



### General Fund Tax Revenue

Based on the data and assumptions described below, Fiscal Research estimates that implementation of the tax credit would reduce General Fund tax revenue by approximately \$230 million in FY 2019-20. We predict that utilization of the tax credit will increase quickly: the total cost is expected to exceed \$600 million in FY 2023-24.

As of April 2019, 7,934 people were registered in ApprenticeshipNC programs. The number of registered apprentices has grown by 90 percent since 2015. The majority of registered apprentices worked 2,080 hours annually. The average beginning wage was \$13.49 per hour and the average journey worker wage was \$19.95 per hour.

According to the North Carolina Department of Commerce, 193 occupations require a State license. Many occupational licensing boards require licensees to work and train under the supervision of licensed practitioner. Some boards that require supervised training do not currently require applicants to formally enroll in an apprenticeship. Instead, these boards require applicants to submit documentation after they have completed the required training. Based on a review of the training requirements and annual reports of a sample of State licensing boards, we estimate that approximately 5,000 people are currently enrolled in a full-time supervised training program required for licensure and could therefore be “qualifying apprentices” for the purpose of the tax credit.

In total, Fiscal Research estimates that taxpayers could claim this credit for 13,000 qualifying apprentices in tax year 2019. Our analysis assumes that the average wage for apprentices in tax year 2019 is \$17.00 per hour. At this hourly rate, the amount of the credit for employing one full-time apprentice would be more than \$17,500. This credit is refundable, so employers that claim the credit will receive the full amount regardless of their actual tax liability.

Because this tax credit is substantial and refundable, we expect that it would significantly increase demand for apprentices. Occupation licensing boards that currently require supervised training without a formal enrollment procedure are likely to adopt one so that licensed employers can claim the tax credit for their supervisees. Likewise, we expect that many employers in fields that do not require licensure will hire additional apprentices or begin new apprenticeship programs through Apprenticeship NC.

There is significant room for growth in the number of apprentices working towards an occupational license. According to the Bureau of Labor Statistics, approximately 1.3 million North Carolina residents work in positions that require an occupational license. If 40 percent of those positions require at least 1 year of full-time supervised training and 5 percent of those positions are held by trainees, then approximately 25,000 positions could be designated as “apprenticeships required for licensure by a State licensing board.”

Similarly, the size of the ApprenticeshipNC program relative to programs in other states suggests that there is room to expand. In FY 2017-18, North Carolina had just over 7,000 registered apprentices and 651 active employer sponsors. By comparison, South Carolina had nearly 21,000 apprentices and 1,000 sponsoring employers – despite having a population less than one-half of that of North Carolina. If North Carolina reached South Carolina’s per capita level of registered apprenticeships, the program would have over 43,000 qualifying apprentices.

Therefore, if the tax credit encouraged rapid growth in apprenticeships, the State could have as many as 68,000 qualifying apprentices, which would result in the total cost of the credit exceeding \$1.2 billion. However, for this analysis, we assumed more modest growth in the number of qualifying apprenticeships of 25 percent per year. We also assumed average hourly wage growth of 3 percent per year.

### **State Agency Expenditures**

The Department of Revenue (DOR) will need \$124,000 nonrecurring in additional operating expenses to implement the requirements of the bill related to administration of the tax credit and processing of apprenticeship records. Those funds will allow DOR to secure a contract for necessary changes to its mainframe computer system. The North Carolina Community College System may need additional funding for the ApprenticeshipNC program to meet the increased demand for apprentices. State agency expenditures are not shown on the Summary Chart on the first page of this fiscal note because they are expected to be less than \$1 million.

### **TECHNICAL CONSIDERATIONS**

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As written, the credit is refundable and is effective for taxable years beginning on or after January 1, 2019. North Carolina does not have any other refundable income tax credits and adding this new credit would require significant changes to the 2019 tax forms. The time table will cause significant challenges for the Department of Revenue.

The bill states that the “credit is equal to 50% of the product of (1) the number of hours worked by the apprentice and (2) the qualifying apprentice's hourly wage for which the taxpayer remits withholding payments to the Department of Revenue pursuant to Article 4A of Chapter 105.” We interpreted (1) to mean the number of hours worked by the apprentice during the taxable year. If this is an incorrect interpretation, we suggest further clarification. Based on experience administering other tax credits, the Department of Revenue is concerned that specifying that the taxpayer must be the entity that remits the payments in (2) may cause confusion. An alternative approach would be to change the wording so that it more closely follows the language found in repealed G.S. 105-130.47.

The term “apprenticeship” is not defined in the context of State licensing board requirements is open to interpretation. We assumed that any supervised training required for licensure could be considered an “apprenticeship.” Similarly, the term “minimum wage” is not defined. Defining these terms could help avoid confusion about what positions qualify for the credit.

## **DATA SOURCES**

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U.S. Bureau of Labor Statistics, N.C. Department of Commerce, N.C. Community Colleges, N.C. Department of Revenue

## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

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This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

## **CONTACT INFORMATION**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

## **ESTIMATE PREPARED BY**

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**Signed copy located in the NCGA Principal Clerk's Offices**