

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1437 (First Edition)

SHORT TITLE: Credit for Hiring Apprentices.

SPONSOR(S): Representative Goodwin

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ Million)				
	<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	0	(20.8)	(21.2)	(21.5)	(21.8)
EXPENDITURES					
General Fund	See Assumptions and Methodology				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Labor; Department of Revenue					
EFFECTIVE DATE: The act is effective for taxable years beginning on or after January 1, 2005 and is repealed for taxable years beginning on or after January 1, 2009.					

BILL SUMMARY:

The act provides a tax credit for employers that participate in an apprenticeship program approved by the Department of Labor. The credit is based on the number of registered apprentices employed for at least nine months in a taxable year. The credit amounts are as follows: 1-3 apprentices: \$10,000 credit; 4-10 apprentices: \$25,000 credit; 11 or more apprentices: \$50,000.

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:

The Department of Labor provided the General Assembly’s Fiscal Research Division with a CD listing employers and the number of apprentices employed in 2001, 2002, and 2003. In 2003, 1,534 employers registered 14,910 apprentices with the Department of Labor. After removing public entities such as schools, county hospitals, and city governments, there were 1,340 private firms with apprentices in 2003. These firms were then sorted by the limits in HB 1437 to show 1,077 firms with 1 to 3 apprentices, 148 firms with 4 to 10 apprentices, and 115 firms with 11 or more apprentices.

Since the tax credit is for tax years 2005 through 2008, the 2003 data should be adjusted for future employment growth. The Secretary of State’s Corporations Division reports a 9% increase in Articles of Incorporation from 2001 to 2003, but they do not report information on the number of employees these new firms hire. A more useful measure may be national employment growth. 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. It is assumed that all firms with apprentices have a tax liability to take the credit against. It is also assumed that the first year of the tax credit in 2005 will be taken on returns in FY 2005-06.

	<u># of Firms</u>			<u>Credit amounts</u>			<u>Total</u>
	<u>1 to 3</u>	<u>4 to 10</u>	<u>11 or more</u>	<u>1 to 3</u>	<u>4 to 10</u>	<u>11 or more</u>	
	<u>Apprentices</u>	<u>Apprentices</u>	<u>Apprentices</u>	<u>Apprentices</u>	<u>Apprentices</u>	<u>Apprentices</u>	<u>Credit</u>
2003	1,077	148	115	\$10,770,000	\$3,700,000	\$5,750,000	\$20,220,000
2004	1,093	150	117	\$10,930,000	\$3,750,000	\$5,850,000	\$20,530,000
2005	1,109	152	119	\$11,090,000	\$3,800,000	\$5,950,000	\$20,840,000
2006	1,126	154	121	\$11,260,000	\$3,850,000	\$6,050,000	\$21,160,000
2007	1,143	156	123	\$11,430,000	\$3,900,000	\$6,150,000	\$21,480,000
2008	1,160	158	125	\$11,600,000	\$3,950,000	\$6,250,000	\$21,800,000

As for administrative expense, the Department of Revenue will 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; Secretary of State’s Corporations Division

TECHNICAL CONSIDERATIONS:

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DATE: June 7, 2004



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