

## ANALYSIS OF AMENDED BILL

Author: Cervantes Analyst: Jessica Deitchman Bill Number: AB 361  
Related Bills: See Legislative History Telephone: 845-6310 Amended Date: March 27, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Apprentice Training Credit

### SUMMARY

This bill would, under the Personal Income Tax Law, and the Corporation Tax law, allow a tax credit to a taxpayer that employs a registered apprentice.

### RECOMMENDATION – NO POSITION

#### Summary of Amendments

The March 27, 2016, amendments removed the provisions that made non substantive changes to the Revenue and Taxation Code and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill.

This analysis only addresses the provisions of the bill that impact the department's programs and operations.

### 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.

### 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**

This bill would, for each taxable year beginning on or after January 1, 2017, allow a taxpayer a credit in an amount equal to \$1,000 for each individual who was employed by the taxpayer as a registered apprentice in this state for seven months or more during the taxable year, not to exceed \$10,000 per taxable year per taxpayer.

The bill would define a “registered apprentice” as an individual who is trained by the taxpayer through an apprenticeship program that meets all of the following requirements:

- The apprenticeship program is approved by the Chief of the Division of Apprenticeship Standards.<sup>1</sup>
- The program is provided pursuant to an apprenticeship agreement.<sup>2</sup>
- The minimum term for the program is 2,000 hours.

The credit would only be allowed for the taxable year if the taxpayer obtains a copy of an apprentice certificate from the Division of Apprenticeship Standards in the Department of Industrial Relations (DIR). A certificate would be required for each taxable year and the taxpayer would be required to provide a copy of the certificate to the Franchise Tax Board (FTB) upon request.

The bill specifies that this credit must be claimed on a timely filed original return.

The credit may be carried over for up to 1 year.

The Division of Apprenticeship Standards would be permitted to adopt rules and regulations as reasonably necessary to fulfill its obligations under this section, but would be required to consult with the FTB.

The FTB may issue any regulations necessary or appropriate to implement the purposes of this section.

Section 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code would not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the FTB.

Any deduction otherwise allowed for the wages or salaries paid or incurred by the taxpayer upon which the credit is based shall be reduced by the amount of the credit.

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<sup>1</sup> Pursuant to Chapter 4 (commencing with Section 3070) of Division 3 of the Labor Code.

<sup>2</sup> As described in Section 3077 of the Labor Code.

## **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.

## **TECHNICAL CONSIDERATIONS**

To correct a grammatical error, the following amendment is recommended:

On page 2, line 7, strike “tax payer” and insert “taxpayer”

Because the credit amount is unconnected to the wages paid to a registered apprentice, the provision limiting the deduction for wages paid or incurred by the taxpayer would have no affect and could be deleted.

## **LEGISLATIVE HISTORY**

AB 151 (Rodriguez, 2015/2016) would have created a tax credit in an amount equal to \$2,000 for each registered apprentice. AB 151 failed to pass by the constitutional deadline.

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 by the constitutional deadline.

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 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**

This bill would require some changes to the existing tax forms and instructions, and information systems. As the bill continues to move through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

## ECONOMIC IMPACT

### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 361 As Amended March 27, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$2.8	- \$2.8	- \$2.7

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 DIR, the number of active apprentices totaled 74,000 as of April 1, 2017. Based on DIR apprentice registration data, it is estimated that 84 percent of registered apprentices would be employed at least seven months during the taxable year resulting in a pool of 62,000 apprentices.

This credit is anticipated to increase the number of registered apprentices by 20 percent because of the incentive to hire qualified apprentices to take advantage of the credit. The population was reduced by 96 percent to limit the credit to \$10,000 per taxable year per taxpayer, or a maximum of 10 qualified apprentices for each employer.

The estimated number of qualified apprentices is multiplied by the \$1,000 credit amount resulting in total estimated credit generated of \$3 million in 2017. Due to the short implementation period, the first year of credit generation is reduced by 20 percent. It is further assumed that 30 percent of the credit would be used by personal income taxpayers and 70 by corporate taxpayers. Approximately 75 percent of the credit would be used in the year generated and 10 percent in the following year.

The tax year estimates are converted to fiscal year estimates, and then rounded to arrive at the amounts shown in the table above.

### SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

## **ARGUMENTS**

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

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

## **POLICY CONCERNS**

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

The bill allows a one year carryover period. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year after the credit was claimed. The author may wish to extend the one year carryover period.

## **LEGISLATIVE STAFF CONTACT**

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