Mark R. Warner
US Senator from the Commonwealth of Virginia

The Investing in American Workers Act of 2021

A proposal by Senators Mark R. Warner (D-VA), Debbie Stabenow (D-MI), and Robert P. Casey Jr. (D-PA) to establish a tax credit for employers who invest in training their workers.

Background:

Historically, the U.S. tax code has prioritized and subsidized investment in physical assets and research but not investments in people. In the 20th century, when labor was abundant and capital was scarce, the federal government incentivized spending on physical assets to promote growth. Because economists believed that the market would fail to provide sufficient investment in research for the public good, policymakers also enacted a credit for spending on research and development.

Presently, we still subsidize these kinds of investments directly. The tax code currently offers a tax credit for employers that make long-term investments in innovation, called the Research and Development (R&D) tax credit. Created through the Economic Recovery and Tax Act of 1981 during the Reagan administration, the R&D tax credit evolved to a 14% credit for companies with R&D expenditures that exceed 50% of their average spending over the previous three years. This credit has historically incentivized companies to invest in research that drives long-term performance, which then promotes economic growth across the economy.

The United States adopted the R&D tax credit with the understanding that investments in innovation serve a dual purpose: giving a company a competitive advantage while increasing productivity broadly. Indeed, researchers find that a dollar in tax credit for R&D stimulates a dollar of additional R&D spending.[1] To continue to promote innovation and growth, these tax incentives offer appropriate and important encouragement for the market to invest in the future.

As part of our recovery into a 21st century economy, our tax incentive structure needs to be updated to promote these kinds of investments in labor. Researchers estimate that in the last several decades, increasing levels of human capital accounted for approximately a third of productivity growth.[2] Much of our long-term success in a 21st century economy will hinge on our ability to increase spending in worker investments and continue increasing productivity. A tax incentive that encourages long-term investments in reskilling and upskilling workers will benefit both companies and society.[3]

An evaluation of a similar program, the California Employment Training Panel, showed particularly large benefits among companies with fewer than 100 employees. Though small businesses employ 35% of the country's workforce, many wouldn't otherwise have the resources to train their workers, more so in the wake of the pandemic.[4] Congress should update the tax code so that companies are financially encouraged to invest in human beings as much as they are incentivized to invest in machines or research.

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[1] Hall, Bronwyn H. and John van Reenen. 1999. "How Effective are Fiscal Incentives for R&D? A Review of the Evidence." *National Bureau of Economic Research* No. 7098.

[2] Griliches, Z. 1997. "Education, Human Capital, and Growth: A Personal Perspective.", *Journal of Labor Economics*, 15(1, Part 2), pp.S330-S344

[3] Costa, Rui, Nikhil Datta, Stephen Machin, and Sandra McNally. 2018. "Investing in People: The Case for Human Capital Tax Credits." Centre for Economic Performance, Paper IS01.

[4] Negoita, Marian, and Annelies Goger. 2020. "State level policies to incentivize workplace learning: Impacts of California's incumbent worker training program." Brookings Institution. Retrieved: https://www.brookings.edu/wp-content/uploads/2020/07/Neigoita_Goger_final.pdf

Proposal: Create a worker-training tax credit modeled after the R&D tax credit. A 20% credit could be established for employers who increase their training expenditures over a baseline amount. Qualified training expenditures would be limited to those that result in a recognized postsecondary credential, including apprenticeships, an industry-recognized certificate or certification, a government-recognized license, or an associate degree or bachelor's degree. To ensure the credit reaches those employees who need it, it could be limited to training for low- to middle-income employees, tied to wage gains for workers, and require reporting along racial and gender lines to make sure it is equitably distributed. Employers would then have an incentive to increase spending on quality workforce training programs—including apprenticeships and programs conducted or sponsored by a labor organization.

The Legislation:

Establishes a tax credit for employers who increase their spending on worker training:

- Employers who spend more on training their workers in a given year than they have on average in the previous three years are eligible to receive a tax credit based on their increase in spending.
- The amount of the credit is equal to 20 percent of the increased spending.
- The spending eligible for the credit must be used to provide *qualified training* to employees earning $82,000 or less per year.
- For employers who are new to spending on qualified training or have a gap in any of the past three taxable years, the credit is calculated as 10 percent of the qualified training expenditures for the current year, multiplied by a cost-of-living adjustment factor.
- Requires collecting and reporting of racial, ethnic, and gender demographics.

Incentivizes high-quality training by detailing allowable providers and programs:

- Qualified training may be provided through a nationally or state-recognized registered apprenticeship program; a WIOA-certified training program; a program conducted by an area career and technical education school, community college, or labor organization; or a program sponsored or administered by an employer, industry trade association, industry or sector partnership, or labor organization.
- Qualified training must result in the attainment of a recognized postsecondary credential, including an industry-recognized certificate or certification, a certificate of completion of an apprenticeship, a license recognized by the State or Federal Government, or an associate or bachelor's degree.

Pursues clarity on the statutory definition of recognized postsecondary credential:

- Requires the Secretary of Labor, in consultation with the Secretary of the Treasury, to issue regulations or guidance on the definition of "recognized postsecondary credential" within one year.

Encourages small businesses to upskill their workers by providing a simplified filing process and allowing them to apply the credit against payroll and alternative minimum taxes:

- Qualified small businesses grossing less than $5,000,000 for at least six years in a row, as well as qualified tax-exempt entities, can elect to apply up to $250,000 of the credit against payroll taxes.
- Eligible small businesses may also claim the credit against the alternative minimum tax.