**Attachment B**

**Guidance on Tax Treatment of Work Experience**

The tax treatment will vary depending on: a) the type of payments made; b) the purposes for which the payments are made; and, c) whether or not an employer/employee relationship exists. Presented below is general guidance on the topic. This guidance may be used as a “point of departure” when examining the implications of various payment options. Please keep in mind that points presented are general in nature. The specific way to handle the tax liabilities will depend on the exact circumstances of the project and should be determined based on a thorough review of the project design and the applicable tax laws and regulations.

1. Generally, in a case where an employer/employee relationship exists, the requirements of FLSA apply and the registrant must be paid wages. The wages are subject to all applicable taxes (e.g., income tax, FICA, Medicare, and Unemployment Insurance) and the taxes must be withheld by the employer and properly reported.
2. Generally, payments based on need and made to cover the reasonable expenses of a registrant in order to allow the individual to participate in the project (e.g., transportation, child care, dependent care, meals, etc.) are not considered wages, nor are those payments includable as gross income. Such payments should be documented in the registrant’s file.
3. In situations where a stipend is either paid to encourage an individual to participate in the program (e.g., an hourly payment for participation-sometimes called an “attendance payment”) or a cash incentive made to reward an individual for the achievement of a training-related benchmark (as described in the individual’s IEP or ISS), the payments are not considered wages but are includable as gross income. If such stipends and incentives exceed $600 paid to an individual during a tax year, the program must issue a 1099-misc to the registrant.

In some circumstances, it may be advantageous to registrants to be issued a 1099-misc if any stipends or incentive payments are made, even if the total falls below $600. In order to qualify for the Earned Income Tax Credit (EITC), a taxpayer must file a tax return showing earned income. Thus, the treatment of stipends and inventive payments as earned income may actually be a benefit. Registrants will likely receive back most, if not all, of the taxes that they’ve paid in, and will also receive the EITC, a net gain. WIOA program operators may want to ensure that their registrants take full advantage of this situation by providing training in filling in tax returns and securing the EITC.