



Legislative Fiscal Bureau

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October 19, 2021

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 115/Senate Bill 125: Individual Income Tax Deduction for Apprenticeship Tuition

Assembly Bill 115 (AB 115) was introduced on February 18, 2021, and referred to the Assembly Committee on Workforce Development. That Committee held a public hearing on May 5, 2021, and held an executive session on September 21, 2021, whereupon the bill was recommended for passage on a vote of 8-4. The bill was referred to the Joint Committee on Finance on October 13, 2021.

Senate Bill 125 (SB 125), a companion bill to AB 115, was also introduced on February 18, 2021. It was referred to the Senate Committee on Economic and Workforce Development. That Committee held a public hearing on March 24, 2021, and held an executive session on April 8, 2021, whereupon the bill was recommended for passage on a vote of 3-2. The bill was referred to the Joint Committee on Finance on October 13, 2021.

BACKGROUND

Under the state individual income tax, Wisconsin adjusted gross income (AGI) is calculated by applying numerous modifications to federal AGI. Several of these state modifications, such as deductions and exclusions, serve to reduce the amount of income subject to tax.

Deductions are typically based on specific expenses incurred by an individual during a taxable year. For example, current law provides a means-tested deduction (up to \$6,973 in tax year 2021) for tuition and mandatory student fees paid to attend eligible institutions of higher education located in Wisconsin or Minnesota. Current law also allows a deduction for contributions made to a qualified college savings account authorized under Section 529 of the Internal Revenue Code. The maximum deduction for tax year 2021 is \$3,380 (\$1,690 for married-separate filers or divorced parents), with any excess eligible to be carried over and deducted in future tax years.

BILL SUMMARY

AB 115/SB 125 would create an individual income tax deduction, beginning in tax year 2021, for tuition expenses paid for an individual or their dependent (as defined under federal law) to participate in an apprenticeship program. To qualify for the deduction, the apprenticeship program would have to be approved by the Department of Workforce Development (DWD) and meet certain other requirements set forth under state law.

The deduction would not be allowed if the tuition expenses were paid using a distribution from a 529 college savings account or a college tuition and expenses program account. Moreover, the deduction would be reduced by the amount of tuition for which the current law deduction for tuition and mandatory student fees were claimed.

The bills would also create an addback to taxable income for any amount for which the proposed apprenticeship deduction were claimed, to the extent that amount were not used for tuition or were refunded or otherwise returned to the taxpayer.

FISCAL EFFECT

The Department of Revenue (DOR) prepared a fiscal estimate for AB 115/SB 125 based on apprenticeship program data from DWD. These data show that there were approximately 14,200 apprenticeship program participants during 2020. Of these, approximately 7,300 participated in programs run by the Wisconsin Technical College System, wherein they incurred \$4.7 million of tuition costs (average of \$644 in tuition per participant). The remaining 6,900 apprentices participated in other apprenticeship programs, and DOR's fiscal note assumes an average annual tuition cost of \$2,000 for these other programs.

In total, it is estimated that the bills would reduce individual income tax revenues by \$925,000 annually, beginning in 2021-22. DOR notes that the estimated revenue reduction may be smaller to the extent that tuition were paid: (a) using 529 plan distributions; or (b) were claimed under the current law deduction for tuition and mandatory student fees.

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