

HOUSE BILL ANALYSIS

HB 1825

Brief Description: Creating earned income job training credits and tax credits.

Sponsors: Representatives McIntire and Conway

Hearing: February 25, 1999

Brief Summary of Bill

- Directs the Employment Security Department, until June 30, 2009, to administer an earned income training credit program for persons receiving federal earned income tax credits or for dislocated workers.
- Allows recipients of training credits to use the credits for tuition at public institutions of higher education, subject to funding, or to obtain employer-sponsored training.
- Allows employers providing training to recipients of training credits to take a tax credit against their business and occupation tax.

BACKGROUND:

Under federal income tax law, eligible taxpayers receive an earned income credit in an amount that depends on a number of factors including adjusted gross income and the number of children. For example, a taxpayer with two or more qualifying children who has an adjusted gross income of less than \$30,095, will be eligible for a maximum earned income credit of \$3,756.

Claimants for unemployment benefits in Washington are disqualified if they are not seeking and available for work, and if they refuse an offer of suitable work. However, persons who are otherwise eligible for unemployment benefits are not disqualified while satisfactorily progressing in a training program approved by the commissioner of the Employment Security Department.

Dislocated workers who are progressing satisfactorily in an approved training program are considered to be in commissioner-approved training. Under the unemployment insurance law, a dislocated worker is a person who:

- has been terminated, or received notice of termination, from employment;
- is either eligible for or has exhausted his or her unemployment benefits; and
- is unlikely to return to employment in his or her principal occupation or previous industry because of a diminishing demand for his or her skills.

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state at various rates depending on the activities in which the business engages. Under the B&O tax, there are no deductions for raw materials and wages of employees, but there are many exemptions and deductions for specific types of business activities, and several types of tax credits, including tax credits for new job creation, small businesses, and research and development activities.

In 1996, the Legislature enacted a tax credit for state-approved, employer-sponsored job training services that are designed to enhance the job-related performance of employees. This tax credit is equal to 20 percent of the value of the job training services and is available only to manufacturing, research and development, and computer services businesses that are located in distressed areas of the state.

SUMMARY OF BILL:

Until June 30, 2009, the Employment Security Department is directed to administer an earned income training credit program for persons receiving federal earned income tax credits or for dislocated workers.

Earned income training credit program. Beginning with earned income credits received for federal income taxes filed in 1999, the amount of training credit that may be earned is one-half of the earned income credit received, up to \$3,000. These training credits may be accumulated up to the maximum, and are only available to persons who qualify as resident students.

Dislocated worker earned income training credit program. Dislocated workers receive \$375 in training credits for each quarter of full-time work during the eight quarters before becoming a dislocated worker.

Recipient use of the training credits. Recipients of earned income training credits may accumulate the credits over time, but must use the credits within five years from the year they received the credits. They must have at least \$1,000 in credits before redeeming the

credits.

The training credits may be used for:

- tuition at public institutions of higher education, subject to available funding. These costs are reimbursed from the earned income training credit reimbursement account, as authorized by the commissioner of the Employment Security Department. Appropriations from the fund are not required for expenditures; or
- employee training with a current or prospective employer. Employee training must be provided under a contract between the employer, the recipient, and the Employment Security Department. The department must set standards for the training and wage assumptions.

Employer B&O tax credit. An employer who provides training for a recipient of earned income training credits may take a credit against its business and occupation tax. The credit may not exceed (1) the cost of state-approved, employer-sponsored job training services, provided without charge to recipients and designed to enhance job-related performance or (2) the value of the training credits accepted on behalf of the recipient of the training credits. The total amount of B&O tax credits that may be taken by all employers is limited to \$2 million annually.

Evaluation. The Employment Security Department must report on the impact of the earned income training credit program. A report must be made to the appropriate committees of the legislature by December 1st of even-numbered years, including information about the number of people receiving training, training costs, administrative costs, the employment status and areas of study of those receiving training at institutions of higher education, and the job and wage progression and industry information for those receiving employer-sponsored training.

RULES AUTHORITY: The Employment Security Department must adopt rules setting standards for employer-provided or sponsored training. The Department of Revenue must adopt rules and forms for administering the B&O tax credit.

FISCAL NOTE: Requested February 17, 1999.

EFFECTIVE DATE: Ninety days after adjournment of session in which bill is passed.