



**Senate Fiscal Agency**  
**P. O. Box 30036**  
**Lansing, Michigan 48909-7536**

**BILL ANALYSIS**



**Telephone: (517) 373-5383**  
**Fax: (517) 373-1986**

Senate Bill 872 (as enrolled)  
 Sponsor: Senator Mike Rogers  
 Senate Committee: Finance  
 House Committee: Tax Policy

Date Completed: 1-15-97

**RATIONALE**

In the Governor's 1996 State of the State address, he cited an article in the *Wall Street Journal* saying that a problem in this State was not a lack of jobs, but too few skilled workers. The Governor stated that the majority of Michigan's schools attempt to train students for college rather than for work, but that nearly 80% of all students will not graduate from a four-year college; and further, that most high-technology jobs of the future will not require a four-year college degree but will require training. Toward that end the Governor proposed an "apprenticeship tax credit...for young men and women to acquire skills to fill these high-paying jobs of the future".

Currently, the U.S. Department of Labor's Bureau of Apprenticeship and Training runs a program in which it recognizes and lists apprenticeable occupations, and prescribes regulations (including the number of hours each apprenticeship requires) for the participation of both employers and apprentices. It has been suggested that the Governor's proposed apprenticeship tax credit be structured to comply with the Federal program, in order to encourage increased participation and to relieve the State of having to create its own set of apprenticeship program regulations.

**CONTENT**

The bill would add a new section to the Single Business Tax (SBT) Act to allow a taxpayer to claim a refundable credit against the tax for the expenses related to the training of an "apprentice", that is, a State resident at least 16 years old but under 20 years old who had not obtained a high school diploma, was enrolled in high school or a general education development (G.E.D.) test preparation program (or was expecting to enroll within three months), and was trained by the taxpayer in a program that met the following criteria:

- Was registered with the Bureau of Apprenticeship and Training of the U.S. Department of Labor.
- Included a minimum term in hours of at least 4,000 hours.
- Was provided pursuant to an agreement signed by the taxpayer and the apprentice.
- Was filed with the local workforce development board (a board established by a local unit's chief elected official pursuant to the Federal Job Training Partnership Act).

The credit would be equal to the sum of 50% of the salary and wages paid to an apprentice; plus 50% of the fringe benefits and other payroll expenses paid for the benefit of the apprentice; plus 100% of the costs of classroom instruction, and related costs for which the taxpayer was responsible pursuant to the apprenticeship agreement, including (but not limited to) tuition, fees, and books for college level courses taken while the apprentice was enrolled in high school. The credit could not exceed \$2,000 for each apprentice trained in a tax year. If the credit exceeded a taxpayer's SBT liability for a tax year, the portion of the credit exceeding the liability would be refundable. The credit would apply to expenses paid by a taxpayer in a tax year that began after December 31, 1996, and before January 1, 2000; and that were not paid for with funds the taxpayer received or retained that the taxpayer would not have otherwise received or retained and that were used for training an apprentice. The credit would have to be claimed on the taxpayer's annual SBT return or, for taxpayers not required to file an annual return, on a C-8044 form, a successor form, or other simplified form prescribed by the Department of Treasury.

The bill would require the Michigan Jobs Commission to prepare a report, for each year the

credit was in effect, including but not limited to the following: the number of companies that used the apprenticeship credit; the number of apprentices participating in the program; the number of apprentices who completed a program, the costs of which were the basis of a credit; the number of apprentices who were hired by a taxpayer after an apprenticeship training was completed; information on the employment status of individuals who completed an apprenticeship to the extent the information was available; and the fiscal impact of the apprenticeship credit. The report would have to be transmitted to the House Tax Policy and Senate Finance Committees and to the House and Senate Appropriations Committees, by March 1 each year.

Proposed MCL 208.38e

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

As the Governor pointed out in the 1996 State of the State message, while the school system attempts to prepare students to go on to college from high school, many of today's jobs require specialized training rather than a four-year college degree. If the State is to have and retain high-paying, high-technology jobs, it must have workers who are prepared to perform in those jobs, or the jobs will go elsewhere. Under the bill, employers would hire high school students (or G.E.D. candidates) in approved apprentice categories and would receive a refundable credit of up to \$2,000 per year against the single business tax. The proposed tax credit for apprentices would encourage employers to hire and train high school students who, it is hoped, would one day step into the jobs for which they were training. This would provide an opportunity for students, who might not be interested in a four-year college curriculum, to learn a skill and greatly enhance their future employability. Many of the high-paying, high-tech jobs of the future will require training rather than a college degree. The needs of business and industry call for highly skilled workers who are trained in the technologies of today's workplace. Students cannot get the skills and experiences entirely from the classroom. School-to-work programs, which are supported by business-education alliances, need to go beyond traditional

vocational-technical training programs and expose students to a variety of professions and work sites. The more that students are exposed to various work sites, the more they will connect their education to the real world of work and the more prepared they will be to make educated career choices.

### **Supporting Argument**

The bill would boost participation in the existing Federal apprenticeship program and relieve the long-term shortage of skilled workers. Increasing the number of student apprentices through the use of tax incentives would be particularly good for small businesses with a need for highly trained workers. Because small companies often have difficulty hiring skilled employees away from large, higher paying companies, it is vital to the long-term health of the small companies that they train their own workers, which can be an expensive undertaking. The bill would help them accomplish that goal. Further, by increasing participation in apprenticeship programs, the bill would help to build the percentage of skilled workers in the State's workforce.

### **Opposing Argument**

While the apprenticeship credit is a good idea, some restrictions for employers should be structured into the credit. As the bill is written employers could take advantage of the credit by hiring students, but then releasing them as soon as they graduated, or turned 20, and were no longer eligible for the credit. This could lead to a revolving door situation, in which students were hired as an apprentice but never allowed to finish their training. Also, this is a very limited program; it applies only to high school-age workers, whereas most apprentice programs are for people who have already left high school.

**Response:** Abuse of the credit is highly unlikely. Employers place a high value on a good employee, in today's business world, and the apprenticeship credit would help them to train good employees. A company that took on students for training, only to release them when the students were no longer eligible for the credit, would soon gain a bad reputation among high school counselors and administrators and quickly lose credibility among future prospective apprentices. Further, the credit would be available for only three years, and the program could be evaluated for its effectiveness and any abuses.

Legislative Analyst: G. Towne

## **FISCAL IMPACT**

According to the U.S. Department of Labor, there are approximately 10,800 people enrolled in 1,595 apprenticeship programs in Michigan. Of the total number of people currently enrolled in these programs in Michigan, the Jobs Commission claims that only about 250 are 19 years old or younger and have not yet received their high school diploma. It is estimated that this proposed credit would increase the participation in the apprenticeship training programs because the credit would reduce the costs incurred by businesses to provide these programs; however, it is difficult to estimate the extent to which participation in these programs would increase. The Engler Administration estimates that the number of participants would increase to 2,500 people with the enactment of this new tax credit, which would put the cost of the credit at \$5 million in FY 1997-98. This seems like a reasonable estimate, although it could take a year or two for the program to grow to this level.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.