



APPRENTICESHIP TAX CREDIT

Apprenticeship Alabama, a division of the Alabama
Department of Commerce

ABSTRACT

Per the ALABAMA DEPARTMENT OF REVENUE ADMINISTRATIVE CODE CHAPTER 810-17-1 ECONOMIC TAX INCENTIVES Reporting Requirements, the Alabama Department of Commerce is reporting on the Apprenticeship Tax Credit

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Section I- Overview of the Economic Tax Incentive

Section One- The purpose of the Economic Tax Incentive and shall report whether or not each Economic Tax Incentive has been successful in meeting the purpose for which it was enacted, in particular, whether each Economic Tax Incentive benefits those originally intended to be benefited, and if not, those who have benefited.

A description of the Tax Incentive. The description shall include the initial statement of purpose of the Tax Incentive as provided for in the enabling legislation, the name(s) of the agency administering the Tax Incentive, a description of the Tax Incentive and how it is calculated or awarded, the history of the Tax Incentive which shall include when and under what authority the Tax Incentive was created, including any amendments to the statute and any departmental rules associated with the Tax Incentive;

The Alabama Apprenticeship Tax Credit was created by Alabama Act No. 2016-314, which is known as the Apprenticeship Tax Credit Act of 2016 (the "ATC Act"). Governor Robert Bentley signed the ATC Act into law on May 10, 2016. The primary purpose of the ATC Act was to provide a tax credit for employers that employ an apprentice. The ATC Act seeks to ensure the advancement and expansion of Registered Apprenticeships in the state of Alabama. In conjunction, Apprenticeship Alabama was created to administer the Tax Incentive. The Tax Incentive became available to employers with a USDOL Registered Apprenticeship program in one of the 5 industry sectors (Advance Manufacturing, Construction, Healthcare, Information Technology, and Transportation and Logistics) in January 2017. In accordance with the ATC Act, via the Alabama Department of Revenue (ADOR) eligible employers can claim a \$1000 credit for each apprentice employed for at least seven full months for up to five apprentices annually, not to exceed \$5000.

The goals of the Tax Incentive and whether or not the Tax Incentive has been successful in meeting these goals. For example, if a job creation incentive includes wage thresholds for a business to qualify, a goal for the tax incentive program would be to create high-paying jobs;

The goal of the Tax Incentive is to align with the State's Accelerate Alabama plan to close the skills gap and create a pipeline of skilled workers through the expansion of USDOL Registered Apprenticeships. This

will result in an increase of career opportunities for Alabama's citizens. In 2016, the USDOL registered 9 programs. In 2017, the USDOL has reported 22 newly registered programs. The goal of expanding USDOL Registered Apprenticeships is well received by many employers and well underway

A description of the intended beneficiaries of the Tax Incentive, including any tax types to which the Tax Incentive applies to or is designated. This description shall include the activities the Tax Incentive is intended to promote and the effectiveness of the Tax Incentive in promoting those Revenue Chapter 810-17-1 activities.

The intended beneficiaries of the Tax Incentive are Alabama small and medium size employers with a USDOL Registered Apprenticeship program in the following industry sectors of Advanced Manufacturing, Construction, Healthcare, Information Technology and Logistics/Transportation. Since May 2016, Apprenticeship Alabama has supported expansion and job growth in Alabama with an apprenticeship awareness campaign aimed to connect, inform, and engage businesses. The Tax Incentive is intended to incentivize employers willing to invest in apprenticeship training by helping them offset the cost involved. Also, the citizens of Alabama will benefit by meeting the needs of business and industry for skilled labor.

Describe how and why such recipients benefit from such Tax Incentive.

The cost to the employer of investing in a Registered Apprenticeship program is substantial. The tax incentive coupled with high school dual enrollment funding, WIOA benefits, and other training resources available can substantially offset the expenditure. A Registered Apprenticeship Program has two costly components (Related Technical Instruction and On-the-Job-Training). Utilizing the Tax Incentive in conjunction with other training resources available to offset the cost associated solidifies the State's commitment to support businesses that invest in growing Alabama's high demand/high wage jobs. The benefit to the worker occurs because it provides training for the individual that allows him or her to either enter the workforce initially or, if that individual is already in the workforce, it allows the individual to obtain a better job at higher wages.

This increased flow of money provides a ripple effect that benefits the entire Alabama economy.

Section II- Impact and Benefits

Section Two shall encompass the impact of the Economic Tax Incentive and shall report whether or not the state receives a positive return on investment, specifically the direct and indirect impact on state and local tax revenues, from the business or industry for which the Economic Tax Incentive is intended to benefit and any other economic benefits produced by such Tax Incentive. If applicable, this shall include, but is not limited to:

The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers in the reporting year:

For calendar year 2017, which is our first reporting year. Apprenticeship Alabama received intent forms from 38 companies that applied for the tax credit, which had 160 apprentices. Of the 38 companies, we were able to qualify 25 programs with 75 apprentices resulting in \$75,000 in tax credits for the 2017 tax year. To date, no credits have been claimed.

The amount of Tax Incentives that could be carried forward and the length of time the Tax Incentive can be carried forward;

There are no statutory carry forward provisions allowed.

The amount of Tax Incentives that have been transferred, if applicable, and the amount that the credit(s) were discounted when they were transferred;

Under Section 40-18-423 which was created as part of the ATC Act the tax credit cannot be transferred.

The amount of fees and/or other transaction costs associated with the Tax Incentive, including but not limited to application fees and transferability fees;

Not applicable.

The estimated cost of administering the Tax Incentive;

The 2017 operating budget for Apprenticeship Alabama was \$427,000. Apprenticeship Alabama's 4-member team includes 1 Program Manager and 3 Project Managers with assigned responsibilities/regions that cover

the state. This cost also includes ongoing awareness to engage, connect and inform business & industry, state agencies, and other stakeholders about the benefits of a Registered Apprenticeship Program.

The number of direct jobs created by the Tax Incentive;

Apprenticeship Alabama qualified 25 programs, resulting in the creation of 75 new jobs.

The timing between awarding the Tax Incentive and creation of jobs and/or investment, and the maintenance of any job creation requirement;

There is no job creation maintenance required.

Describe any caps associated with the Tax Incentive (identify if fiscal year or calendar year) and whether or not the cap was met for each year the Tax Incentive was in existence. Include the number of taxpayers who were denied a Tax Incentive due to the cap being in place; Chapter 810-17-1 Revenue:

The cap associated with the Tax Incentive is \$3 million annually. The ATC Act, states the terms are for the tax years of 2017, 2018, 2019, 2020, and sunsets in 2021. No taxpayers were denied a Tax Incentive due to the cap being in place because the cap was not reached. However, many of the companies we approached said the tax credit was too limited and they would be more inclined to sign with Apprenticeship Alabama if the limit was expanded beyond the 5 apprentice limit set by law.

Describe any penalties, including clawback provisions, associated with noncompliance of the Tax Incentive;

There are no penalties or claw back provisions. In order for a company to receive the tax credit, Apprenticeship Alabama must verify the apprentice was enrolled prior to May 31st and in the program for at least 7 months of the taxable year. Employers are required to renew each year beginning January 2017.

Provide an estimate of the indirect economic activity stimulated by the Tax Incentive. This shall include an estimate of any tax benefits that have been

sourced outside of Alabama; and

Apprenticeship Alabama collaborates with business & industry, Alabama's 2-year College System, Alabama's Career Technical Education System, Alabama Cooperative Extension Service, Alabama Career Center, Alabama Workforce Development Division, and Alabama Department of Labor through monthly Public-Private Partnership meetings to build a sustainable workforce pipeline.

Tennessee Construction company is interested in setting up a subsidiary in Alabama because they do a lot of work in Alabama. This will enable them to qualify for the credit.

We estimate Apprenticeship Alabama has redirected hundreds of calls and emails to various state agencies from Alabama citizens pursuing Registered Apprenticeship opportunities.

Any other information necessary for the State Agency to comply with the requirements of the Act.

Apprenticeship Alabama performs a compliance review with all eligible employers applying for the tax credit. Apprenticeship Alabama also has a database that assists with monitoring and compliance to ensure an apprentice is enrolled in the program at least seven (7) full months before a company is deemed qualified. Apprenticeship Alabama will provide an annual report to the House Ways and Means Education Committee and the Senate Finance and Taxation Education Committee to account for the effectiveness of the apprenticeship program under Senate Bill 90 (SB90).

Section II- Impact and Benefits

Section Three shall encompass the economic results of each Economic Tax Incentive, taking into account the extent to which the Tax Incentive successfully changes business behavior, and the unintended or inadvertent effects, benefits, or harm caused by the Economic Tax Incentive, including whether the Economic Tax Incentive conflicts with other state laws or regulations. This shall include, but is not limited to:

Any results the Tax Incentive has on Alabama's economy. Indicate whether or not the Tax Incentive is successfully influencing business decisions and describe how

this is being determined;

The Tax Incentive benefits Alabama's economy by addressing rising employer demand for skilled workers. Currently, Alabama has accounted for 100 new apprentices in Alabama. The medium wages for these positions start at \$13.00/hour but continue to rise as the apprentice skill levels increase, ultimately resulting in wages above \$20.00/hour.

Apprenticeship Alabama has also increased Alabama's talent pool of 3,995 apprentices to more than 6,000 apprentices; as a result increasing registered programs currently at 400 companies to more than 600 companies by 2021.

Apprenticeship Alabama's Income Tax Credit ensures that businesses implement a USDOL Registered Apprenticeship program with corresponding USDOL credentials for trainees who complete the program.

Any evidence that the Tax Incentive is or has changed business behavior, as opposed to rewarding businesses for what they would have done anyway;

For the last three years the USDOL Office of Apprenticeship in Alabama has registered less than 10 Registered Apprenticeship programs per year. However, this year in 2017 they have registered 22 programs. According to USDOL statistics, the 2015 the number of programs in Alabama was 91, with 3,995 apprentices in the pipeline. For 2016, the programs increased to 96 along with the apprentices to 4,295. There has been a substantial increase in 2017 with an estimated 118 programs and over 5,404 apprentices now in the workforce pipeline.

How is the Tax Incentive affecting businesses beyond those that benefit directly from the Tax Incentive;

Apprenticeship Alabama has affected businesses beyond those that benefit directly from the Tax Incentive. For instance, the Tax Incentive is not provided to non-profit businesses such as governmental agencies, hospitals, and nursing homes. Nevertheless, Apprenticeship Alabama signed its first healthcare provider in 2017. Since then, healthcare clusters have been created through the State's Regional Workforce Councils to

engage other healthcare providers.

Any potential changes to the design or administration of the Tax Incentive that could lead to better results. If possible, indicate if the Tax Incentive could be made more effective through legislative changes;

Currently, the tax incentive limits a company to receiving credit for hiring only five (5) apprentices a year. Removing the five (5) apprentice limit will encourage companies to train more apprentices, as their cost would decrease. This would help Alabama be more competitive regionally similar to the South Carolina's (Apprenticeship Carolina) Tax Incentive, which passed 10 years ago in 2007. South Carolina does not have a limit on the number of apprentices that can receive the tax credit per company and they currently they have 14,475 apprentices in their workforce pipeline.

State whether or not the State Agency could accomplish the same purpose or goal of the existing Tax Incentive through a non-tax incentive or subsidy, such as a normal budgetary expenditure, and do it more effectively or efficiently. Explain your reasoning; and the methodology and assumptions of the review, analysis, and evaluation of the Tax Incentive.

The answer is unknown because the underlying source data does not exist or because the State Agency lacks the expertise to provide the data.