

Fiscal Estimate Narratives

DOR 10/11/01

| | | | | | |
|---------------------------|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number | 01-3891/3 | Introduction Number | AB-555 | Estimate Type | Original |
| Subject | | | | | |
| Apprenticeship tax credit | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

The bill would create a nonrefundable income and franchise tax credit for a business that pays wages to an apprentice participating in a 2-year to 5-year program in construction, industrial manufacturing or service occupations if the apprentice is in one of the five industrial, five construction or five service occupations with the most job openings for new entrants, as determined by the Department of Workforce Development (DWD). The credit would equal 5% of wages paid to an apprentice, not to exceed \$1,400 per year, but increases to 8%, not to exceed \$3,000, during the year the apprentice completes the program. The program must be approved by the Department of Workforce Development. The credit would first apply to taxable years beginning on January 1, 2002.

The bill would discontinue the credit for the wages of new apprentices in 2005 if the number of employers training apprentices in approved programs does not increase by more than 40% between January 1, 2002 and December 31, 2004. Employers could continue to claim the credit for wages of apprentices for whom the employer had already claimed the credit in a prior year until the apprentice completes the apprenticeship program.

According to information from DWD, approximately 12,000 persons currently are participating in apprenticeship programs in industrial manufacturing, construction or service sector occupations. Programs that would be in the top five service, industrial and construction categories for job openings for new entrants as determined by DWD are not known. The estimate assumes the 15 programs with the most job openings would be popular programs. To the extent that the actual categories and number of apprentices in them would differ from the assumptions, the fiscal estimate would differ.

Based on information on the amount of the average wages for apprenticeship programs, the estimate assumes that employers would receive the maximum credit for apprentice wages. The attached table provides an estimate of the amount of credit claims by length of apprenticeship program. The estimate assumes that apprentices would complete the programs as scheduled.

As shown in the attached table, it is estimated that annual credit claims would total \$17.2 million. The Department estimates that approximately 75% of credits claimed in a year are used to offset tax liability. As such the fiscal effect is estimated at \$12.9 million annually (\$17.2 million x 75%).

The Department estimates that its one-time cost for computer programming would be \$126,500 and annual ongoing costs would be \$19,500. The bill does not provide funding for these costs.

Long-Range Fiscal Implications

| | Apprenticeship Counts | | | Credit Claim Amounts | | |
|---------------------|-----------------------|------------------|-------------------------|-------------------------------------|-------------------------------------|-------------------------|
| | Total (A) | Completed (B) | Not Completed (C) | 5% of Wages (C x \$1,400) (D) | 8% of Wages (B x \$3,000) (E) | Total (D + E) (F) |
| Construction | | | | | | |
| 4 Year Program | 5,200 | 1,200 | 4,000 | \$ 5,600,000 | \$ 3,600,000 | \$ 9,200,000 |
| 5 Year Program | 2,700 | 700 | 2,000 | 2,800,000 | 2,100,000 | 4,900,000 |
| | 2,500 | 500 | 2,000 | 2,800,000 | 1,500,000 | 4,300,000 |
| Industrial | | | | | | |
| 4 Year Program | 1,500 | 300 | 1,200 | 1,680,000 | 900,000 | 2,580,000 |
| 5 Year Program | 800 | 200 | 600 | 840,000 | 600,000 | 1,440,000 |
| | 700 | 100 | 600 | 840,000 | 300,000 | 1,140,000 |
| Service | | | | | | |
| 2 Year Program | 2,500 | 1,200 | 1,300 | 1,820,000 | 3,600,000 | 5,420,000 |
| | 2,500 | 1,200 | 1,300 | 1,820,000 | 3,600,000 | 5,420,000 |
| Totals | 9,200 | 2,700 | 6,500 | \$ 9,100,000 | \$ 8,100,000 | \$ 17,200,000 |

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

| | | | |
|--|-----------------|--|-----------------|
| LRB Number 01-3891/3 | | Introduction Number AB-555 | |
| Subject Apprenticeship tax credit | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): One time costs of \$126,500 for computer programming. | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | \$19,500 | | |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | | | |
| Local Assistance | | | |
| Aids to Individuals or Organizations | | | |
| TOTAL State Costs by Category | \$19,500 | | \$ |
| B. State Costs by Source of Funds | | | |
| GPR | 19,500 | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | Increased Rev | Decreased Rev | |
| GPR Taxes | \$ | \$-12,900,000 | |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | \$ | \$-12,900,000 | |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | State | Local | |
| NET CHANGE IN COSTS | \$19,500 | \$ | |
| NET CHANGE IN REVENUE | \$-12,900,000 | \$ | |
| Agency/Prepared By | | Authorized Signature | Date |
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