

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: House Bill 1423 (Second Edition)

SHORT TITLE: Apprenticeship Tax Credit.

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
REVENUES					
General Fund*		(\$27.4 mil.)	(\$28.9 mil.)	(\$30.5 mil.)	
EXPENDITURES					
General Fund	\$5,000				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Labor; Department of Revenue					
EFFECTIVE DATE: Sections 1 and 2 (tax credit) of this act become effective for taxable years beginning on or after January 1, 2005 and sunset effective for taxable years beginning on or after January 1, 2008. The remaining sections of this act become effective July 1, 2004.					
* Minimum revenue loss based on current enrollment in apprenticeship program.					

BILL SUMMARY:

This act creates a tax credit equal to 15% of the wages paid to registered apprentices. The credit may be claimed against either the franchise tax or the income tax. 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 and a verification that the employer has not violated any state or federal apprenticeship laws or regulations.

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.

An apprenticeship tax credit is available in the following states:

- Arkansas – The credit is equal to 10% of the wages earned or \$2,000, whichever is less. The apprentice must be between 16 to 21 years old and enrolled in a secondary or post-secondary school. The credit may not exceed taxable income and can be carried forward 2 years. The credit was approved in 1995.
- Connecticut – The credit is 50% of the wages earned or \$4,800, whichever is less. The apprentice must be in the manufacturing, construction, or plastics-related trades. The apprentice must work full time in an apprenticeship program that last a minimum of 2 years and a maximum of 4 years. The credit was approved in 1997.
- Michigan – The credit is 50% of wages earned and 100% of classroom instruction costs with a maximum of \$2,000. The apprentice must be between 16 to 20 years old and enrolled in high school or GED program. The apprenticeship program must be a minimum of 4,000 hours. The credit was approved in 2004.
- Rhode Island - The credit is 50% of the wages earned or \$4,800, whichever is less. The credit is limited to professions in machine tool, metal trade and plastic process. The apprentice must work full time in an apprenticeship program that last a minimum of 4,000 hours and a maximum of 10,000 hours. The number of apprenticeships for which a tax credit is allowed must exceed the average number of such apprenticeships begun during the previous five years. The credit was approved in 1996.
- Colorado, Florida, Illinois, and New Mexico have tax credits for companies that employ high school students enrolled in vocational “school to career” and “tech prep” programs.

ASSUMPTIONS AND METHODOLOGY:

Apprentices – Enrollment/Wages

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.

Minimum Credit Amount

At a minimum, the proposed tax credit will reward those employers that traditionally enroll in the Department of Labor’s apprenticeship program. 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. Economy.com estimates wage growth for the period 2004 through 2008 will 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 is in effect for tax years 2005, 2006 and 2007. For the 2005 tax year, it is assumed that employers will claim 15% of \$182.5 million in wages (\$27.4 million) on their returns in FY 2005-06 (see chart below). It is assumed that all employers are able to take the credit in the year they file their returns. The chart shows the impact for the 2005, 2006 and 2007 tax years.

	<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

Increased Apprentice Enrollment?

Will the proposed tax credit increase the number of apprentices employed in the state? The National Conference of State Legislatures (NCSL) reviewed school to career apprenticeship tax credit programs in July 2000. NCSL found most states lacked sufficient data to analyze their credit’s impact on apprenticeship enrollment. Only Arkansas provided data to NCSL that reported a 10% increase in the number of apprentices after passage of the tax credit. (However, when contacted by the General Assembly’s Fiscal Research Division in May 2004, two Arkansas tax officials stated the credit had no significant impact on the apprenticeship program, but did not provide statistics to support their opinion.)

Since the Arkansas and proposed North Carolina tax credits are similar, assume the North Carolina apprenticeship program experiences the 10% enrollment growth rate reported by NCSL. Using the data presented previously in this analysis, the following chart shows the fiscal impact to the General Fund of a 10% increase in apprentices. In this scenario, there would be approximately 842 additional apprentices in 2005 and an additional revenue loss of \$2.7 million.

	<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	\$172,930,803	\$25,939,620
2005	9,264	\$21,674	\$200,792,271	\$30,118,841
2006	9,403	\$22,541	\$211,948,515	\$31,792,277
2007	9,545	\$23,443	\$223,756,402	\$33,563,460

Expenditures

Section 3 of the bill appropriates \$5,000 to the Department of Labor in FY 2004-05 for administrative expenses associated with the credit. 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. However, 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. As for administrative expense for the Department of Revenue, it would not incur costs if the documentation certifying apprenticeships were filed with the tax return. The apprentice documents would be scanned like any other forms.

SOURCES OF DATA: Department of Labor; Employment Security Commission; Economy.com; National Conference of State Legislatures

TECHNICAL CONSIDERATIONS: None

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Signed Copy Located in the NCGA Principal Clerk's Offices