LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7023 **NOTE PREPARED:** Jan 2, 2007
BILL NUMBER: SB 237 **BILL AMENDED:**

SUBJECT: Employee Training Tax Credits and Programs.

FIRST AUTHOR: Sen. Ford **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: The bill provides a tax credit for employee training expenses incurred by an employer under a program certified by the Department of Workforce Development. It requires the amount of any federal tax deduction allowed for employee training expenses to be added back to a taxpayer's Adjusted Gross Income if the training expenses credit is claimed. It also establishes the Workforce Skill Advancement Project and requires individuals who apply for Unemployment Insurance to participate in the Project.

Effective Date: July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax credit for employee training expenses. The DOR also will have to make determinations as to qualified training expenses by programs certified for the new tax credit by Department of Workforce Development (DWD). The DOR's current level of resources should be sufficient to implement these changes.

Department of Workforce Development: The bill establishes two new programs to be administered by the DWD: (1) the Employee Training Credit Program; and (2) Workforce Skill Advancement Project.

The bill requires the DWD to administer the Employee Training Credit Program. The bill requires the DWD to certify employee training programs for the tax credit, and to monitor the amount of tax credits approved. The bill also requires the DWD to annually submit a report to the DOR on the employee training programs certified for the tax credit. The bill allows the DWD to impose a fee on tax credit recipients to cover the administrative costs of the tax credit program. The bill requires the fee revenue to be deposited in the DWD general fund.

The bill also requires the DWD to administer the Workforce Skill Advancement Project. The Project is funded with set asides from existing funds available from the following sources: (1) the Wagner-Peyser Act, (2) the Workforce Investment Act, and (3) the Skills 2016 Training Fund. The bill requires the General Assembly to determine the amount of funding from each source. There are no data to indicate the cost of the Project. The FY 2006 ending balance in the Skills 2016 Training Fund was about $50.0 M, with the balance as of December 31, 2006, totaling about $45.8 M. The Workforce Investment Act Fund had a negative ending balance (-$604,000) in FY 2006, with the balance as of December 31, 2006, totaling about $11.9 M. The amount of funds that may be available relating to the Wagner-Peyser Act is unknown.

Under the bill, an individual applying for unemployment insurance must participate in a program that includes key skills assessment and a skill remediation component either in the individual's current occupation or in another occupation. Regional workforce boards along with local elected officials are required to develop a plan of short-term training options and placement assistance for applicants for unemployment insurance. Basic reading, writing, and math skills, certified nursing assistant training, and computer skills are among the list of short-term training areas. The regional boards also may exempt an individual from the requirements of the Project if it poses a hardship to the individual; and the boards may allow a temporarily unemployed individual to participate in the Project. The bill requires the regional boards to annually submit program status reports to the DWD. The bill also requires the DWD to compile these reports and submit them to the General Assembly.

The December 26, 2006, state vacant position report indicates that the DWD has 164 vacant full-time positions.

Explanation of State Revenues: *Summary:* This bill establishes the nonrefundable Employee Training Tax Credit which could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Sales and Use Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit is effective only for tax year 2008 and tax year 2009. The bill also limits the total credits allowed to $18 M each fiscal year. <u>Potentially, the DWD could certify $18 M of credits in three fiscal years</u>:

1. FY 2008 (applicable to tax year 2008 training expenses);
2. FY 2009 (applicable to tax year 2008 and/or tax year 2009 training expenses); and
3. FY 2010 (applicable to tax year 2009 training expenses).

<u>The revenue loss from the tax credit could potentially begin in FY 2008 if the DWD certifies credits early in 2008 and credit recipients adjust quarterly estimated payments.</u>

Background Information: The bill provides a nonrefundable tax credit for qualified employee training expenses incurred during tax year 2008 and tax year 2009. The tax credit may be claimed by individual and corporate taxpayers, including shareholders, partners, or members of a pass through entity. Eligible training expenses include tuition, fees, wages paid to an instructor, materials, supplies, and textbooks. The taxpayer must submit to the Department of State Revenue certification of the training program by the DWD. The tax credit is limited to 40% of the taxpayer's qualified employee training expenses and may not exceed the lesser of: (1) 110% of the taxpayer's estimated qualified employee training expenses for that tax year as certified by the DWD; (2) $100,000; or (3) the taxpayer's state tax liability. If the taxpayer's qualified employee training expenses certified by the DWD for the tax year exceed the credit amount computed under the criteria listed above in (1) to (3) and the taxpayer has an operating loss for the tax year, the excess credit amount may be carried forward to subsequent tax years. The tax credit is nonrefundable, and a taxpayer may not carry back excess credit amounts.

Revenue from the corporate AGI tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Add-Back of Federal Deduction for Training Expenses: The bill also provides that any amount deducted for employee training expenses under the Internal Revenue Code on a taxpayer's federal tax return must be added back to Indiana AGI. However, this add-back only applies if the taxpayer claims any amount of the Employee Training Credit in a given tax year. The add-back would offset some of the revenue loss associated with the credit; however, the offset would likely be minimal. For example, every $100 in creditable training expenses added back to taxable income would result in additional tax liability of $3.40 for an individual filer and $8.50 for a corporate filer. Thus, the net revenue loss from the employee training expense credit to the individual taxpayer would be $96.60, and to the corporate taxpayer would be $91.50.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the training expense add-back proposed in the bill would serve to increase taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a minimal increase in revenue from these taxes.

State Agencies Affected: Department of State Revenue; Department of Workforce Development.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: State Auditor's database.

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