

**SFA**

BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 886 (as passed by the Senate)  
Sponsor: Senator Dick Posthumus  
Committee: Finance

Date Completed: 7-26-90

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**RATIONALE**

Recently, some have expressed concerns that in the 1990s the nation will experience a shortage of young people entering the workforce. Over the next 10 years the nation's work force will grow at the slowest rate since the 1930s, according to the U.S. Department of Labor. The U.S. Census Bureau predicts that there will be 14 million fewer persons entering the labor force in the next 14 years than there were in the past 14 years. This is due mainly to the decline in the number of persons between the ages of 18 and 24, the primary source of entry-level employees: in 1980 this group totaled about 30 million, but in 1995 it will be less than 25 million, or one-sixth smaller.

This is of particular concern to the construction industry because, according to the Construction Labor Research Council, the construction industry is the nation's largest, employing about 5.1% of the workforce. Since the industry depends heavily on young workers, and because it will need the greatest number of new entrants compared to the other segments of the U.S. economy, leaders in the construction industry are predicting that the industry will experience serious shortages of employees, particularly in the skilled trades, in which apprenticeship programs can last four or more years and be a financial burden for the apprentice. The Construction Labor Research Council points out that this may cause greater trouble for the industry in Michigan than in the nation as a whole. According to the Council, Michigan's construction industry employs 3.5% of the State's labor force (compared to 5.1% nationally), meaning that potential construction workers are finding jobs in other segments of

the economy. This means that if the State's construction industry needs to increase its pool of skilled workers in the future, either it will have to act now to increase the numbers of those workers, or it will be forced to compete with other states for those workers and thus increase construction costs. While there are apprenticeship programs sponsored by the skilled trades unions to attract and train new workers, it is predicted that employers also will need to sponsor training programs to supply the needed number of workers. It has been suggested that granting employers a credit for sponsoring employees in apprenticeship programs would encourage the growth of those programs and increase the number of apprentices.

**CONTENT**

The bill would amend the Single Business Tax Act to allow a taxpayer to claim a credit against the tax for expenditures for tuition and instructional materials, for instruction of employees of the taxpayer in an apprenticeship program, and for job-related training of other employees. The bill would define "apprenticeship program" as a program approved by and registered with the U.S. Department of Labor, Bureau of Apprenticeship and Training; or a State department, authority, or agency. The credit could not exceed \$900 per employee, and would be calculated in the following ways:

- A 50% credit for expenditures up to \$1,000.
- A \$500 credit for expenditures between \$1,001 and \$2,000, plus 25% of the amount in excess of \$1,000.

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- A \$750 credit for expenditures over \$2,000, plus 15% of the amount in excess of \$2,000.

A credit claimed under the bill could not exceed \$2,000 for a tax year, and would be a nonrefundable credit.

Proposed MCL 208.37c

### **FISCAL IMPACT**

The fiscal impact of the bill is indeterminate. Data on corporate contributions to apprenticeship programs are not available.

### **ARGUMENTS**

#### **Supporting Argument**

There are widespread predictions that, because of the shrinking number of young people entering the workforce compared to the past several decades, the years from 1995 to sometime after 2010 will bring labor shortages. This will prove to be a particularly acute problem for the construction skilled trades because the industry traditionally employs more people than any other single segment of the economy, (5.1% of the total workforce), and thus will have to compete with other employers for employees. Because the Michigan construction industry employs a far lower percentage of construction workers (3.5% of the total State workforce) than is employed nationally, the State's industry may find itself at a competitive disadvantage in the future. If the industry finds that it needs an increasing number of skilled tradespeople in coming years compared to its current workforce, it must start to enlarge the available pool of skilled workers now or compete for those workers with the rest of the states. This means that the industry would likely end up paying top dollar to attract and keep those workers, and thus increase construction costs substantially. Construction industry employers need to attract and sponsor apprentices for the skilled trades so those workers will be available in the future. The bill would assist the industry in easing the potential shortage of employees by encouraging employers, through a single business tax (SBT) credit, to sponsor apprentices. Allowing employers to claim a credit against their SBT liability for part of the cost of an employee's tuition would give employers an incentive to

train employees.

#### **Opposing Argument**

Why should the State provide an incentive for construction industry employers to take care of their future employment needs? It is possible that by providing a tax break for employers, the State's taxpayers would simply be subsidizing apprenticeship programs that construction employers would have to pay for anyway. The bill could prove to be expensive to the State. The State already spends a great deal of money subsidizing education and employee training; financing it further through the use of an employer credit may not be the most effective way for the State to dedicate its resources.

Further, the bill's tax credit would be like all other types of tax credits: it would take appropriations decisions on all the State's competing funding needs out of the Legislature's hands and put them into the hands of individuals, in effect transferring a business' SBT liability from the State to an apprenticeship program.

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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.