

DEPARTMENT OF TAXATION

2019 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

3. **Committee** Senate Finance

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

2. **Bill Number** SB 1532

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide an individual income tax and corporate income tax credit for a business that hosts a junior or senior in a high school, technical center, or specialty school in the Richmond Public Schools System as an intern in a qualified field during the 2019-2020 or 2020-2021 academic year. The amount of the credit would be equal to \$2,500 per student per semester hosted by the business. Participation in the program would be limited to 25 students. The credit would be subject to an annual credit cap of \$125,000.

This bill would be effective for taxable years beginning on and after January 1, 2019, but before January 1, 2022.

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") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning Fiscal Year 2020. It is uncertain to what extent businesses would qualify for and claim the credit. Because the credit is subject to an annual credit cap of \$125,000, any negative revenue impact would be limited to the extent of the cap.

9. Specific agency or political subdivisions affected:

Department of Taxation
Richmond Public Schools

10. Technical amendment necessary: No.

11. Other comments:

Worker Retraining Tax Credit

The Worker Retraining Tax Credit allows an employer to claim a tax credit against the individual income tax, estates and trusts tax, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies, for the costs of providing eligible worker retraining to qualified employees. The tax credit is equal to 30 percent of all expenditures paid or incurred by the employer during the taxable year for eligible worker retraining, but cannot exceed \$200 per qualified employee per year if the eligible worker retraining consists of courses conducted at a private school, or \$300 per qualified employee annually if the eligible worker retraining includes retraining in a STEM or STEAM discipline including, but not limited to, industry-recognized credentials, certificates, and certifications.

The Worker Retraining Tax Credit also allows a taxpayer primarily engaged in manufacturing to claim an individual income tax or corporate income tax credit equal to 35 percent of its direct costs incurred during the taxable year for conducting orientation, instruction, and training in Virginia relating to the manufacturing activities undertaken by such taxpayer. Taxpayers may only claim up to \$2,000 in credits per taxable year for conducting orientation, instruction, and training. This credit is only permitted for programs that:

- Provide orientation, instruction, and training solely to students in grades 6 through 12;
- Are coordinated with the local school division; and
- Are conducted either at a plant or facility owned, leased, rented, or otherwise used by the business or at a public middle or high school in Virginia.

The program must be approved by the local school division and certified by the Virginia Economic Development Partnership Authority. A taxpayer is permitted to include in its direct costs the following expenditures:

- Salaries or wages paid to instructors and trainers, prorated for the period of instruction or training;
- Costs for orientation, instruction, and training materials;
- Amounts paid for machinery and equipment used primarily for such instruction and training; and
- The cost of lease or rented spaced used primarily for conducting the program.

No business is eligible to claim a credit for worker retraining or orientation, instruction, and training undertaken by any program operated, administered, or paid for by Virginia.

This annual credit cap for the Worker Retraining Tax Credit is \$1 million in aggregate for both portions of the credit.

The Worker Retraining Tax Credit is currently scheduled to expire for taxable years beginning on or after January 1, 2022.

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 allows a tax credit to qualified high technology companies for expenditures paid or incurred for retraining qualified disadvantaged 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 equal to \$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 a business that hosts a junior or senior in a high school, technical center, or specialty school in the Richmond Public Schools System as an intern in a qualified field during the 2019-2020 or 2020-2021 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 claim the credit twice for the same student if it hosts the student as an intern 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 related to the study of science, technology, engineering, or medicine or a field with a high demand for a skilled workforce as identified by the Superintendent of the Richmond Public Schools System (“the Superintendent”). In identifying such fields, the Superintendent would be required to consult with the Governor’s Chief Workforce Development Advisor; 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 specialty school in the Richmond Public School System.

In order to host an intern and be eligible for the credit, a business would have to apply to the Superintendent based on procedures and forms developed by the Superintendent. The Superintendent would receive nominations of students to serve as interns 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 required to 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, which may include a summer semester.

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 businesses apply to participate in the program, a business would be permitted to elect to host more than one intern under the program.

In order to receive the credit, this bill would require a business to provide the intern with a stipend that is no less than the amount of the tax credit to be received by the business and provide at least 200 hours of on-the-job experience. The business would be required to certify to the Superintendent that such requirements have been met.

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 internship 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 a business's tax liability for the taxable year, any unused credit would be permitted to be carried forward for the next three taxable years or until the credit is used in full, whichever is sooner.

For purposes of the credit, the amount of credits attributable to a partnership, electing small business corporation, or limited liability company would be required to be allocated to the individual partners, shareholders, or members in proportion to their ownership or interest in such business entities.

This bill would require the Superintendent to report annually, by 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. The report would be required, at a minimum, to identify:

- The businesses that participated in the internship program;
- The number of students who participated in the internship program;
- The qualified fields in which the internships 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 internship after the internship concluded.

The executive summary and report would be required to be submitted in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and 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 program.

Similar Legislation

House Bill 2216 is identical to this bill.

House Bill 2539 would replace the Worker Retraining Tax Credit with the Worker Training Investment Tax Credit.

cc : Secretary of Finance

Date: 1/27/2019 JLOF
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