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Tax Policy Analysis

H.R. 4286 (116th Congress) - Virtual Apprenticeship Tax Credit Act of 2019

By: MST Students in BUS 223A Tax Research Class for Fall 2019¹

Representative Ted Budd recently introduced the *Virtual Apprenticeship Tax Credit Act of 2019* in September 11, 2019. This proposal would add IRC section 45T to provide taxpayers a credit for 30 percent of the qualified virtual training expenses paid or incurred during the tax year, up to \$2,500 tax credit per year.

What is a Virtual Apprenticeship?

Students who may not live close to college or be able to physically attend classes can enroll in the virtual apprenticeship program to develop skills that align with the continually changing workforce. The virtual apprenticeship program provides an engaging experience in a virtual environment for job training and professional development. The qualified virtual training expenses related to the virtual apprenticeship program can generate a 30 percent credit. H.R. 4286 defines these expenses as “related to developing or expanding an industry-recognized virtual apprenticeship program for elementary and secondary school students.”

What is the Purpose of H.R. 4286?

There are millions of Americans who are unemployed even though there are many jobs that remain unfilled. Many employers struggle to find employees with the necessary skills. Most students obtain a four-year degree, but they still graduate without the skills that employers want. There are not many alternative options for post-high school graduates except earning an associate’s or bachelor’s degree. To resolve this issue, Rep. Budd proposed the *Virtual Apprenticeship Tax Credit Act of 2019* to encourage employers to provide virtual apprenticeship programs to students while in grades K to 12:

I introduced this bill with the hope of incentivizing businesses to invest in the recruitment and training of a stronger and more competent workforce for future generations. By offering a tax credit to employers who invest in the funding of virtual apprenticeship programs, more diverse learning options will be available to students from all backgrounds.²

How Does This Bill Work?

¹ This article was assembled and finalized by MST student and journal editor Xiaoyue (Tina) Tan using notes from her classmates.

² “Rep. Budd Introduces Bill to Increase Virtual Apprenticeships.” U.S. Congressman Ted Budd, September 11, 2019. <https://budd.house.gov/news/documentsingle.aspx?DocumentID=646>.

Under H.R.4286, any business that develops or expands an industry-recognized virtual apprenticeship program for elementary or secondary school students can get a virtual apprenticeship tax credit. This general business credit is equal to 30 percent of the qualified virtual training expenses paid or incurred during the taxable year, limited to a credit of \$2,500 per year. There is no double benefit allowed so these expenses cannot generate any other deduction or credit, up to the virtual training credit claimed.

Application of Principles of Good Tax Policy

The following section applies the twelve principles of good tax policy to *Virtual Apprenticeship Tax Credit Act of 2019* by MST students. These principles were laid out in the AICPA’s *Tax Policy Concept Statement No.1-Guiding Principles of Good Tax Policy: A Framework for Evaluation of Tax Proposal*.³

Principals of Good Tax Policy

Criteria	Does the proposal satisfy the criteria?	+/-
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Also consider any different effects based on an individual’s income level and where they live.	<p><i>Horizontal Equity and Fairness:</i> Taxpayers with similar abilities to pay should pay the same amount of tax. H.R. 4286 proposes a credit only for businesses for certain virtual training expenses related to elementary and secondary school students. It is not available to all taxpayers even though a non-business taxpayer could also incur the training expenses. Thus, comparing businesses and individuals of similar income, H.R. 4286 does not meet horizontal equity and fairness. Another aspect of horizontal equity that is not met is that the credit is only for expenses for providing training to K to 12 students and not other individuals. If the virtual apprenticeship program is offered to college students, the business cannot get this credit.</p> <p><i>Vertical equity and fairness:</i> Taxpayers with a greater ability to pay should pay more tax. The virtual apprenticeship tax credit is 30% of the qualified virtual training expenses paid during a taxable year, up to a maximum amount of \$2,500 and is nonrefundable. If a business spends \$8,334 on qualified virtual training expenses, it can offset \$2,500 of its tax liability. If a taxpayer spends more than \$8,334, the credit is capped at \$2,500 despite the higher spending.</p>	-

³ American Institute of Certified Public Accountants (AICPA) Tax Division. (January 2017). *Tax Policy Concept Statement No.1-Guiding Principles of Good Tax Policy: A Framework for Evaluation of Tax Proposals*; available at <https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf>

	The proposal does not satisfy the equity and fairness principle.	
Certainty – Does the rule clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined?	Under the certainty principle, the tax rules should clearly specify how the amount of payment is determined, when payment of the tax should occur, and how payment is made. H.R. 4286 clearly specifies that the virtual apprenticeship tax credit is 30% of the qualified virtual training expenses paid during a tax year. However, the bill does not define “industry-recognized virtual apprenticeship program.” Thus, taxpayers will not know what expenses qualify. Therefore, the proposal does not fully satisfy the certainty principle.	+/-
Convenience of payment – is the tax due at a time that is convenient for the payor?	A tax payment should be convenient for the taxpayer to pay at a time or in a manner. The more difficult a tax is to pay, the more likely that payment will not happen. The virtual apprenticeship tax credit is a type of general business credit which may be claimed on the tax return. Taxpayers can accurately estimate the amount of this credit before filing their tax return, so the bill does satisfy the convenience principle. If the bill is approved, the IRS may add a line to Form 3800 for this credit. Therefore, If the bill is passed, the credit is calculated on the business’s tax return and can be considered in computing estimated tax payments for the tax year.	+
Effective Tax Administration – Are the costs to collect the tax at a minimum level for both the government and taxpayers? Also consider the time needed to implement this tax or change.	Under the effective tax administration principle, costs to collect a tax and comply should be kept to a minimum for both the government and taxpayers. Virtual apprenticeship tax credit is relatively new, so there is new work for the IRS in issuing guidance and likely, a new tax form. The proposal does not satisfy this principle because the costs of government administration could be high.	-
Information Security – Will taxpayer information be protected from both unintended and improper disclosure?	It is necessary to protect taxpayer information from all forms of unintended and improper disclosure. The proposal does not mention any consideration of preventing identity theft. It is not clear whether the beneficiaries of the programs created by businesses will need to be reported by the business. As long as students’ personal information and employers’ confidential information are not disclosed, the proposed tax rule likely satisfies the information security principle.	+

<p>Simplicity – can taxpayers understand the rules and comply with them correctly and in a cost-efficient manner?</p>	<p>Simplicity is important so that taxpayers can understand the rules and easily comply with them. Complex tax rules can increase the possibility that tax liabilities will not be properly determined. In H.R. 4286, the calculation is relatively straight forward</p> <p>However, the definition of qualified virtual training expense is not clear. The bill defines that “qualified virtual training expenses as expenses related to developing or expanding an industry-recognized virtual apprenticeship program for elementary and secondary school students.” It does not define what that type of program is and does not clearly specify which fields of industry qualify and which do not. It also does not explain if indirect expenses related to developing an industry-recognized virtual apprenticeship program qualify for this credit. In this case, the proposal does not satisfy the simplicity principle.</p>	<p>-</p>
<p>Neutrality – The effect of the tax law on a taxpayer’s decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.</p>	<p>The purpose of the neutrality principle is to ensure that a taxpayer’s decision is not affected by a tax rule. In this case, Rep. Budd is trying to encourage employers to develop virtual apprenticeship programs to train K to 12 students for future work. It does not offer a credit for other job training programs. Thus, it violates the neutrality principle by influencing business’ decisions on creation and design of job training programs.</p>	<p>-</p>
<p>Economic growth and efficiency – will the tax unduly impede or reduce the productive capacity of the economy?</p>	<p>If a tax rule unduly impedes or reduces the productive capacity of the economy, it does not satisfy the economic growth and efficiency principle. H.R. 4286 introduces a virtual apprenticeship tax credit. Online programs could save costs of school supplies, transportation, and housing. It might increase the productive capacity of the economy by helping young people gain important job skills before they graduate from high school.</p> <p>An unknown factor is whether this new K to 12 job training will result in fewer students going to college which could lead to an increase in unfilled jobs requiring a college education.</p>	<p>+</p>
<p>Transparency and Visibility – Will</p>	<p>A tax rule should be visible to taxpayers so that they can figure out their tax liability in advance. Eligible taxpayers</p>	<p>-</p>

<p>taxpayers know that the tax exists and how and when it is imposed upon them and others?</p>	<p>should know that this credit exists and how to qualify for it and claim it. In this case, taxpayers might not be aware there is a credit for virtual apprenticeship program. This proposal is relatively new, and it is not mandatory for taxpayers. Rep. Budd wants to use this proposal to influence taxpayer’s behavior to improve job skills among more people. To achieve this goal, the government must spread awareness of this credit.</p>	
<p>Minimum tax gap – is the likelihood of intentional and unintentional non-compliance likely to be low? Are there any way people may intentionally or unintentionally avoid or evade this tax or rule?</p>	<p>A good tax rule should minimize the tax gap. In this case, calculation for the virtual apprenticeship tax credit is simple and clear. Even though non-compliance may happen because of unclear definitions of qualified virtual training expenses, the likelihood of intentional and unintentional non-compliance if relatively low and the IRS can issue even preliminary guidance before the effective date.</p>	<p>+</p>
<p>Accountability to taxpayers – Do taxpayers have access to information on tax laws and their development, modification, and purpose; is the information visible?</p>	<p>Taxpayers should have access to information on tax rules to understand the purpose and modification of the rules. Rep. Budd states clearly the purpose of this credit is helping students develop skills that align with the rapidly evolving workforce. We do not know though how virtual apprenticeship programs work and what makes them effective. It is also not clear why Rep. Budd believes this credit will incentivize businesses to develop the programs. The proposal does not satisfy the accountability principle.</p>	<p>-</p>
<p>Appropriate government revenue – will the government be able to determine how much tax revenue will likely be collected and when?</p>	<p>The government needs to be able to reasonably estimate tax revenues which should be generated in a stable and reliable way so that government can have flexibility to adjust budgets for changing needs. The virtual apprenticeship tax credit is relatively new, so government cannot determine the amount of credit which would be claimed in taxable year. There is no other comparable tax credit. Also, it likely cannot determine whether the maximum \$2,500 is the right amount to provide an appropriate economic benefit from virtual apprenticeship programs created by the credit. Therefore, it may be difficult to estimate how much taxpayers’ tax liability would be reduced; in other words, how much government revenue will be decreased. The appropriate government revenue principle is not satisfied.</p>	<p>-</p>

Summary

H.R. 4286 only satisfies five out of the twelve principles of good tax policy. The virtual apprenticeship program might help students save on education-related costs and provide more educational opportunities. The proposal might increase the productive capacity of the economy by better ensuring a ready workforce for the future. When thousands of people have jobs, the consumption ability will increase. Government can collect more taxable income because of higher economic growth.

Some changes can be made to meet more principles. For example, all terms should be defined in the new rule to reduce uncertainty.

Also, most people do not know what a virtual apprenticeship is and the benefit of providing them to K to 12 students and why a tax credit is a good technique for creating these programs relative to other approaches. Presenting data on these matters can help the proposal meet the accountability to taxpayers' principle. In addition, to better meet the equity principle, more taxpayers should be eligible for the credit.