

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7258

BILL NUMBER: SB 415

NOTE PREPARED: Jan 6, 2004

BILL AMENDED:

SUBJECT: Tax Credit for Job Training Expenses.

FIRST AUTHOR: Sen. Ford

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: The bill provides to an employer with at least 250 full-time employees a state tax credit equal to 30% of expenditures made for Job Skills Training Programs that are: (1) certified by the Department of Workforce Development; and (2) offered by the employer or reimbursed by the employer on behalf of its employees. The bill provides that an employer is ineligible for the tax credit if the employer receives a state funded grant for Job Skills Training Programs during the same taxable year. The bill requires the Department of Workforce Development to establish procedures to certify Job Skills Training Programs and to audit employers seeking the tax credit.

Effective Date: Upon passage; January 1, 2005.

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 tax credit. These expenses presumably could be absorbed given the DOR's existing budget and resources. Specifically, the bill requires an employer claiming the pertinent training expense credit to submit to the DOR proof of payment of training program expenses and proof that the training program was certified by the Department of Workforce Development.

Department of Workforce Development (DWD): The bill requires the DWD to certify job skills training programs for purposes of the tax credit. The bill requires the DWD to prescribe forms for applying to certify a training program and to adopt rules for the certification procedure. The certification rules must require that a certified job skills training program be conducted under an organized written plan that describes: (1) program training, instruction, or other curricula; (2) career fields or job classifications to which the training relates; (3) training duration; (4) any certification, license, or degree earned at completion of the training

program; (5) any fees or tuition charged for the program; and (6) the sponsor's experience in conducting that or other training programs. The Department of Workforce Development should be able to meet these demands given its current budget and resources. The December 3, 2003, state staffing table indicates that the DWD has 109 vacant full-time positions.

Explanation of State Revenues: The bill establishes a tax credit for costs incurred by employers in providing for certified job skills training for their employees. The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount. The extent of the revenue loss would depend upon a number of factors, including employer cost and utilization of training programs certified by the Department of Workforce Development. Based on existing data on employer training expenditures the fiscal impact could be significant. The fiscal impact of this credit could begin in FY 2006 depending upon how quickly existing and new job skills training programs can be certified.

Background: Under the bill, a "qualified employer" is entitled to a nonrefundable tax credit equal to 30% of expenses incurred in: (1) sponsoring or co-sponsoring a certified "job skills training program" it provides to its employees; or (2) reimbursing his or her employees for participation in a certified job skills training program the employer doesn't sponsor or co-sponsor. If the employer is a sponsor or co-sponsor of a certified program, the tax credit covers the employer's expenses to the extent that they are incurred in providing training to his or her employees and not to other program participants. The bill provides that training expenses paid by grants from certain state funds or reimbursed by any governmental program are ineligible for the tax credit. (The state funds are the Training 2000 Fund, the Indiana Strategic Development Fund, the Counter-Cyclical Revenue and Economic Stabilization Fund, the Employment and Training Services Administration Fund, the Skills 2016 Training Fund, and the Special Employment and Training Services Fund.) A job skills training program is a course or program designed to develop, enhance, or upgrade: (1) basic workforce skills of an employee, including literacy, communication skills, computational skills, or other transferable workforce skills; or (2) advanced, specialized, or industry specific skills of an employee that are directly related to the employee's job or career. Certification of such programs would be done by the Department of Workforce Development (see above under *Explanation of State Expenditures*). A qualified employer is a person, corporation, or pass through entity (a partnership, limited liability company, or limited liability partnership) that employs more than 250 full-time employees during the taxable year in which the employer incurs creditable training expenditures.

The credit is allowed against a qualified employer's AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. If the amount of the credit exceeds the qualified employer's tax liability, the excess credit may be carried over to subsequent years. The excess credit is not refundable, nor is the employer entitled to a carryback. If a qualified employer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). The tax credit is effective beginning in tax year 2005.

Data on Job Training Costs: Data is unavailable relating to costs incurred by employees for job- or career-

specific training that is not reimbursed by their employers and that could potentially be creditable expenses under the bill. Relative to employer-incurred training expenses, however, the *National Compensation Survey (1999)* by the U.S. Bureau of Labor Statistics (BLS) indicates that an average of 39% of workers in the Midwest receive education assistance from their employers for work-related studies. In addition, the BLS's *Survey of Employer-Provided Training (1995)* suggests that employers with 50 or more employees provided about 17 hours of "job skills training" to employees during 1995. This training included: (1) literacy and other basic skills training; (2) training in communications, speaking, writing, and other related skills; and (3) training in professional, management, technical, and other job- or career-specific skills. All of these would appear to fall within the criteria for job skills training under the bill. In terms of employer-incurred training costs, the BLS survey indicates that training expenditures by employers with 50 or more employees averaged \$305 per employee in 1994. The 1994 average training expense increases to \$372 in current terms when adjusted for inflation. These costs were incurred for employee tuition reimbursements, wages and salaries of in-house trainers, and payments and other costs for outside trainers. However, the survey does not specify the different types of training for which these expenses were incurred. It also does not specify training expenses by wage or salary scale of the employer. Nationally, the BLS survey indicates such training costs totaled an estimated \$14,857 M to \$18,421 M in 1994. Allocated based on Indiana's percentage of the employed workforce nationally (approximately 2.2%) and adjusted for inflation, job training costs incurred by Indiana businesses could potentially total as much as \$415 M to \$515 M in current terms.

Explanation of Local Expenditures:

Explanation of Local Revenues:

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

Local Agencies Affected:

Information Sources: U.S. Bureau of Labor Statistics, *1995 Survey of Employer-Provided Training: Employer Results*, July 10, 1996; U.S. Bureau of Labor Statistics, *Employee Benefits in Private Industry*, 1999, December 19, 2001.

Fiscal Analyst: Jim Landers, 317-232-9869.