



APPRENTICESHIP TAX CREDIT 2018 REPORT

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 (Advanced 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 \$1,000 credit for each apprentice employed for at least seven full months for up to five apprentices annually, not to exceed \$5,000.

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 Success Plus 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 and assure our business and industry continue to excel. For 2017, there were 37 companies from 15 Alabama counties that applied for the apprenticeship tax credit. Of that amount, 25 companies in 13 counties were eligible for and received the apprenticeship tax credit. Of the 125 apprentices that applied, 76 apprentices received the apprenticeship \$1,000 tax credit. Twelve companies that submitted the apprenticeship tax credit intent form did not qualify because they 1.) Did not provide the needed documentation, 2.) Chose not to apply or 3.) Did not meet the eligibility requirements for this year (i.e., apprenticeship started before the tax credit program start date, apprentices did not work seven months). For 2018, there were 73 companies representing 22 counties that applied for the apprenticeship tax credit. Of that amount, 44 companies from 19 counties are eligible for and will receive the

apprenticeship tax credit. Forty-five companies, submitted 193 apprentices. Of the 193, 129 will receive the apprenticeship \$1,000 tax credit. Twenty-seven companies that submitted the apprenticeship tax credit intent form did not qualify because they 1.) Did not provide the needed documentation, 2.) Chose not to apply or 3.) Did not meet the eligibility requirements for this year (i.e., apprenticeship started before the tax credit program start date, apprentices did not work seven months). In 2017, the USDOL reported 20 newly registered programs. In 2018, the USDOL is reporting 15 newly registered programs. The objective of expanding USDOL Registered Apprenticeships is well received by numerous employers and well underway. Currently, Alabama has accounted for 129 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.

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. Apprenticeship Alabama has noticed a growing demand in automotive service occupations as well. Of course, the program is intended to benefit the individual worker who receives job training in this program. Further, all Alabama citizens are benefitted because of the positive impact on the state's economy. 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 increase Alabama employers' willingness to invest in Registered Apprenticeship training by helping them offset the cost involved. Correspondingly, the citizens of Alabama will benefit with an opportunity to gain a marketable skill, which in turns meets business and industry needs. There is an increased need for 1 and 2 year apprenticeship programs at Alabama's Community Colleges. This allows apprentices to have a sense of accomplishment. Having completed a short-term program enables an apprentice to stack their credentials and continue growing. Apprenticeship Alabama has had numerous large company as they would consider hiring more apprentices if the tax credit was not just limited to 5 apprentices per company.

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:

We have experienced a substantial increase of 42% in the number eligible apprentices 2017 to 2018. For calendar year 2018, it is our second reporting year. Apprenticeship Alabama received intent forms from 73 companies that applied for the tax credit, which had 193 apprentices. Of the 73 companies, we were able to qualify 44 company programs with 129 apprentices resulting in \$129,000 in incentive dollars claimed for the tax credit.

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

The ATC Act has no provision that would allow the apprenticeship tax credit to be carried forward to apply to a tax liability in future years. However, if there is a possibility of utilizing the remainder of the 3 million dollar credits for year 2017, 2 million \$924,000 would remain. Using the same 3 million dollar credit for 2018, 2 million \$869,000 would remain. For a total of \$6,793,000, which is why working with Alabama's larger companies should be considered because it appears we have the funding capacity to do so.

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;

Since the tax credit cannot be transferred there are no transferability fees.

The estimated cost of administering the Tax Incentive;

The 2018 operating budget for Apprenticeship Alabama was \$497,000 and increase over the 2017 budget of \$427,000. Apprenticeship Alabama's 5-member team includes 1 Program Manager and 3 Project Managers with assigned responsibilities/regions that cover the state. We also added to our team an Apprenticeship Coordinator. This cost also includes marketing the program through ongoing awareness events to engage, connect and inform business & industry, sector associations, local chambers of commerce, state agencies, and other stakeholders about the benefits of a Registered Apprenticeship program. Professional development has also been a critical to learn the apprenticeship models and how to help companies understand the complete scope of apprenticeship.

The number of direct jobs created by the Tax Incentive;

Apprenticeship Alabama qualified 44 programs, resulting in the creation of 129 new jobs in 2018. In the previous year, there were 25 programs and 76 new jobs.

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

The employer must register their training program and make an investment in hiring apprentices at least seven months on the taxable year to be eligible for the tax credit. The duration of a Registered Apprenticeship program is 1 to 6 years depending on the job.

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

incline to sign with Apprenticeship Alabama if the limit was expanded beyond the 5 apprentice limit set by law. According the Alabama Department of Revenue (ADOR), for calendar year 2018 (1/1/18-12/31/18), there were less than 10 taxpayers claiming \$27,175 in apprenticeship tax credits. AA and ADOR suspect certificates may not be making it all the way to the tax preparer as designed. We will be contacting these companies to re-educate them on the process.

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 between January 2nd and May 31st of the taxable year.

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.

RCBI, SABIC and Tooling U are nationwide sponsors that are providing apprenticeships in Alabama. Tooling U is offering the Related Technical Instruction at a discounted cost to businesses through a grant. The cost is typically \$10,000 a year per apprentice. With the Tooling U grant, each company pays \$1,000 per apprentice annually.

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 by contacting each company with an apprenticeship program to verify all requirements were met before issuing 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. This report will be provided 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 the ATC Act.

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.

Apprenticeship Alabama has increased Alabama's talent pool of 3,995 apprentices to more than 5,030 apprentices; as a result we are on track to increasing registered apprenticeship programs 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.

According to the USDOL, 91% of apprentices who complete their Registered Apprenticeship program remain with the company and continue to be productive tax paying citizens.

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

Prior to this act and the creation of Apprenticeship Alabama, the USDOL Office of Apprenticeship averaged less than 9 newly registered programs per year. However, with the partnership with Apprenticeship Alabama 20 programs were created in 2017 and 15 were added in 2018. According to USDOL statistics, for 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. In 2017 Alabama increased to 114 programs and showed 4,905 active apprentices. There has been an increase in 2018 with an estimated 125 programs and over 5,030 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. At this time, youth apprenticeships are not prevalent in the state. The State's K-12 Career Technical Programs are working closely with Apprenticeship Alabama to create pre-apprenticeships and youth apprenticeships to feed the workforce pipeline. Pre-Apprenticeships will not qualify for the Tax Credit but they are a needed component to ready an apprentice for the rigors of a Registered Apprenticeship program.

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 enable Alabama be more competitive nationally. 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 more than 20,000 apprentices in their workforce pipeline. Secondly, Apprenticeship Alabama is improving the process. There have also been a number of request from companies asking for us to simplify the registration process to make renewing each year a more efficient process. We are beta-testing the process and will launch in 2019. Conclusively, the Apprenticeship Alabama team will become certified Apprenticeship Training Representatives (ATR) in 2019. The Office Apprenticeship is going to host the training in Alabama. This training will be USDOL region 3 ATR Foundational Training for Apprenticeship Alabama and representatives from Mississippi and Florida.

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.