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ABSTRACT

This paper identifies federal social policy concerning tax credits as it applies to work force training--its history, participants, implications, and impact. The paper outlines five programs--the Targeted Jobs Tax Credit (TJTC) program of 1978, the National Individual Training Account Act of 1984, the Job Training Partnership Act (JTPA) of 1983, the National Training Incentives Act of 1985, and tax breaks for employee education through Section 127 of the Internal Revenue Code. A conclusion is that public policy should encourage investment in human capital. Human-resource-development professionals are potentially successful lobbyists who can assess existing and future training needs, evaluate the benefits of training in economic terms, and build coalitions among diverse publics for successful policy implementation. (Contains 18 references.) (LMI)

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ANALYSIS OF TAX BREAKS FOR TRAINING: "A WOLF IN SHEEP'S CLOTHING?"

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When the three little pigs opened their door to a sweet-sounding lamb, they were tricked by the big bad wolf wearing a sheepskin. Tax breaks and other economic incentives for training are the sheepskin covering a large, hungry creature known as social policy. The purpose of this white paper is to identify federal policy concerning tax credits as it applies to training: its history, participants, implications, and impact. Five programs will be outlined and a recommendation made.

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Social policy is valid, important, and purposeful. It cannot be isolated from economic policy and neither should it cover up the validity, importance, and purpose of economic policy. Training of America's workforce is imperative in reviving the nation's economy and increasing our global competitiveness. "Training and retraining of the workforce are part of the many solutions being suggested to the current problems of high budget deficits, unparalleled trade competition, and a need for increased productivity" (Charles, 1986, p. 26).

In order to remain competitive, America needs to revitalize its workforce. For the last 20 years, our rate of productivity growth has declined, and since 1979 actual levels have dropped off. As technological innovations have eliminated the need for certain job skills and created demand for new ones, extensive retraining has become a nationwide imperative for employees at all levels in all types of organizations (Feuer, 1986, p. 26).

Delaney, Lewin, and Ichniowski (1989) cite Training magazine's 1987 report that American businesses with 50 or more employees budgeted $32 billion to provide 1.2 billion hours of training to 38.8 million employees. Although this appears to be a substantial investment, a subsequent United States Department of Labor study showed less than 50% of organizations surveyed had recognizable or reportable training and development programs.

There are federal programs providing or proposing incentives for training of displaced or disadvantaged workers. These are "unquestionably needed," according to Choate and Linger (1986, p. 205). However, no policy is currently articulated which provides tax break incentives for additional education and training to meet the needs of the rest of the American workforce.

In the last 55 years, the federal government has created many programs offering displaced workers a range of assistance, including information and counseling , income maintenance, and (rarely) retraining. In addition to the Employment Service, helping unemployed workers generally since 1933, 22 federal programs have been designed specifically to help displaced workers adjust. (Choate, 1985).

Inquiries about tax breaks for training consistently lead to the Job Training Partnership Act (JTPA) which became fully operational October 1, 1983. According to the United States Department of Labor (1986), the goal of the Act is to move jobless workers into permanent, unsubsidized, self-sustaining employment.

While the JTPA does provide economic incentives for training, there are no tax deductions or credits. The eligible training is limited to disadvantaged and/or dislocated workers.

The **Targeted Jobs Tax Credit** (TJTC) program identifies nine categories of disadvantaged workers who qualify the hiring company for as much as $2,400 credit per employee the first year the employee is on the payroll.

The TJTC program was originally authorized by the Revenue Act of 1978. Eligibility, as with the JTPA, is strictly limited to employers of disadvantaged workers. Although the employer benefits by receiving the tax credit, the employee is required to appear at the Employment Services office for validation. Many employers provide cash incentives as well as time away from work for this activity; however, many do not adequately inspire eligible employees to follow through.

The Marriott Corporation is recognized as a large employer using TJTC. Locally, the Marriott has had little success in encouraging employees to file the necessary validation form at the Employment and Services office, even with the offer of cash incentives and the routine completion of TJTC paperwork at the time of each new hire. A Fort Collins Marriott spokesperson indicated that larger franchises, such as the Marriott Marquis in downtown Manhattan, have been more successful with claiming the tax credit for training.

While more successful than previous targeted employment subsidies, TJTC still helps only a minority of those employees eligible for the program. In 1985, over 600,000 certifications were processed. The primary population group subsidized is youth; however, the Congressional Budget Office (CBO) has calculated that the participation rate for disadvantaged youth is less than 10 percent (Bishop and Hollenbeck, 1986, p. I-7). "Furthermore, 82% of the youth claimed under this program would have been hired anyway, according to the CBO; thus, the federal bounties were nothing more than a windfall to a few employers and the middlemen who prepare the paperwork (Choate and Linger, 1986, p. 210).

Instead of economic revitalization, the TJTC program supports the relief of the welfare system by encouraging employment of those who otherwise could be unemployable. Successful lobbyists for TJTC: private consulting firms (including tax attorneys and accountants) who administer the program on behalf of their employer clients.

The National Individual Training Account Act of 1984 would have provided "incentives to employers and employees to invest in a system of Individual Training Accounts (ITA's) that shall be used to defray the costs of employee training in the event an employee becomes or is about to become involuntarily unemployed (p. 2).

The Act would have amended the Internal Revenue Code of 1954 to allow an employee to deduct an amount equal to the sum of the contribution paid or incurred and an employer to deduct an amount equal to 125 percent of the sum.

This program would have provided a tax break to employers and employees for training, as well as incentives for retraining in the event of structural unemployment. It did not pass. Successful lobbyists: worker associations (unions) including United Auto Workers (UAW). "It's always been our view that management is responsible for reeducating and retraining its laid-off workers. The UAW presently has no contracts which are cocontributory," says Don Davis, assistant director of the UAW General Motors division (Feuer, 1986).

The National Training Incentives Act followed in 1985. The Congressional Findings (Section 3) were:

(1) existing employment and training programs are directed primarily to economically and culturally disadvantaged individuals and do not address the needs of vast numbers of individuals who are currently employed but who will need to be trained for a trade or occupation other than the trade or occupation in which they are currently employed if they are to remain employed throughout their working lifetime;

(2) the continued security and economic vitality of the Nation requires the maintenance of a skilled work force, now and in the future, and a continuing increase in the productivity of such work force;

(3) the Federal job training programs currently in effect are subject to and dependent upon annual congressional appropriation of funds and cannot adequately provide in a reliable and timely manner all of the skills training opportunities which will be required to meet the future demands of the economy;

(4) changing international trade patterns and the consequences of strong organized foreign competition with United States goods and services have compelled many domestic businesses to diversify and to close down primary industrial production operations and facilities which, in turn, has displaced large numbers of workers previously employed in such operations; and

(5) the unemployment compensation system, currently in disarray due the a prolonged economic recession, is becoming an increasingly unreliable means for easing the hardships imposed on unemployed workers, especially those who have experienced prolonged unemployment due to a general decline in the industry in which they were employed (p. 2-3).

The Act, modeled after the research and development tax credit enacted in 1981 to encourage research (Charles, 1986), would also have amended the Internal Revenue Code of 1954. Credit would have been allowed for an amount equal to 25 percent of the excess, if any, of 1) the qualified training expenses of the taxpayer for such a taxable year, over 2) the base period training expenses of such taxpayer (base period meaning the five taxable years immediately preceding.)

Although estimated to increase the amount spent on training services by $4 billion annually, in the acknowledgement that training addresses productivity problems and enhances competitiveness (Charles, 1986), it did not pass. Successful lobbyists: capital-intensive companies and big business. "The reason we do training is not to spend money...it would not be an incentive in my opinion," said Dick Hartshorn, Ford Motor Company; "...as a businessman, the more I can get government's hands off, the better," said Maurice Coleman, Arthur Anderson & Co. Public and nonprofit educational institutions were also involved, supporting instead Section 127 and the ITA bill for their incentives for spending money on external education and training programs (Feuer, 1986).

Both ITA's and the provisions of the National Training Incentives Act were prime contenders for plank position in the 1988 Democratic Party's competitiveness platform (Reynolds 1987).

A tax break exists for education, according to Section 127 of the Internal Revenue Code. Employers can pay up to $5,250 in educational benefits for undergraduate instruction without the employee's having to pay taxes on the funds (Jaschik, 1989). Locally, employees at Teledyne Water Pik can receive up to $5,000 per year in educational assistance from the company. The educational program must be related to the job or be an undergraduate degree program; Teledyne pays tuition and fees. According to Section 127, undergraduates are not taxed for the assistance. Graduate students are eligible for the same level of assistance, minus tax withheld by Teledyne. While employees enjoy the tax break, Teledyne must rely on their corporate commitment to excellence (ala Demming) since the economic benefit of a tax break does not extend to the company (Mulcahy, 1990).

The successful lobbyists for continued funding of Section 127: colleges and universities.

Tax breaks are granted by the federal government to support social policy and investments in capital improvements and research/development aspects of economic policy. National productivity should also be subsidized by helping companies develop their personnel. The federal government, as of 1986, was contributing $3,200 to machines and technology for every dollar contributed to employee training through tax incentives (Feuer, 1986). Comparable incentives are needed for investments in workforce performance. Existing programs can be improved and new programs can be introduced, according to Choate (1985), but their effectiveness will depend on the definition of seven principles relevant to training of American workers (Choate 1985):

*individual choice of employee concerning options for retraining, taking a lower-paying job, retiring, or moving when displacement occurs;

*comprehensive coverage for everyone who is displaced;

*linkage of displaced-worker assistance to income support (unemployment insurance);

*early intervention, supporting the workers' adjustment and decreasing costs of operating the unemployment insurance system;

*assured financing through a mechanism not dependant on annual appropriations from governments;

*flexibility to meet the diverse needs that may arise;

*improvement of existing systems to avoid duplication (p. 58).

"A policy of using tax incentives to stimulate investment in training allows the federal government to offer financial support without getting directly involved. It is a way of urging the private sector--both employers and individual workers--to take care of its own training needs" (Feuer, 1986).

In a report issued Labor Day, 1989, the Commission on Workforce Quality and Labor Market Efficiency says:

America must develop a coherent system of lifetime education and training. As a first step, it is essential to create a business environment that encourages employers to invest more in their workers. The Commission recommends:

*A corporate income tax credit for education and training expenses.

*A personal income tax exemption for all employer-provided education and training benefits.

*Encouragement of multi-employer training programs (p. viii).

Public policy needs to encourage human capital investment. Potential successful lobbyists in the development and articulation of that policy: Human Resource Development professionals who are able to 1) assess existing and future training needs; 2) evaluate the benefits of training in economic terms; and 3) build coalitions among diverse publics for successful implementation of policy.

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