



APPRENTICESHIP TAX CREDIT

Alabama Office of Apprenticeship, 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. 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. In 2019 SB295 amended Sections 40-18-422, 40-18-423 and 40-18-424 of the Code of Alabama 1975, relating to the Apprenticeship Tax Credit Act of 2016. The bill created the Alabama Office of Apprenticeship to administer the tax credit and increased the per capita apprenticeship tax credit from \$1000 to \$1250, increase the aggregate apprenticeship tax credit from \$3,000,000 to \$7,500,000, provides a \$500 per capita incentive tax credit for hiring an in-school youth apprentice and extends the tax credit through 2025.

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.

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 employers with a USDOL Registered Apprenticeship program. The Tax Incentive is intended to increase Alabama employers' willingness to invest in Registered Apprenticeship training by helping them offset the cost involved. Moreover, the tax incentive was designed to support expansion and job growth in Alabama. As a part of the marketing plan, an awareness campaign aimed to connect, inform, and engage businesses was developed and is being implemented. Additionally, the Alabamians employed as apprentices are intended beneficiaries of the program. Those apprentices will receive on-the-job training and related technical instruction to enable career advancement.

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

The cost to the employer of investing in a Registered Apprenticeship program can be viewed as a barrier to program creation for companies considering apprenticeship for the first time. The tax incentive coupled with high school dual enrollment funding, Workforce Innovation Opportunity Act (WIOA) benefits, Federal apprenticeship expansion grants, veteran's benefits, and other training resources available can substantially offset the expenditure.

Utilizing the Tax Incentive in conjunction with other training resources available to offset the cost associated helps support businesses that invest in growing Alabama's high demand/high wage jobs. The Alabamians participating as apprentices receive the opportunity to earn a living wage while getting training and experience to advance in high-skill career fields.

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:

During the calendar year 2020 (1/1/2020 - 12/31/2020), 31 taxpayers claimed \$41,193 Apprenticeship Tax Credits under the Apprenticeship Tax Credit Program.

The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers since the creation of the Tax Incentive, if available:

From the start of the program to 12/31/2020, 52 taxpayers have claimed a grand total \$112,886 Apprenticeship Credits.

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.

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;

One staff member from the Alabama Office of Apprenticeship has responsibility for the receipt, maintenance, and review of Tax Credit records, and communicating information regarding qualifying employers to the Alabama Department of Revenue. It is estimated she will spend approximately 30% of her overall time and effort toward this activity during a fiscal year. Thus, the estimated cost of administering the tax credit is 30% of her salary which calculates to approximately \$25,000.

The number of direct jobs created by the Tax Incentive;

To be a registered apprentice a person must be hired by an employer participating in a registered apprenticeship program, accepted into the apprenticeship training, and entered into the federal apprenticeship database. The Alabama Office of Apprenticeship oversaw the registration of 825 apprentices during the 2020 calendar year indicating 825 people were employed and documented entering such training and employment arrangements.

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

Employers must hire and employ an apprentice for seven months of the calendar year to earn the tax credit. The apprenticeship may take from 1 to 4 years to complete, depending on the occupation. Employers must maintain the apprentice to continue receiving the tax credit and may do so for up to four consecutive years.

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 per capita apprenticeship tax credit was increased for tax year 2020 from \$1000 to \$1250 per apprentice. The number of apprentices per company was increased from five to ten and the aggregate apprenticeship tax credit amount was increased from \$3,000,000 to \$7,500,000 per calendar year. Additionally, a \$500 per capita incentive tax credit for hiring an in-school youth apprentice was and extends the tax credit through 2025. No taxpayers were denied a Tax Incentive due to the cap being in place because the cap was not reached.

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

There are no penalties or claw back provisions.

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

The tax incentive is used by employers to offset the costs of the training investment in an apprentice. In Alabama, the primary source of technical training provided to apprentices is the Alabama Community College System. As a baseline for estimates, the costs for a year of training can average \$4,000 dollars per apprentice. Those costs are paid out by employers to training providers. Thus, it could be estimated the indirect impact of the apprenticeship created would begin with the funds spent for training. Beyond this impact, the local indirect impact would depend on the wages of the job created and the estimated number of other jobs created downstream in the community to support the apprenticeship. The Alabama Office of Apprenticeship has adopted the practice of only approving apprenticeship programs where the final wages are at or above the living wage for the area of the state where the training is targeted.

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

No other information is necessary for the Alabama Office of Apprenticeship to comply with the requirements of this 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 is influencing business behavior by driving an increase in the use of registered apprenticeship programs. The evidence for this is in the increasing number of business creating apprenticeship programs and the increasing number of apprentices being employed in existing programs.

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

Apprenticeship programs in Alabama had been stagnant in number and in diversity of occupational training field prior to the creation and implementation of this tax incentive and the associated marketing and promotion. Since the inception of this incentive, new types of occupational training programs have been registered and the utilization of apprenticeship continues to increase.

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

Some employers are beginning to use work-based learning programs modeled on apprenticeship, even in instances where they do not create registered apprenticeship programs. This is most often found when the employer has staffing needs for occupations which are not deemed "apprenticeable occupations" due to having an insufficient level of technical skill required.

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;

At this point, there is no demonstrable need for further adjustments to the incentive program.

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 tax incentive approach is the most efficient way to incentivize the desired business behavior. Direct budgetary expenditures would require a reserved line item of funds which might not be fully utilized. The tax incentive only impacts incoming funds available to the next year's budget if the employers take the desired actions by creating new apprenticeship opportunities which guarantees that the employers have taken the desired actions prior to obligating any state funds.