



Tax Credit Brief

TAX INCENTIVES FOR BUSINESSES HIRING PEOPLE WITH DISABILITIES

October is National Disability Employment Awareness Month (NDEAM) and the perfect time to explore the federal tax incentives available for employers who hire individuals with disabilities.

People with disabilities currently represent an untapped resource in our state and across the nation. New national data shows that just 38% of working-age people with disabilities participate in the labor force, compared to 77% of those without a disability.¹ Increased workforce participation of individuals with disabilities would come as a welcome relief to the many businesses nationwide continuing to struggle² to both fill jobs and retain employees.

Companies hiring people with disabilities benefit beyond just filling a position. They also experience increased productivity for the business, improved organizational culture, and reduced turnover.³ Concerns about providing workplace accommodations can worry potential employers, but it shouldn't. Most accommodations for employees cost absolutely nothing for businesses to execute⁴, and federal tax incentives can mitigate some costs for the rest.

Architectural/Transportation Tax Deduction⁵

All businesses are eligible for an annual tax deduction of up to \$15,000 for qualified expenses incurred in removing physical, structural, and transportation barriers for persons with disabilities; however, it may not be used for expenses incurred for new construction, renovations, or for normal replacement of depreciable property.

Examples of deductions include:

- Providing accessible building entrances, parking spaces, and curb cuts.
- Making walkways at least 48 inches wide.

¹ <https://kesslerfoundation.org/press-release/ntide-september-2022-jobs-report-people-disabilities-continue-enter-labor-force>

² <https://www.uschamber.com/workforce/understanding-americas-labor-shortage-the-most-impacted-industries>

³ <https://www.forbes.com/sites/forbesbusinesscouncil/2021/12/03/seven-reasons-why-hiring-people-with-disabilities-is-good-for-business/?sh=55c8f5cd1832>

⁴ 2020 survey prepared by the Job Accommodation Network (JAN) for the Department of Labor's Office of Disability Employment Policy

⁵ IR Code Section 190, Barrier Removal

- Making a public transportation vehicle, owned, or leased for use in the business, more accessible to and usable by persons with disabilities.

Small Business Tax Credit⁶

Small businesses are eligible to take an annual tax credit to mitigate the costs of making their business accessible to persons with disabilities. The credit is 50% of expenditures over \$250, but may not exceed \$10,250, for a maximum benefit of \$5,000. The credit does not apply to new construction costs or modifications to buildings that had been placed in service after November 5, 1990.

Examples of covered expenses include:

- Sign language interpreters for employees/customers with hearing impairments;
- Use of a job coach or co-workers to provide support to an employee with a disability;
- Barrier removal that prevents a business from being accessible to, or usable by, individuals with disabilities.

Work Opportunity Tax Credit⁷

This program provides a tax credit for employers who hire individuals from certain targeted groups including individuals with disabilities receiving vocational rehabilitation referrals.

- Employers can earn a tax credit of between \$1,200 and \$9,600 per employee, depending upon the target group of the new employee and the number of hours worked in the first year.
- The credit may be taken for up to 40% of the first \$6,000 in first-year wages per qualifying employee for a maximum credit of \$2,400 in a tax year.
- For the full credit, the employee must have worked at least 400 hours during the tax year for which the credit is claimed. For employees who worked less a partial credit may be claimed.
- ***There is no limit on the number of qualified individuals an employer can hire to claim the tax credit.***

State Tax Credits for Barrier Removal and Employment Supports

Arizona⁸ enacted legislation in 2017 allowing for subtraction of eligible business access expenditures paid or incurred when retrofitting developed real property to comply with the requirements of the Americans with Disabilities Act (ADA). This includes any amount of eligible access expenditures recognized under the Internal Revenue Code, including any amount that is amortized according to federal amortization schedules, and that is included in computing taxable income for the current taxable year.

⁶ IR Code Section 44, Disabled Access Credit

⁷ <https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>

⁸ <http://www.azleg.gov/legtext/53Leg/1R/laws/0278.pdf>

Arizona also enacted SB 1348⁹ (2020), which specifies that eligible business access expenditures include reasonable and necessary amounts paid or incurred to:

- Remove any barriers that prevent a business from being accessible to or usable by people with disabilities.
- Provide qualified interpreters or other methods of making audio materials available to people with hearing impairments.
- Provide qualified readers, taped texts, and other effective methods of making visually delivered materials available to people with visual impairments.
- Acquire or modify equipment or devices for people with disabilities.
- Provide other similar services, modifications, materials, or equipment.

More Resources

- Internal Revenue Service - [Tax Benefits for Businesses Who Have Employees with Disabilities](#)
- U.S. Chamber of Commerce - [Employer Guide To Tax Credits For Hiring Employees With Disabilities](#)

⁹ <https://legiscan.com/AZ/bill/SB1348/2020>