

October 2017



Education, Workforce and Apprenticeship Tax Credit Act

Proposed Bill Summary

As the President and the U.S. Congress focus on tax reforms to help stimulate private-sector job creation, there is an urgent need to ensure the preparation of current and future workers for the changing demands of the U.S. economy.

- Job creation and job preparation must go hand in hand.

The proposed *Education, Workforce and Apprenticeship Tax Credit Act* would meet this need by:

- Encouraging charitable donations to nonprofit organizations for:
 - Community-based apprenticeship initiatives,
 - Career and technical education,
 - Workforce development, and
 - Educational preparedness.

Eligible organizations include:

- Educational institutions,
- Community organizations,
- Training institutes,
- Community colleges,
- Non-profit scholarship granting organizations, and
- Nonprofits affiliated with labor unions and labor-management committees.

These local programs are crucial to the national effort of preparing American workers for jobs.

- Presently, more than 4.5 million jobs are unfilled, including 419,000 available manufacturing jobs.
- At the same time, 11 million Americans are unemployed.

The tax credit would be capped at \$2 billion annually, beginning in tax year 2018.

- One-half of the allocation would be set aside for job-preparation initiatives for adults:
 - Apprenticeship initiatives, career and technical education, and workforce development.
- The remainder for education preparedness scholarships for K-12 students.

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Bill Provisions

Credit Against Income & Corporate Taxes. This bill would amend the Internal Revenue Code to allow individual taxpayers a tax credit for charitable contributions to organizations that exclusively provide workforce development, or apprenticeship training or K-12 scholarships, beginning in tax year 2018. The bill allows a maximum credit amount equal to the lesser of 25 percent of an individual taxpayer's total liability, or \$500,000; and for corporate taxpayers the lesser of 25 percent of the tax liability or \$500,000.

The credit amount also must be reduced the any amount allowed as a credit on any state tax return for the same qualified charitable contributions.

Eligible Students or Participants. An eligible participant is an individual enrolled in a workforce development or apprenticeship training program. A student is eligible to receive a scholarship from a non-profit scholarship granting organization if they are enrolled in an elementary or secondary school and reside in household with a total annual household income that does not exceed 200 percent of the median gross income as determined by the Department of Housing and Urban Development for purposes of administering the low-income housing credit under section 42 of the Internal Revenue Code.

This measure would enable workforce development or apprenticeship training programs to serve more participants in order to fill the critical need for millions high-skilled jobs that have gone unfilled in the United States. This measure also enables students from low-income, working class- and middle-income households to receive scholarship assistance for K-12 education. Importantly, however, this eligibility provision merely permits a scholarship granting organization to serve such students under this proposal. SGOs can continue to establish their own eligibility criteria up to these levels; it is not a mandate for establishing such income criteria.

Eligible Entities. Eligible entities that can receive tax-credited contributions must be I.R.C. 501(c)(3) tax-exempt entities that provide, at a minimum, workforce development, apprenticeship training or K-12 scholarship assistance. Such entities would include, but not be limited to: community colleges; workforce training programs as defined by state workforce agencies; organizations that provide career and technical education; training institutes, including those operated by collective bargaining organizations; private schools that confer diplomas, degrees or certify completion of certain grades; community organizations that provide full certified training; and organizations that provide K-12 scholarships to more than one student and offer more than one school.

Eligible entities must obtain annual financial and compliance audits from an independent certified public accountant, which must be submitted to the Secretary of the Treasury. The bill also would impose a penalty on scholarship granting organizations and organizations that provide workforce development or apprentice training that fail to distribute at least 90 percent of their total receipts for elementary and secondary school expenses in a taxable year.

Distributions. Workforce development, apprenticeship training or scholarship granting organizations must distribute or commit at least 90 percent of annual contributions specifically for development, training or scholarships, respectively, thereby allowing up to 10 percent of donations for administrative purposes. In addition, these organizations are allowed a carry-over amount to the following year equal to 15 percent of the total contribution receipts during the year. Failure to distribute or commit at least 90 percent of contributions would trigger a 15 percent tax on the greater of the required distribution amount or the amount distributed before the first day of the next taxable year.

Fiscal Impact. This bill provides a “volume cap” of \$2 billion in tax credits for each taxable year, with fifty percent allotted to scholarship granting organizations and fifty percent allotted to workforce development and apprenticeship programs. Accordingly, the ten-year fiscal impact of this program would total \$20 billion. The Secretary of the Treasury is directed to develop an application process for awarding the tax credits on a first-come, first-serve basis.