

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

3. **Committee** Senate Finance

4. **Title** Individual and Corporate Income Tax; High School Apprenticeship Tax Credit

2. **Bill Number** SB 937

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual and corporate income tax credit for businesses that host high school juniors or seniors from a high school, technical center, or specialty school in the Richmond Public School System as apprentices in a qualified field during the 2018-2019 or 2019-2020 academic year. The amount of the credit would be equal to \$2,500 per student per semester hosted by the business. A business would be permitted to receive up to two \$2,500 credits for the same student if the company hosts such student as an apprentice for two academic semesters. The credit would be subject to an annual credit cap of \$125,000.

This bill would be effective for taxable years beginning on or after January 1, 2018 and before January 1, 2021.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact. It is uncertain how many businesses would host high school juniors and seniors as apprentices and, thereby, qualify for this credit. However, the negative revenue impact would not exceed the \$125,000 annual credit cap.

9. Specific agency or political subdivisions affected:

Department of Taxation
Richmond Public School System

10. Technical amendment necessary: No.

11. Other comments:

Apprenticeship Tax Incentives in Other Jurisdictions

Alabama

Alabama provides an income tax credit to taxpayers for employing an apprentice for at least seven full months of the taxable year. The amount of the credit is equal to \$1,000 per qualified apprentice. The credit is subject to an annual credit cap of \$3 million.

District of Columbia

The District of Columbia's allows a tax credit to qualified high technology companies for expenditures paid or incurred for retraining qualified disadvantage employees. Qualifying expenditures include, but are not limited to, worker retraining programs undertaken through an apprenticeship agreement approved by the District of Columbia Apprenticeship Council. The amount of the credit is limited to \$20,000 for each qualified disadvantaged employee during the first 18 months of employment. Unused credits in excess of the taxpayer's tax liability may either be carried forward for up to 10 years or refundable in an amount up to 50 percent of the credit.

Maryland

Maryland permits taxpayers to claim an income tax credit for the first year of employment of an eligible apprentice. The amount of the credit is equal to \$1,000 for each eligible apprentice. The credit is subject to annual credit cap of \$500,000.

New York

New York provides certified employers an income or franchise tax credit for hiring new qualified apprentices. The amount of the credit is: \$2,000 per first-year apprentice; \$3,000 per second-year apprentice; \$4,000 per third-year apprentice; \$5,000 per fourth-year apprentice; and \$6,000 per fifth-year apprentice. If the apprentice is considered a disadvantaged youth the amount of the credit is: \$5,000 per first-year apprentice; \$6,000

per second-year apprentice; and \$7,000 per third-year, fourth-year, and fifth-year apprentice. The amounts of the credit is increased by \$500 if the apprentice has been trained by a mentor for the entirety of the calendar year.

South Carolina

South Carolina allows taxpayers who employ an apprentice pursuant to an apprentice agreement registered with the Office of Apprenticeship of the Employment and Training Administration of the United States Department of Labor to claim an income tax credit equal to \$1,000 for each apprentice employed. A credit is not allowed unless the apprentice was employed by the taxpayer for at least seven full months of the taxable year. No credit is permitted for an individual apprentice for more than four taxable years.

West Virginia

West Virginia provides taxpayers an income tax credit for wages paid to apprentices in the construction trades who are registered with the United States Department of Labor, Office of Apprenticeship. The amount of the credit is equal to \$2 per hour worked during the taxable year by the apprentice, but may not exceed \$2,000 or 50 percent of actual wages paid, whichever is less.

Proposed Legislation

This bill would provide an individual income tax and corporate income tax credit for businesses that host high school juniors or seniors from a qualified school as apprentices in a qualified field during the 2018-2019 or 2019-2020 academic year. The amount of the credit would be equal to \$2,500 per student per semester hosted by the business. A business would be permitted to receive up to two \$2,500 credits for the same student if the company hosts such student as an apprentice for two academic semesters. The credit would be subject to an annual credit cap of \$125,000.

“Qualified field” would be defined as a career field related to the study of science technology, engineering, or medicine, or a field with a high demand for a skilled workforce identified by the Superintendent. In identifying such fields, the Superintendent would be required to consult with the Governor’s Chief Workforce Development Advisory, the Virginia Employment Commission, local, regional, and state chambers of commerce, and the business community generally.

“Qualified school” would be defined as a high school, technical center, or specially school in the Richmond Public School System.

“Superintendent” would be defined as the Superintendent of the Richmond Public School System.

A business would be required to apply to the Superintendent to host an apprentice and be eligible for this credit, based on procedures and forms developed by the Superintendent. The Superintendent would receive nominations of students to serve as apprentices during their junior or senior year of high school from principals and guidance counselors at qualified schools. The Superintendent would be required to select a maximum of 25

students to participate in the program, the selection of whom would be based on the needs of the businesses that have applied to participate in the program. Each student would be eligible to participate in the program for two academic semesters. If more than 25 businesses apply to participate in the program, the Superintendent would be required to select the businesses that most closely align with the interests and fields of study of the nominated students. If fewer than 25 business apply to participate in the program, a business would be permitted to elect to host more than one apprentice under the program.

In order to be eligible to receive the credit, a business would be required to provide the apprentice with a stipend that is no less than the amount of the tax credit to be received by the business and certify the amount of such stipend to the Superintendent.

At the end of each academic semester, the Superintendent would be required to provide a certificate to the participating business indicating the number of students who successfully completed an apprenticeship with the business during the semester. The business would be required to provide such certificate to the Department when claiming the credit.

If the amount of the credit exceeds the business's tax liability for the taxable year, the business would be allowed to carry over the excess for credit against the business's income taxes for the next three taxable years or until the total credit amount has been taken, whichever occurs first.

Any credit attributable to a partnership, S corporation, or limited liability company would be allocated to the individual partners, shareholders, or members, respectively, in proportion to their ownership or interest in such business entities.

The Superintendent would be required to report annually, no later than January 1, to the Governor and the Chairmen of the House Committee on Appropriations, the House Committee on Finance, and the Senate Committee on Finance. At a minimum, such report would be required to:

- Identify the businesses that participated in the apprenticeship program;
- The number of students who participated in the apprenticeship program;
- The qualified fields in which the apprenticeships were focused;
- The general experience of the businesses and students who participated; and
- Whether any student who participated in the program pursued a workforce credential or gained employment in the field of the apprenticeship after the apprenticeship concluded.

The executive summary and report would be required to be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports, and would be required to be posted on the General Assembly's website.

The Superintendent would be required to develop guidelines and procedures, exempt from the Administrative Process Act, to implement the credit.

This bill would be effective for taxable years beginning on or after January 1, 2018 and before January 1, 2021.

Similar Legislation

House Bill 1575 is identical to this bill.

House Bill 129 would expand the Worker Retraining Tax Credit by allowing a taxpayer primarily engaged in manufacturing to claim an income tax credit conducting orientation, instruction, and training relating to the manufacturing activities of the taxpayer.

cc: Secretary of Finance

Date: 1/27/2018 JLOF
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