

Employee Training in a Qualifying County

ORS 315.523	Year Enacted:	2017	Transferable:	No
	Length:	1-year	Means Tested:	No
TER 1.404	Refundable:	No	Carryforward:	3-years
	Kind of cap:	None	Inflation Adjusted:	No

Policy Purpose

The Employee Training in a Qualifying County tax credit was enacted as part of HB 2066 (2017 omnibus tax bill) though the credit was originally introduced in HB 3206 (2017).¹ According to the revenue impact statement, the ***policy purpose of the tax credit is to increase participation in qualified employee training programs***. The introduced version of HB 3206 proposed six new tax credits and modifications to two existing credits. The underlying purpose of the introduced version of the measure as discussed during the public hearing was centered on the encouragement of economic development in Klamath County through the leveraging of the County’s unique qualities. These discussed unique qualities included Kingsley Field Air National Guard Base, the Oregon Institute of Technology (OIT), and Klamath County Community College. Much of the public hearing testimony centered on the importance of OIT students and finding ways to encourage such students to stay and work in Klamath County following graduation.

Description

The tax credit is available to personal and corporate income taxpayers located in a qualifying county who establish and implement an employee training program in collaboration with a local community college. The credit is equal to twelve percent of the taxpayer’s expenses to establish and implement the employee training program. The credit is non-refundable but unused credit amounts can be carried forward for up to three years. The term ‘employee training program’ is not defined in statute but contextual interpretation suggests employee training program is synonymous with apprenticeship and occupational, and employment skills development programs currently available at community colleges in Oregon.

To be a qualifying county, the following seven characteristics must all be met:

- 60,000 < Population < 80,000
- Located outside Portland Metropolitan Area Regional Urban Growth Boundary (UGB) and UGB of cities with populations of 30,000 or more
- Annual economic development budget of \$500,000 or greater
- Unemployment rate (UR) at least 1.5 percentage points greater than state UR rate
- Party to agreement with institute of higher education to coordinate efforts to promote enterprise throughout the county
- Site of a base or installation of the Armed Forces that employees at least 750 civilian and military personnel
- Has access to Internet service with the minimum connection speed required to effectively conduct electronic commerce.

¹ The tax credit was contained in HB 3206 (2017) and passed out of the House Chamber in 2017. While HB 3206 was in the Senate Finance and Revenue Committee at time of legislative adjournment, the credit was enacted by HB 2066.

The taxpayer is required to maintain records sufficient to prove the taxpayer's eligibility for the credit and preserve such records for at least five years. No centralized authority is responsible for determining or certifying eligibility for the credit. As enacting legislation did not specify a tax credit sunset date, ORS 315.037 requires the credit to apply for a maximum of six tax years beginning with the initial tax year for which the credit is applicable. As the credit first became available beginning with tax year 2017, the credit will sunset following the 2022 tax year.

Policy Analysis

Only two counties (Coos & Klamath) in Oregon meet the county population requirements. The additional six requirements ensure Klamath County is the only likely county to qualify. Analysis of audited financial statements for Klamath County indicate Klamath County did not meet the minimum economic development budget of \$500K or greater in fiscal years 2017-18, 2018-19 or 2019-20. Initial unemployment data for calendar year 2020 indicates the unemployment rate in Klamath County is not 1.5 percentage points greater than corresponding statewide unemployment rate. For these reasons, it appears no county has met the requirement to be a qualified location in which a taxpayer may qualify for an employee training tax credit.

Use of the tax credit has been minimal with fewer than ten taxpayers claiming the credit in tax years 2017 or 2018. Total cost of the credit through TY 2018 is less than \$50,000.

Room for improvement exists in the structural design of this tax credit. Administration of the tax credit could benefit from a designated certifying authority that determines county and taxpayer qualification. Terminology could also be further defined and awareness & outreach regarding the credit could be improved.

No central authority exists to determine and certify county or taxpayer credit eligibility. Often, tax credits designed to incentivize a particular behavior designate a central authority to administer and certify the credit before forwarding such certification data to the Oregon Department of Revenue.

Tax return instructions² for claiming the credit specify the statutory requirements that must be met by the taxpayer. However, the definition of "costs to establish and implement the employee training program" are not specified³ leaving taxpayers to determine such costs (though sufficient records are required to be maintained). Instructions for determining an eligible county are also specified in tax return instructions though no county is listed as a qualified county and the stated requirements to be met do not include the minimum economic development budget of \$500K or greater. This leaves the burden on the taxpayer to determine whether they are an employer located in a qualified county.

No outreach or dissemination of credit information is known to have occurred following enactment of this credit. Officials at Klamath Community College (KCC) were initially unaware of the existence of the credit. KCC does offer credited courses and training programs that likely meet the larger definition of employee training.⁴ These programs are not unique to KCC but are prevalent at Oregon community colleges. Based on conversations with KCC, it is likely that KCC has worked with employers in the past to provide employee training programs and will continue to do so in the future regardless of credit availability (Massie, 2020).

² Detailed instructions for claiming the credit are contained in Publication OR-17. For this report, instructions contained in the 2019 OR-17 publication are referenced.

³ These terms were not defined in statute or required to be defined by rule.

⁴ Examples include: work force innovations, SNAP & TANF trainings, GED programs, certificate programs.

Following communications with KCC in preparation of this report, use of the credit could increase in later years as overall awareness of the credit expands.

A CCH AnswerConnect search identified a number of other states that offer a somewhat similar tax credit. The identified states have credits designed for employee training costs incurred at a community college or similar (non-university) public higher education provider. The following list provides a general overview of various policy components of the other state credits.

- Linked to community college or equivalent, sometimes to junior colleges
- Credit is often a percentage of costs, possibly limited by employee, total limit per employer, possible overall limit for all credits issued in the state
- Some credits are specific for retraining of employees (in response to economic downturns or changes in industry labor demand)
- Limited to employers with fewer than specified number of employees
- Limit credit availability to specified employer sectors (e.g. manufacturing, processing, warehousing/distribution, wholesaling and research and development)
- Limit credit to types of trainings provided (costs associated with job specific training rather than more general transferable skills training) or specific to apprenticeship education expenses
- Additional credit value if trainee lives in an underserved area or is employed in underserved area (also referred to as economically distressed area)
- Require documentation (e.g. documentation of costs, type of training received, hours/duration of training, location, etc.).

Similar Incentives Available in Oregon

The Legislative Fiscal Office identified five direct spending programs that shared some level of policy relationship to the credit. The five spending programs along with each program’s 2019-21 legislatively adopted budget amount is detailed in the table below.

<i>Direct Spending Program</i>	2019-21 Legislatively Adopted Budget (\$M)			
	<i>General Fund</i>	<i>Lottery Funds</i>	<i>Other Funds</i>	<i>Federal Funds</i>
Apprenticeship and Training Division	\$2.9	\$0.3	\$2.7	
Public Universities Support Fund ¹	\$29.4			
Community College Support Fund ¹	\$9.5			
Workforce Investment and Opportunity ²				\$3.4
Workforce Programs	\$0.7			

¹ Amounts reflect fiscal year 2020, dollars directed to KCC & OIT, may include regionally allocated dollars

² Amounts reflect program year 2020 and funds dedicated to 10 county region that includes Klamath County

The Apprenticeship and Training Division of the Oregon Bureau of Labor and Industries conducts regular compliance reviews of the local committees to ensure that apprentices are being treated fairly and are receiving the best possible training. The Division also works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

The skills development programs may overlap with the tax credit with somewhat similar expected outcomes and goals for some programs found at the Oregon Institute of Technology. In addition, the Higher Education Coordinating Commission is the state agency responsible for coordination of workforce

development program. There are some General Fund programs related to workforce development such as Work Experiences and Competitiveness, but the primary set of programs are authorized under the federal Workforce Innovation and Opportunity Act or WIOA. Federal WIOA program funds are distributed to states and in Oregon they are further distributed to local Workforce Development Boards. Klamath County is part of the 10 county East Cascade Works which stretches from the Columbia River to the California border through central Oregon.