

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Rodriguez Analyst: Jessica Deitchman Bill Number: AB 1569

Related Bills: See Legislative History Telephone: 845-6310 Introduced Date: January 30, 2014

Attorney: Bruce Langston Sponsor:

SUBJECT: Apprentice Training Credit

SUMMARY

This bill would provide a tax credit under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL) to a taxpayer that trains qualified apprentices.

RECOMMENDATION

No position.

REASON FOR THE BILL

The reason for the bill is to address the state's need to encourage workers to learn a specialized trade, and to provide additional tax incentive programs to encourage employers to offer these programs.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2016, and before January 1, 2020.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current federal and state laws lack a comparable credit.

Table with Board Position (S, SA, N, NA, O, OUA, NP, NAR) and Executive Officer (Selvi Stanislaus) and Date (3/13/14).

THIS BILL

For taxable years beginning on or after January 1, 2016, and before January 1, 2020, this bill would, under both the PITL and CTL, provide a tax credit of \$2,000 for each “registered apprentice” that is trained by the taxpayer in the taxable year.

The bill defines a “registered apprentice” as an individual who meets all of the following requirements:

- Is 16 years of age or older, but less than 25 years of age.
- Has not obtained a high school diploma, and is enrolled in either high school or a General Education Development test preparation program.

Additionally, the bill requires that the registered apprentice be trained by a taxpayer through an apprenticeship program that meets all of the following requirements:

- The program must be approved by the “Chief of the Division of Apprenticeship Standards.”¹
- The program must be provided pursuant to an apprenticeship agreement described in the Labor Code.²
- The minimum term for the program must be at least 4,000 hours.

The taxpayer would be required to provide a copy of the apprenticeship agreement to the Franchise Tax Board upon request.

This bill would allow unused credits to be carried over for five years or until exhausted.

This credit would be repealed on December 1, 2020.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

The bill lacks administrative details that must be determined to implement the bill and determine its impacts to the department’s systems, forms, and processes. The bill is silent on the following issues, and raises the following questions:

- What agency would be responsible for the apprentice registration process and how would the registration be accomplished?
- When and for how long should an individual’s age be within the specific age-range to remain a registered apprentice? At the time of application or acceptance to the program? For the duration of the program?

¹ As Defined in Section 3070 of Chapter 4 of Division 3 of the Labor Code

² Labor Code section 3077

- Would an individual that completed high school or a GED program during the year remain a registered apprentice? For what period of time?
- Would an individual that terminated high school enrollment or a GED program during the program remain a registered apprentice?
- When would the taxpayer be eligible for the credit? At the time of a registered apprentice's application or acceptance into the program? Annually for the duration of the registered apprentice's participation in the program?

It is recommended that the bill be amended to specify these conditions to clarify the author's intentions.

TECHNICAL CONSIDERATIONS

On page 2, lines 7 and 14, strike out "a person" and insert "an individual".

LEGISLATIVE HISTORY

AB 985 (Dutton, 2009/2010) would have created a tax credit in an amount equal to 50 percent of the costs paid or incurred by a taxpayer for education and training. AB 985 failed to pass out of the Senate Revenue and Taxation Committee by the constitutional deadline.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. With the exception of *Michigan*, no similar tax credits were identified.

Michigan offers "The Apprenticeship Credit," that provides a credit equal to up to 50 percent of the payroll expenses and 100 percent of the cost of classroom instruction related expenses paid for the benefit of an apprentice in a qualified program. Apprentices must be 16-19 years old and enrolled in either high school or a GED program. For tax years beginning after December 31, 2003, the maximum credit allowed annually per apprentice is \$4,000 for companies classified as a tool and die company under the North American Industrial Classification System (NAICS), and \$2,000 for all other companies. In addition, NAICS classified tool and die companies are allowed a credit of up to \$1,000 annually for qualified expenses incurred in the training of each special apprentice, as defined.

FISCAL IMPACT

Department staff is unable to determine the costs to administer this bill until the implementation concerns have been resolved. As the bill continues to move through the legislative process and the implementation concerns are resolved, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 1569 For Taxable Years Beginning On or After January 1, 2016 And Before January 1, 2020 Assumed Enactment After June 30, 2014 (\$ in Millions)		
2015-16	2016-17	2017-18
-\$11	-\$24	-\$29

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some taxpayers may argue that the bill would encourage taxpayers to hire additional apprentices and therefore create additional jobs in California.

Opponents: Some taxpayers may argue that providing a tax credit limited to apprenticeship programs may be overly narrow and inadvertently exclude other training programs in emerging industries.

LEGISLATIVE STAFF CONTACT

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