

ANALYSIS OF ORIGINAL BILL

Author: Rodriguez Analyst: Jessica Deitchman Bill Number: AB 151
 See Legislative
 Related Bills: History Telephone: 845-6310 Introduced Date: January 15, 2015
 Attorney: Bruce Langston Sponsor _____

SUBJECT:	Apprentice Training Credit
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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, 2017, and before January 1, 2021.

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 for training apprentices.

THIS BILL

For taxable years beginning on or after January 1, 2017, and before January 1, 2021, 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.

Board Position:	Executive Officer	Date
_____ S _____ NA _____ X _____ NP	Selvi Stanislaus	03/12/15
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The bill would define a “registered apprentice” as an individual who meets all of the following requirements:

- Is 16 years of age or older, at the time of application into the program.
- Meets one of the following requirements:
 - Has not obtained a high school diploma and is enrolled in high school or a General Education Development test preparation program.
 - Has obtained a high school diploma or General Education Development credential while participating in the apprenticeship.
- The registered apprentice must 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 and is also registered with the office of Apprenticeship at the United States Department of Labor.
 - 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.

A credit for the taxable year shall only be allowed if the taxpayer has received the certificate from the Division of Apprenticeship Standards in the Department of Industrial Relations. A certificate is required for each taxable year. The taxpayer would be required to provide a copy of the apprenticeship agreement to the Franchise Tax Board (FTB) upon request.

The Division of Apprenticeship Standards would be required to do all of the following:

- Establish a procedure for taxpayers to apply and receive a certificate, in the form and manner jointly prescribed by the Division of Apprenticeship Standards and the FTB.
- Verify that the taxpayer is training during the taxable year an individual that meets the requirements to be a registered apprentice.
- Provide the taxpayer with a certificate for the registered apprentice. The certificate would contain the name of the taxpayer and the name of the apprentice, a brief description of the apprenticeship, the primary location of the apprenticeship, and any other information the Division of Apprenticeship Standards or the FTB deems relevant.
- Annually provide the FTB with a list of the names of the taxpayers that received certificates and the names of the registered apprentices of the taxpayer. The list may also contain any other information from the certificates.

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

² Labor Code section 3077.

- Inform the FTB if the Division of Apprenticeship Standards has knowledge that the training of a registered apprentice is terminated prior to the completion of the apprenticeship program after the taxpayer has received a certificate.

If the training of the qualified apprentice is terminated prior to the completion of the apprenticeship program, any unused carryover of the credit would be canceled and any previously claimed credit that reduced net tax would be recaptured by increasing the tax imposed for the taxable year in which the training is terminated. If the termination occurred due to any of the following, the recapture provision shall not apply:

- The registered apprentice voluntarily leaves the apprenticeship program.
- The registered apprentice, before the end of the completion of the apprenticeship program, becomes disabled and unable to perform the services of that program, unless that disability is removed before the close of the period of that program and the taxpayer fails to offer reinstatement to the program for the apprentice.
- The training of a registered apprentice was terminated due to the misconduct³ of that apprentice.
- The training of the registered apprentice was terminated due to a substantial reduction in the trade or business operations of the taxpayer.

The Division of Apprenticeship Standards would be required to prepare reports for the legislature for each of the five calendar years beginning on January 1, 2018, and before January 1, 2023, and would include, but not be limited to, the following information:

- The number of companies or businesses taking advantage of the credit.
- The number of apprentices participating in the apprenticeship programs and who completed the apprenticeship program, which was the basis of the apprenticeship tax credits.
- The number of apprentices that were hired by the taxpayer after the apprenticeship training was completed for which the taxpayer was allowed a tax credit for training that apprentice.
- Information on the employment status of individuals who have completed an apprenticeship, to the extent the information is available.
- The fiscal impact of the apprenticeship tax credits.

This report would be submitted by the Division of Apprenticeship Standards to the Assembly and Senate Appropriations Committees, the Assembly Revenue and Taxation Committee, and the Senate Governance and Finance Committee on or before March 1 of the following calendar year, commencing March 1, 2019.

³ As described in Sections 1256-30 to 1256-43 inclusive of Title 22 of the California Code or regulations.

The FTB would provide the Division of Apprenticeship Standards with any information necessary to prepare the report. This requirement would be repealed on January 1, 2024.

Unused credits could be carried over for five years or until exhausted.

A deduction otherwise allowed under this bill for any amount paid or incurred by the qualified taxpayer in training a registered apprentice as a trade or business expense would be reduced by the amount of the credit allowed by this bill.

This credit would be repealed on December 1, 2021.

The Division of Apprenticeship Standards may adopt rules and regulations needed to administer this bill, but would be required to consult with the FTB.

The FTB may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purpose of this bill.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

AB 1569 (Rodriguez, 2013/2014), substantially similar to this bill, would have created a tax credit in an amount equal to \$2,000 for each registered apprentice. AB 1569 failed to pass out of the Assembly Appropriations Committee.

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. No similar tax credits were identified.

FISCAL IMPACT

Implementing this bill would require some changes to existing tax forms and instructions and information systems, and would require the creation of a new data sharing process for the transmission of information between the department and the Division of Apprenticeship Standards.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 151 As Introduced January 15, 2015 Assumed Enactment After June 30, 2015 (\$ in Millions)		
2016-17	2017-18	2018-19
- \$5.8	- \$12	- \$15

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

Revenue Discussion

Based on data from the Department of Industrial Relations (DIR), the number of registered apprentices 16 years or older without a high school diploma is estimated to be 4,800 in 2017. This population is reduced by 5 percent to account for individuals that fail to meet the educational completion or enrollment requirement to be considered a “registered apprentice.”

The proposed credit is expected to increase the hiring of registered apprentices by 75 percent for the following reasons; this bill would expand program requirements to allow the hiring of a larger pool of qualified apprentices, the high speed rail program would increase the number of available apprenticeships, and this bill offers a large incentive to hire registered apprentices to take advantage of the credit. The estimate also includes a small decrease in credit for potential recapture.

The estimated number of qualified apprentices, (8,000), is multiplied by the credit amount of \$2,000 resulting in a total estimated credit generated of \$16 million in 2017. It is assumed that taxpayers will use 75 percent of the credit in the year generated, 10 percent in year two and year three, and 4 percent in year four. It is further assumed that 30 percent would be used by personal income taxpayers and 70 percent by corporate taxpayers.

Because the credit would be allowed in lieu of a deduction, the estimate was reduced by the amount of credit that would otherwise be reported as a deduction. This adjustment results in a reduction to the credit of \$920,000 in 2017.

The net revenue losses are then converted to fiscal years, rounded, and are reflected in the above table.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some taxpayers may argue that the bill could encourage taxpayers to hire apprentices and thereby 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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