Department of Finance and Administration

Legislative Impact Statement

Bill: HB1948 Amendment Number: H1 (Engrossed 3/16/15)
Bill Subtitle: TO CREATE THE ARKANSAS NEW JOBS TRAINING PROGRAM.

Basic Change : Sponsor: Rep. Leding

HB1948 will create the Arkansas New Jobs Training Program. This bill targets companies that are in the business of manufacturing, processing, or assembling products; conducting research and development; providing service as an e-commerce fulfillment center; and providing services in interstate commerce. Under the bill, a two-year college may enter into an agreement with one or more employers to establish one or more projects that will provide employees to the business who are trained through a college program. The two-year college may provide for payment of program costs by a new jobs credit from withholding tax to be derived from new jobs resulting from the project and tuition, student fees, or special charges charged to college students. The credit is equal to 3% of the employee's salary if above the average hourly wage in the county where the business is located, and 1.5% of the employee's salary if it is below the county average hourly wage. Employees will receive full credit for the reduction in withholding taxes of the employer because of the tax credit. The bill allows colleges to issue bonds to pay for the cost of setting up a program and pay the bonds from the tax credits.

Revenue Impact :

FY2016 of $50,000 reduction to General Revenue

FY2017 of $300,000 reduction to General Revenue

[Based on taxpayers receiving tax refunds even though state did not receive any withholding tax and on expansion of existing companies]

Taxpayer Impact :

Employers who enter an agreement with a 2 year college to provide new jobs will be eligible for a withholding credit for a percentage of the wages paid to new job employees.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

The AR Economic Development Commission must coordinate and review the new jobs training programs annually, plus issue a report to the Legislative Council or General Assembly.

Other Comments :

The state will make income tax refunds to affected employees based on income tax withheld from those employees but the amounts withheld will not be paid into the state treasury. Consequently, income tax refunds will be paid to those employees from other revenues. Also, the bill requires the amounts withheld from the employees’ wages to be paid to the 2-year college on a quarterly basis. This is inconsistent with current law which requires withholding tax payments to be remitted to the state on a monthly basis. This provision should be changed to provide for a monthly accounting and payment of the taxes withheld from the affected employees. Also, it may not possible to determine whether an employee was hired as a result of a new line of work or new process or is an employee hired as a result of regular growth in the taxpayer’s business.

Legal Analysis :

HB1948 creates the Arkansas New Jobs Training Program. This program will permit a 2-year college to establish a new jobs training program by entering into agreements with employers to establish

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projects. The project must be for a new or expanding industry that includes manufacturing, research and development, and e-commerce fulfillment center jobs. Retail, healthcare, or professional service sector industries are excluded from the incentives provided by this bill.

These agreements must provide for payment of program costs, which can be funded in full or in part through a withholding tax credit. HB1948 provides a credit of between 1.5% and 3% of gross paid wages paid by an employer to each employee participating in an eligible project. Employers taking the credit, and 2-year colleges which ultimately benefit from the credit, must certify to DFA that the credit is in accordance with an agreement. Entry into an agreement between an employer and a 2-year college must be reported to DFA and AEDC within 5 business days.

The bill permits employees participating in an eligible project to receive full credit for the amount of withholding tax withheld from their wages even though a percentage will not be remitted to DFA. In addition, the bill permits employers who are unable to negotiate agreements with 2-year colleges serving the employer's area to pursue an agreement with any other 2-year college in the state. The bill requires the employer to send the amount of its withholding tax credit to the 2-year college it has partnered with on a quarterly basis and "in the same manner as withholding payments are reported to DFA." Withholding taxes are remitted monthly and the reference to quarterly payments is incorrect**.**

Payments required to be made by an employer under an agreement, including the amount of the withholding tax credit received by the employer, will be a lien on the employer's business property until paid, will have equal precedence with "ordinary taxes," and are not divested by a judicial sale. The bill also does not define the term "ordinary taxes" for purposes of determining the effectiveness of the lien. The bill provides that property subject to the lien may be sold at a tax sale.