

## State Tax Observations

### New Connecticut Apprenticeship Tax Credit

By Robert Vieira, Senior Tax Associate

To assist Connecticut manufacturers more broadly in obtaining and training a qualified workforce, Connecticut recently expanded its Apprenticeship Tax Credit (ATC) to include S corporations, partnerships and limited liability companies (pass-through entities). This legislative change, part of Public Act 22-118, was signed into law by Governor Lamont last month for tax years beginning January 1, 2022. The law is effective as of July 1, 2022. The ATC credit can be worth \$7,500 or 50% of the actual wages paid to each apprentice, whichever is less.

The ATC is designed to encourage the development of skilled workers through apprentice training programs to counter the shortage of skilled craftworkers in manufacturing in Connecticut. Examples of crafts that are eligible for the credit are: Machinist, Tool and Diemaker, Tool and Machine Setter, Plastic Technician and Moldmaker.

#### Backdrop

The ATC itself is not new. C corporations have been eligible for years for the ATC and use it against their business income tax liability.

For pass-through entities, the credit has technically been available since 2015, but with a catch. The entity had to sell, transfer, or assign the ATC to a business which could use it. This is no longer available.

Now a pass-through entity can apply the ATC against its own Connecticut pass-through entity tax (PTET) liability. The Connecticut PTET is mandatory.

#### How the Credit Works

How does the credit benefit taxpayers? Let's take the example of an S corporation tool manufacturer with a \$75,000 PTET liability for a year and based on the number of apprentices it employs, it qualifies for a \$30,000 ATC. The S corporation can now reduce its PTET accordingly from \$75,000 to \$45,000.

Further related to the example: in determining each shareholder's share of the PTET liability, the S corporation would allocate to the shareholders the \$75,000 in PTET due (prior to application of the ATC). This higher amount would be the starting point in determining the amount of PTET credit allowed to such shareholders for Connecticut personal income tax purposes.

#### Apprenticeship Tax Credit Prerequisites

There are certain Connecticut Department of Labor (CT DOL) requirements before a pass-through entity becomes eligible for the ATC. They are:

- The entity must be a qualified registered apprenticeship program sponsor.
- The business must be classified as a manufacturing establishment.
- Before claiming the credit on a Connecticut tax return, the entity must contact the CT DOL. The CT DOL will calculate the ATC and issue a tax credit certification letter.
- The apprenticeship must be a qualified Manufacturing Program with apprenticeship lengths of a minimum of 4,000 hours (2 years) and a maximum of no more than 8,000 hours (4 years).

The ATC is limited as to how many years it can be applied. For a two-year apprenticeship program, the credit can be claimed for one year, while for a four-year apprenticeship program, the credit is for three years.

With this change in Connecticut's Apprenticeship Tax Credit, Connecticut pass-through entity manufacturers now can offset some training costs as they obtain qualified employees and expand their workforce.

## Contact Us

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