

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 1423 (First Edition)

**SHORT TITLE:** Apprenticeship Tax Credit.

**SPONSOR(S):** Representatives Howard and Sherrill

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$million)</b>				
	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>
<b>REVENUES</b>					
General Fund	0	(\$27.4)	0	0	0
<b>EXPENDITURES</b>					
General Fund	See Assumptions and Methodology				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Labor; Department of Revenue					
<b>EFFECTIVE DATE:</b> This act becomes effective for taxable years on or after January 1, 2005 and sunsets for taxable years on or after January 1, 2006.					

**BILL SUMMARY:** This act creates a one year tax credit equal to 15% of the wages paid to registered apprentices. To claim a tax credit, the taxpayer must make available to the Department of Revenue a written certification from the Department of Labor that contains the name and taxpayer identification number of the registered apprentice.

**BACKGROUND:** The North Carolina Department of Labor’s Apprenticeship and Training Bureau administers the National Apprenticeship Act of 1937 for the U.S. Department of Labor. North Carolina is one of 27 states authorized to directly administer the federal apprenticeship program. An apprentice is a person at least 16 years old that agrees to complete a minimum of 2,000 hours of “reasonably continuous” employment and receive a minimum of 144 hours of instruction in an occupation. The Department of Labor approves written apprenticeship agreements between apprentices and employers specifying the terms of the apprenticeship. Upon completion of an apprenticeship, the apprentice receives a journeyman certificate that is recognized nationally.

**ASSUMPTIONS AND METHODOLOGY:**

Apprenticeships are found in all industries in the state. In the 2002 Annual Report for the Apprenticeship and Training Bureau, the Department of Labor identified 24% of apprentices to be in construction, 23% in Services, 22% in Manufacturing, 21% in Public Administration, and 10% in Other (Retail, Mining, Utilities, Etc.). The Department of Labor provided the General Assembly’s Fiscal Research Division with a CD listing all apprentices for 2001, 2002, and 2003. As shown in the chart below, 1,534 employers registered 14,910 apprentices with the Department of Labor in 2003. Since the proposed tax credit can only be taken by for-profit firms, the number of apprentices in nonprofit and government agencies were subtracted to get a private firms total of 8,175 apprentices in 2003.

	<u># of Employers</u>	<u># of Apprentices</u>	<u># Apprentices in private firms</u>
2001	1,532	9,792	6,770
2002	1,571	13,410	7,888
2003	1,534	14,910	8,175

The Department of Labor does not collect the wage information needed to compute the fiscal impact of HB 1423. To get the wages paid to apprentices, the Department of Labor provided the Employment Security Commission (ESC) with the Social Security numbers of all registered apprentices in 2003. ESC used quarterly Unemployment Insurance (UI) wage records received from employers to match with the Labor records. ESC determined the median apprentice wage income in 2003 was \$20,039.

Based on the ESC findings, the 8,175 private firm apprentices were paid \$163.8 million in wages in 2003. To calculate the number of apprentices and their wages in future years, projections from Economy.com are used. In the March 2004 Regional Financial Review, Economy.com projects national employment to increase annually from 2005 to 2008 in the range of 1.3% to 1.7%. The chart below assumes the midpoint of this range for an annual increase in employment of 1.5%. It is assumed that the hiring of apprentices will mirror overall employment. As for wages, Economy.com estimates for 2004 through 2008 range from 3.5% to 4.3%. The chart below assumes a 4% annual growth rate in wages. Again, it is assumed that apprentices will receive pay increases equal to regular employees.

The tax credit in HB 1423 begins and ends in the 2005 tax year. This new credit was written into Article 3B of Chapter 105 of the General Statutes that has a sunset on January 1, 2006. It is assumed that employers will claim 15% of \$182.5 million in wages (\$27.4 million) on their returns in FY 2005-06. If the credit were extended to future years, it might be worth \$35.9 million to employers in 2010.

	<u>Apprentices</u>	<u>Median Wage</u>	<u>Total Apprentice Wages</u>	<u>15% Tax Credit</u>
2003	8,175	\$20,039	\$163,818,825	\$24,572,824
2004	8,298	\$20,841	\$172,934,967	\$25,940,245
2005	8,422	\$21,674	\$182,539,964	\$27,380,995
2006	8,548	\$22,541	\$192,681,748	\$28,902,262
2007	8,677	\$23,443	\$203,413,138	\$30,511,971
2008	8,807	\$24,381	\$214,719,130	\$32,207,869
2009	8,939	\$25,356	\$226,654,851	\$33,998,228
2010	9,073	\$26,370	\$239,254,619	\$35,888,193

As for administrative expense, the Department of Revenue would not incur costs if the documentation certifying apprenticeships are filed with the tax return. The apprentice documents would be scanned like any other forms. If the Department of Labor has to develop a form to be completed by the employer and the Department, then there will be an administrative cost for this credit. The Department of Labor would incur no costs if it could submit to Revenue an electronic database of registered apprentices listing names, Social Security numbers, company names, etc. that can be matched to tax returns.

**SOURCES OF DATA:** Department of Labor; Employment Security Commission; Economy.com

**TECHNICAL CONSIDERATIONS:**

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** Richard Bostic



**APPROVED BY:** James D. Johnson, Director  
Fiscal Research Division

**DATE:** June 4, 2004

**Signed Copy Located in the NCGA Principal Clerk's Offices**