



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

November 6, 2003

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 626: Individual and Corporate Income and Franchise Taxes --
Apprenticeship Tax Credit

Assembly Bill 626, which would create an apprenticeship tax credit, was introduced on October 27, 2003, and referred to the Assembly Committee on Workforce Development. On October 30, 2003, AB 626 was withdrawn from the Assembly Committee on Workforce Development and referred to the Joint Committee on Finance.

CURRENT LAW

There are several steps involved in calculating Wisconsin individual income tax liability. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI) by making additions and subtractions to federal adjusted gross income that are required under state law; (b) subtract the state's standard deduction and personal exemptions from AGI to compute Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount; (d) subtract applicable state tax credits from the gross tax amount to arrive at the net tax; and (e) determine if the state alternative minimum tax applies.

A corporation determines tax liability by: (a) computing gross income; (b) subtracting allowable deductions; (c) apportioning and allocating income, if necessary; and (d) applying the tax rate of 7.9% to arrive at gross tax liability. To determine net tax liability, allowable tax credits are subtracted. Corporate income and franchise tax credits are provided for Wisconsin sales taxes on fuel and electricity used in manufacturing, qualified capital and noncapital research expenses, contributions to the Wisconsin Housing and Economic Development Authority (WHEDA), certain expenses to rehabilitate historical structures, and for certain activities in development, enterprise development, development opportunity, agricultural development, and technology zones.

Under both the individual and corporate income and franchise taxes, wages paid by a business (including wages paid to an apprentice) are a deductible business expense.

The Department of Workforce Development (DWD) is authorized to determine reasonable apprenticeship classifications, issue rules and regulations, issue general or special orders, hold hearings, and make findings necessary for conducting apprenticeship programs. The Bureau of Apprenticeship Standards in the Division of Workforce Solutions is responsible for monitoring the apprenticeship programs. Apprenticeship programs involve employers, labor unions, employer associations, technical colleges, and the state and federal governments. The employer contracts with an employee to provide a combination of on-the-job and related classroom training in a particular trade, craft, or business. The contract must be approved by the Bureau.

SUMMARY OF BILL

Assembly Bill 626 would create a state individual and corporate income and franchise tax credit equal to 5% of the wages paid to an apprentice in a tax year, up to a maximum credit of \$1,400 per apprentice, except that, in the tax year in which the apprentice completed the apprenticeship program, the credit would equal 8% of the apprentice's wages, up to a maximum credit of \$3,000 per apprentice. Unused credits could be carried forward up to 15 years to offset future tax liabilities. In order to claim the credit, a taxpayer would have to be a trades trainer as determined and approved by DWD.

The tax credit could be claimed for tax years beginning after December 31, 2005. The credit could not be claimed for tax years that begin after December 31, 2008, if DWD determined that the number of employers training apprentices in DWD-approved programs did not increase by more than 40% from January 1, 2006, to December 31, 2008. However, if an employer had claimed a credit for an apprentice's wages in any tax year beginning before January 1, 2009, the employer could continue to claim a credit for that apprentice's wages in succeeding years, until the apprentice completed the apprenticeship program. As soon as practicable after December 31, 2008, DWD would be required to certify to the Department of Revenue (DOR) the number of employers that were training employees in approved apprenticeship programs on January 1, 2006, and the number training apprentices in approved programs on December 31, 2008.

Partnerships, limited liability companies (LLCs), and tax-option corporations (S corporations) could not claim the credit, but eligibility for, and the amount of, the credit would be based on each entity's payment of eligible wages. A partnership, LLC, or tax-option corporation would be required to compute the amount of credit that each of its partners, members, or shareholders could claim and provide that information to each of them. Partners, members of LLCs, and shareholders of tax-option corporations would claim the credit in proportion to their ownership interest.

An apprentice would be defined as a person who participated in a two-year to five-year apprenticeship program (determined and approved by DWD) in which the person received instruction leading to qualification as a skilled journeyman in an industrial manufacturing trade, construction trade, or private sector service occupation, if the apprenticeship program provided instruction related to any of the five manufacturing trades, five construction trades, or five private sector service occupations with the most projected job openings for new entrants, as determined by DWD.

The Department of Revenue would administer the tax credit, and current law provisions related to change of business ownership and timely claims under the research credit would apply to the apprenticeship tax credit.

An amendment (LRB 1656/1) to AB 626 has been drafted that clarifies that the apprentice tax credit can be claimed for each apprentice employed and a development zones jobs tax credit and an apprentice tax credit cannot be claimed for the same job.

FISCAL EFFECT

The estimated fiscal effect of the proposed apprenticeship tax credit is based on information compiled by the Department of Revenue from the Bureau of Apprenticeship Standards in DWD.

Assembly Bill 626 would provide an individual and corporate income and franchise tax credit equal to 5% of the wages of certain apprentices up to a maximum tax credit of \$1,400, except that a credit would be provided equal to 8% of the apprentice's wages up to a maximum credit of \$3,000 in the tax year in which the apprentice completes an apprenticeship program. Since the tax credit would first apply to tax years beginning on or after December 31, 2005, there would no fiscal effect in the 2003-05 biennium. However, when the credit became effective beginning in fiscal year 2006-07, annual income and franchise tax revenues would be reduced by an estimated \$11.7 million.

Prepared by: Ron Shanovich