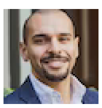
THIRD WAY

REPORT *Published July 20, 2021 • 10 minute read*

How to Use the Tax Code to Boost Equity in Apprenticeships



Sergio Galeano
Former Economic Policy Advisor
@SergioAGaleano

Takeaways

Apprenticeships are a critical tool to help workers boost wages and get middle-class jobs. But right now, there isn't enough equity in our apprenticeship system.

Luckily, states offer an interesting approach that can be scaled to the federal level. In this report, we look at how states have used the tax code to expand apprenticeships. Then, we propose a new federal solution: a federal tax credit for each new apprentice an employer hires, with an enhanced credit for those who hire an apprentice from an underrepresented background.

Why is it that women represent roughly half of the workforce but only 11% of active apprentices? Making matters worse, women with apprenticeships are overly concentrated in low-paying occupations such as child-care and service work. Average wages for the top ten apprenticeship occupations in traditionally male-dominated sectors were $23.19 in 2017 but only $14.47 across the top ten occupations for women. [1]

A wage and occupational gap also persists across race. Although the share of Black workers (11.6%) across the apprenticeship system roughly mirrors that of their labor force participation, Black apprentices earn $14.25 per hour on average, nearly 50% less than their white counterparts. Further, compared to the general population, Black apprentices are more likely than any other racial group to complete their training programs while incarcerated, contributing to lower wages and poorer job prospects upon reentry. [2] And while participation by race is consistent across STEM and non-STEM apprenticeships alike, the Hispanic share of STEM apprenticeships is roughly half of non-STEM roles, causing them to miss out on the earnings premium associated with these often higher-wage jobs. [3]

Put simply, there isn't enough equity in apprenticeships. That doesn't mean we should scrap them though. Apprenticeships are a powerful workforce tool that increase wages and provide reliable pathways to high-quality jobs and a sustainable middle-class life. Because of that, policymakers need to take action to ensure there is far more equitable access to apprenticeships and that they lift up all workers.

In the American Jobs Plan, President Biden proposed creating 1 to 2 million new apprenticeships in both existing and emerging industries. [4] He has also recently reinstated the National Advisory Committee on Apprenticeships. [5] In addition, the Department of Labor recently announced the availability of $87 million in State Apprenticeship, Expansion, Equity, and Innovation (SAEEI) grants to help states both expand and diversify the apprenticeship system. [6]

In addition to these important steps, Congress can leverage the tax code to boost equity in the US apprenticeship system. In this report, we look at how states have used the tax code to expand apprenticeships and what a federal policy solution could look like.

What States Have Done

At least 29 states have tax credits in place that help bolster the registered apprenticeship system through a range of financial incentives covering employer, educational, and administrative expenses. Taken together, they offer models that can be modified and scaled at the federal level to both expand the number of apprenticeship programs and increase access to a more diverse set of workers. These state-led models fall into three general categories.

1. Tax Credits that Provide General Support for Employers

Several states have tax credits to help employers shoulder the costs of setting up and running apprenticeship programs. For example:

- South Carolina's apprenticeship tax credit provides eligible businesses with a $1,000 tax credit for each new registered apprentice employed for at least seven months. These funds can be used to offset the costs associated with establishing a registered apprenticeship program, including training, course design, and administrative expenses.

- Maryland provides a $1,000 tax credit for each new apprentice eligible for both registered apprenticeship sponsors and participating employers with similar programs.

- Tennessee offers a one-time credit of $2,000 or 10% of wages earned by an apprentice, whichever is less. Like many states, it also offers tuition support, either to employers or directly to apprentices, to cover educational and training expenses.

2. Tax Credits that Target Specific Industries

Moving beyond general incentives, four states offer tax credits designed to increase the number of apprenticeships in specific industries, both new and existing. [7]

- Connecticut offers employers who hire an apprentice from the state's qualified manufacturing program up to $7,500 or 50% of the new hire's wages, whichever is less. The tax credit is limited to apprenticeships with durations between two and four years.

- Since 2019, Massachusetts has also targeted the expansion of apprenticeships in manufacturing, in addition to the health care and technology sectors. Eligible employers may apply for tax credits of up to $4,800 or 50% of wages, whichever is less, with an employer cap of $100,00 each calendar year. Rhode Island offers a similar financial incentive without an annual employer cap.

- While targeting the manufacturing, wholesale, warehousing, and related industries, Mississippi takes a different approach by providing a skills training tax credit in an attempt to both increase the size, skills, and productivity of its apprentices and broader workforce.

3. Tax Credits that Focus on Specific Individuals

Instead of targeting specific industries, at least four states currently have one- or two-tiered tax credit programs that encourage the hiring of apprentices, with enhanced credits for employing individuals from specific groups. For example:

- Available for the length of the training program up to five years, Montana provides a $750 tax credit for businesses that launch new apprentice programs or expand existing ones, with an additional $750 if the new apprentice is a veteran.

- To encourage the expansion of youth apprentices, Alabama's program offers a base credit of $1,250 for each new qualified apprentice with an additional $500 for hiring an apprentice who is under the age of 18. Also focused on youth apprenticeships, Arkansas provides taxpayers that hire a youth apprentice who is at least 16 years old with a credit of $2,000 or 10% of the apprentice's wages, whichever is the smaller amount.
- Missouri focuses on youth apprenticeships through the lens of community development and crime prevention, applying a 50% tax credit to organizations administering such programs that successfully lead to the hiring of a youth intern or apprentice.

Spotlight: The Empire State Apprenticeship Tax Credit (ESATC)

New York's Empire State Apprenticeship Tax Credit (ESATC) is a different model that prioritizes equity in apprenticeships. Enacted in 2018 and running through 2022, employers receive a base tax credit of $2,000 for hiring a qualified apprentice, with a higher credit of $5,000 for the hiring of a disadvantaged youth. The base credit increases by $1,000 for each of the 5 years for which the program runs, hitting $6,000 on the final year. In turn, the enhanced credit for qualified disadvantaged youth increases in smaller quantities, reaching a maximum of $7,000 for the fifth year. [8]

The definition of disadvantaged is comprehensive and includes groups of individuals that tend to come from backgrounds in need of more equity in economic opportunities and representation in the workforce. It covers members of families that receive public benefits such as Temporary Assistance for Needy Families (TANF), SNAP, Supplemental Security Income (SSI) benefits, and free or reduced-cost school lunches. It also includes youth who have served time in jail or prison, those who are on probation, and children of formerly or currently incarcerated parents, including parents who are collecting unemployment insurance. Homeless and drug-addicted or recovering youth are eligible, as are young pregnant women and parents, and those who live in public housing and receive such assistance as Section 8 vouchers. Veterans of the US Armed Forces are also eligible to apply. [9]

While New York's apprenticeship tax credit does not explicitly mention equity, in practice it most directly helps low-income individuals, including those under the poverty line, women, people of color, and other notable groups that have experienced historical barriers to employment. The state's program focuses on in-demand occupations and, beyond a few exceptions, excludes the majority of trades in the construction industry, one in which apprenticeships have been historically concentrated.

A Federal Solution

To boost equity in apprenticeships, policymakers should create a federal tax credit for each new apprentice that an employer hires, with an enhanced credit for those who hire an apprentice from an underrepresented background. This approach draws from New York's two-tiered structure and would pursue two parallel goals: 1. expand the number of apprenticeships across the country, and 2. promote greater equity and diversity across the apprenticeship workforce.

How much will employers get paid?

Employers will receive a non-refundable base tax credit of $3,000 for each new apprentice they hire, with an additional $3,000 for hiring an apprentice from a disadvantaged or underrepresented background (totaling $6,000 in credits). The amount of the base and enhanced tax credit would remain constant throughout the duration of the program.

What will be the duration of the program?

Employers will qualify for the tax credit for the entire length of their apprenticeship programs. As most apprenticeships last between one and six years, costs will vary, but the overall benefit will go toward firmly expanding the size and scope of apprenticeships across participating employers, while offering an attractive incentive for new participants to establish programs and hire and retain apprentices from target groups.

What individuals would qualify for the enhanced credit?

The federal tax credit can cover a list of groups that draws from the New York model. Such a list would primarily include low-income individuals that receive social welfare benefits, residents of affordable housing, and the long-term unemployed. The list would also include certain qualified veterans, formerly incarcerated individuals, people with disabilities, disadvantaged youth, and a host of other individuals that have faced historical barriers to attain employment. Due to historical inequities, covering these groups would also benefit a broad set of workers that includes racial and ethnic minorities, women, low-income individuals, and other vulnerable populations.

There is already precedence for this kind of program at the federal level. The Work Opportunity Tax Credit (WOTC) offers employers a one-time tax credit for hiring workers from groups that have historically faced significant barriers to employment. Depending on their staffing needs and workplace structure, employers would either qualify for the one-time WOTC or apply for the federal tax credit specifically tailored for apprenticeships for the length of the program's duration.

What kinds of businesses will be eligible?

In order to reach as many people as possible, the tax credit should universally apply to employers across all industries. Alternatively, the law could be tailored towards high-demand industries such as advanced manufacturing, health care, or technology, or specific high-growth occupations through the use of specific quotas, restrictions, and any number of incentives.

How will employers use this tax credit?

Like other existing business tax credits, such as the WOTC, employers can claim this as part of the General Business Credit, or generally, as an individual tax credit to offset W-2 costs or Social Security contributions at the end of the year. By offsetting the cost of an employer's wages, an employer's Social Security contributions, or the general cost of implementing an apprenticeship program, the credit will help both new employers and those with already established programs.

Conclusion

A national apprenticeship tax credit should be one of many tools the federal government uses to expand equity in apprenticeships. But by focusing on the hiring side, this proposed solution only addresses one issue along the apprenticeship pipeline. Creating 1-2 million apprenticeships that truly reflect the demographic makeup of the working population will require a holistic approach. This includes more inclusive recruitment efforts, training and education opportunities, and stronger support systems for apprentices. Coordinated strategies to both bolster the existing system and expand apprenticeships into new industries will also be necessary. Ultimately, we should aspire to achieve equitable outcomes across apprenticeships and the broader workforce, ensuring that workers can attain a secure livelihood and a strong foothold in the economy.

TOPICS

WORKFORCE & TRAINING 114

ENDNOTES

1. Hanks, Angela, Annie McGrew, Daniella Zessoules. "The Apprenticeship Wage and Participation Gap." Center for American Progress, 11 July 2018. https://www.americanprogress.org/issues/economy/reports/2018/07/11/453321/apprenticeship-wage-participation-gap/. Accessed 5 July 2021.

2. Hanks, Angela, Annie McGrew, Daniella Zessoules. "The Apprenticeship Wage and Participation Gap." Center for American Progress, 11 July 2018. https://www.americanprogress.org/issues/economy/reports/2018/07/11/453321/apprenticeship-wage-participation-gap/. Accessed 5 July 2021.

3. Kuehn, Daniel, Ian Hecker, Alphonse Simon. "Registered Apprenticeship in Science and Engineering." Urban Institute, May 2019. https://www.urban.org/sites/default/files/publication/100390/registered__apprenticeship__in__science__and__engineering.pdf. Accessed 5 July 2021.

4. "FY 2020 Department of Labor Budget in Brief." US Department of Labor, 31 Mar. 2021. https://www.dol.gov/sites/dolgov/files/general/budget/2022/FY2022BIB.pdf. Accessed 5 July 2021.

5. "Fact Sheet: Biden administration to take steps to bolster registered Apprenticeships." White House, 17 Feb. 2021. https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/17/fact-sheet-biden-administration-to-take-steps-to-bolster-registered-apprenticeships/. Accessed 5 July 2021.

6. "State Apprenticeship Expansion, Equity, and Innovation Grants." 17 Mar. 2021. US Department of Labor, Employment and Training Administration. https://www.dol.gov/newsroom/releases/eta/eta20210318-0. Accessed 24 June 2021.

7. "State Tax Credits and Tuition Support." Apprenticeship.gov. https://www.apprenticeship.gov/investments-tax-credits-and-tuition-support/state-tax-credits-and-tuition-support. Accessed 24 June 2021.

   Maryland Apprenticeship and Training Program, Division of Workforce Development and Adult Learning. https://www.dllr.state.md.us/employment/appr/. Accessed 25 June 2021.

8. "Empire State Apprenticeship Tax Credit Program." New York State Department of Taxation and Finance, 15 Jan. 2020. https://www.uwbec.org/content/AAI%20WNY/NYS%20-%20Empire%20State%20Apprenticeship%20Tax%20Credit%20Program.pdf. Accessed 25 June 2021.

9. "Empire State Apprenticeship Tax Credit Program." New York State Department of Taxation and Finance, 15 Jan. 2020. https://www.uwbec.org/content/AAI%20WNY/NYS%20-%20Empire%20State%20Apprenticeship%20Tax%20Credit%20Program.pdf. Accessed 25 June 2021.