



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	S. 557	Introduced on February 22, 2023
Author:	M. Johnson	
Subject:	Apprentice Tax Credit	
Requestor:	Senate Finance	
RFA Analyst(s):	Jolliff	
Impact Date:	March 3, 2023	

Fiscal Impact Summary

This bill expands the current apprenticeship tax credits in Section 12-6-3477. The bill increases the amount of the credit from \$1,000 to \$4,000 per apprentice or \$6,000 for a youth apprentice. Further, the bill allows a taxpayer to claim a \$1,000 tax credit for three additional years if the apprentice remains an employee of the taxpayer after completion of the program. The bill allows a taxpayer to carry forward any unused credits for three years.

The bill will not impact expenditures for the Department of Revenue (DOR). The agency will update the applicable forms during the annual updates to tax forms. However, the agency noted that because the bill is effective upon signature of the Governor, there may be some difficulties in the initial administration of the provisions since the start date is not relative to a tax year.

Assuming the provisions first apply in tax year 2023 following signature of the Governor, we estimate the bill will reduce General Fund individual income tax revenue by approximately \$1,215,000 and General Fund corporate income tax revenue by approximately \$1,895,000, for an estimated total impact of \$3,110,000 beginning in FY 2023-24.

Explanation of Fiscal Impact

Introduced on February 22, 2023

State Expenditure

This bill expands the current apprenticeship tax credits in Section 12-6-3477. DOR will update the applicable forms during the annual updates to tax forms. Therefore, the bill will not impact expenditures for the agency. However, the agency noted that because the bill is effective upon signature of the Governor, there may be some difficulties in the initial administration of the provisions since the start date is not relative to a tax year.

State Revenue

This bill expands the current apprenticeship tax credits in Section 12-6-3477. The bill increases the amount of the credit from \$1,000 to \$4,000 per apprentice or \$6,000 for a youth apprentice. Further, the bill allows a taxpayer to claim a \$1,000 tax credit for three additional years if the apprentice remains an employee of the taxpayer after completion of the program.

Currently, this section allows a taxpayer to claim an income tax credit of up to \$1,000 for employing an apprentice pursuant to an apprenticeship agreement registered with the U.S. Department of Labor. The credit is only allowed if the apprentice was employed by the taxpayer for at least seven full months of the tax year and may only be claimed for an individual apprentice for up to four years. The credit may not be carried forward. The table below provides a history of the credits earned by taxpayers.

Apprenticeship Tax Credit - History

Year	Individual		Corporate		Total	
	Returns	Amount	Returns	Amount	Returns	Amount
2017	51	\$224,280	20	\$1,117,464	71	\$1,341,744
2018	56	\$275,555	13	\$658,078	69	\$933,633
2019	56	\$319,302	15	\$785,587	71	\$1,104,889
2020	47	\$256,257	10	\$646,674	57	\$902,931
2021	43	\$209,173	n/a	n/a	n/a	n/a

n/a: Not available

Source: S.C. Department of Revenue Annual Report (individual) and S.C. Revenue and Fiscal Affairs calculations from corporate income tax returns

Corporate credits are reported by the year the return is received and not tax year in the annual report. We have used figures from tax year filings to adjust these figures to represent the amount of the credit when available.

This bill would allow a taxpayer to claim a credit for the greater of the cost of the apprenticeship or \$1,000, not to exceed \$4,000. For a Youth Apprentice, age 16-24, the credit is for up to \$6,000. The bill also allows a taxpayer to continue to claim a \$1,000 tax credit for up to three additional years if the apprentice completes the apprenticeship and remains an employee of the taxpayer. Finally, the bill allows a taxpayer to carry forward any unused credits for three years.

The bill does not specify what costs can be considered. An analysis of the cost in 2016 by the U.S. Department of Commerce noted that, not considering start-up costs, the most expensive program in the sample of firms cost \$250,000 per apprentice, the least less than \$25,000.¹ Apprentices' compensation costs over the duration of the program were the major cost for all companies, and together with program length were the major factor in the cost differences among the programs. Other costs were program start-up, tuition and educational materials, mentors' time, and overhead. Given these potential costs, we anticipate that most apprenticeships will reach the new thresholds.

Based on data published by the U.S. Department of Labor for South Carolina, approximately 6,769 apprentices were active in 2021 and this figure grew to 7,307 in 2022. Of those apprentices, 34.9 percent were in the 16-24 age group and may qualify for the Youth Apprentice

¹ The Benefits and Costs of Apprenticeship: A Business Perspective
<https://www.apprenticeship.gov/sites/default/files/dept-of-commerce-and-case-western-reserve-study-costs-and-benefits-of-apprenticeship.pdf>

increased credit amount. We have assumed that the same 34.9 percent will apply to claims for the larger Youth Apprentice credit amount.

Currently, taxpayers are claiming credits for approximately 13 percent of active apprentices based on total credits and assuming taxpayers claim the full \$1,000 amount (an estimated 902 apprentices of the total 6,769 in 2021). Given the smaller utilization rate currently, we expect that many other businesses do not have a state income tax liability. We do, however, anticipate that the number of companies employing apprentices and claiming tax credits will continue to grow over the values observed in tax years 2020 and 2021. Based on discussions with Apprenticeship Carolina, a division of the SC Technical College system, apprenticeships declined during the pandemic, and this may have impacted claims in tax year 2020 and 2021. However, apprenticeships in 2022 were largely back to pre-pandemic levels and income levels have increased, potentially increasing tax credit claims. Based on these factors, we anticipate that the potential apprentices and corresponding tax credits will grow from an estimated 903 apprentices in 2020 to approximately 1,198 apprentices by 2023.

Estimated Apprenticeship Tax Credit - CURRENT

	Individual		Corporate		Total
	Returns	Amount	Returns	Amount	Amount
Estimated 2023 Credits	62	\$312,764	16	\$884,911	\$1,197,675

To estimate the potential impact of a taxpayer claiming the \$1,000 credit for employing an apprentice for an additional three years, we have assumed that the average amount of credits currently taken per year will then be extended for three more years, which assumes that all existing apprentices remain employed after the apprenticeship for at least three years. As all apprentices may not remain employed with the taxpayer for the full three years, this may overstate the number that will qualify. Additionally, since the bill takes effect upon approval by the Governor, this assumes that taxpayers claim the credit for everyone who qualifies immediately upon enactment. If the employer credit is interpreted to only apply to apprentices who complete a program after enactment, this estimate would be reduced.

Not all taxpayers will be able to claim the full increase in the amount of the credit. To estimate the potential use of the new credits we recalculated tax liabilities at the new credit amount for individual and corporate income tax returns. Since the bill allows taxpayers to carry forward any unused tax liability for three tax years, there may be a small extension of the impact if taxpayers have unused credits, although this is not expected to significantly impact the claims. Most corporate carry forward credits are not used, so this provision is not expected to significantly change the analysis. The table below outlines the estimated total credits, anticipated use rates, and the revenue impact of the bill.

Estimated Impact for Tax Year 2023

	Individual	Corporate	Total
Total Estimated Apprentices (claimed)	313	885	
Youth (new \$6,000 credit)	109	309	
Adult (new \$4,000 credit)	203	576	
Potential New Credits	\$1,157,000	\$3,272,000	\$4,429,000
Use Rate (\$6,000 credit)	44%	21.7%	
Use Rate (\$4,000 credit)	53%	31.9%	
Estimated Impact (Increased Apprenticeship Credit)	\$563,000	\$887,000	\$1,450,000
Estimated Credits for Employed Apprentices	\$938,000	\$2,655,000	
Use Rate (\$1,000 credit)	70%	38%	
Estimated Impact (Employed Apprentice Credit)	\$652,000	\$1,008,000	\$1,660,000
Estimated Total New Credits (Claimed)	\$1,215,000	\$1,895,000	\$3,110,000

Assuming the provisions first apply in tax year 2023, we estimate the bill would reduce General Fund individual income tax revenue by approximately \$1,215,000 and General Fund corporate income tax revenue by approximately \$1,895,000, for an estimated total impact of \$3,110,000 beginning in FY 2023-24.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director