

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who reported only physical disabilities saw employment gains from the tax credits.

Although precise data on the costs of the tax credits are elusive, IRS data suggest that **the new credits cost \$610 million or less over 2007–2008**, placing the cost per job-year generated at roughly \$10,000 or less. These costs are roughly on par with those identified for prior tax credit programs, such as the Targeted Jobs Tax Credit (\$7,900 per job) or Michigan’s MEGA tax credit (\$10,100 per job) and compare favorably with some other federal initiatives designed pri-

marily to create jobs, such as the American Recovery and Reinvestment Act (\$151,000 per job-year).

These findings suggest that **tax credits can be an effective tool** in the effort to further the employment prospects of disabled veterans. Additional research that identifies how tax credits can be designed to benefit the widest possible set of veterans and research that compares the cost-effectiveness of tax credits with that of other veteran employment programs would be valuable. ■

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This research brief describes work done by the RAND National Defense Research Institute and documented in *The Effects of Hiring Tax Credits on Employment of Disabled Veterans*, by Paul Heaton, OP-366-OSD (available at [http://www.rand.org/pubs/occasional\\_papers/OP366.html](http://www.rand.org/pubs/occasional_papers/OP366.html)), 2012, 14 pp. The RAND Corporation is a nonprofit institution that helps improve policy and decisionmaking through research and analysis. RAND’s publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark.

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