



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3348	Amended by House Ways and Means on February 10, 2022
Author:	Daning	
Subject:	Tax Credits	
Requestor:	House of Representatives	
RFA Analyst(s):	Jolliff	
Impact Date:	February 15, 2022	

Fiscal Impact Summary

This bill provides an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program validated by the United States Department of Labor (USDOL).

The Department of Revenue (DOR) and Department of Commerce (Commerce) both indicated that the bill will not affect their expenditures. These agencies indicate that they will be able to implement the new tax credit with existing staff and resources. Apprenticeship Carolina, a division of the S.C. Technical College System, assists employers with registering an apprenticeship with the USDOL. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding.

The bill will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately \$9,597,000 in FY 2022-23, \$6,219,000 in FY 2023-24, \$3,468,000 in FY 2024-25, \$2,606,000 in FY 2025-26, \$2,606,000 in FY 2026-27, \$962,000 in FY 2027-28, and \$178,000 in FY 2028-29.

Please note, these estimates are based upon limited data and may be impacted if the number of active apprentices differs significantly from recent years. Apprenticeship Carolina noted that due to COVID-19, many programs were extended or suspended. However, data are unavailable to determine how this has affected the number of participants. Therefore, our estimates assume that programs return to a normal level in 2022. Further, the USDOL is currently reviewing and revising data on apprenticeship programs. Our estimates are based upon the latest published information from the USDOL and limited additional data provided for 2021 but may be impacted if the number of apprentices differs significantly from recent years after revisions.

Explanation of Fiscal Impact

Amended by House Ways and Means on February 10, 2022

State Expenditure

This amended bill provides an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program. The bill specifies that DOR must administer the credit and shall consult with Commerce, Apprenticeship Carolina of the S.C. Technical College System, and any other agency or entity necessary to establish a process by which employers are aware of an individual's eligibility for the credits.

DOR and Commerce both indicated that the bill will not affect their expenditures. These agencies indicate that will be able to implement the new tax credit with existing staff and resources. Therefore, this bill will have no expenditure impact for DOR or Commerce.

Currently, Apprenticeship Carolina, a division of the S.C. Technical College System, assists employers with registering an apprenticeship with the USDOL. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding.

State Revenue

This bill creates a tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program that has been validated by the USDOL beginning in tax year 2022. The taxpayer is eligible for a credit for each eligible employee in the amount of \$3,000 in year one, \$2,500 in year two, and \$1,000 in year three if the eligible employee continues to meet the requirements. The credit may be taken against individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, or insurance premium taxes. The credit amount may not exceed the taxpayer's liability and may not be carried forward. The credits are allowed for any qualifying individual employed in the registered apprenticeship program before 2027. Any apprentice employed in 2026 would be eligible for a tax credit in tax years 2026, 2027, and 2028 based on the employment requirements, at which time the credits would end.

Apprenticeship Carolina noted that due to COVID-19, many programs were extended or suspended. However, data are unavailable to determine how this has affected the number of participants. Therefore, our estimates assume that programs return to a normal level in 2022 and are based upon federal fiscal year 2019-20 published figures. Further, the USDOL is currently reviewing and revising data on apprenticeship programs. Our estimates are based upon the latest published information from the USDOL, detailed below in Table 1, but may be impacted if the number of apprentices differs significantly from recent years after revisions.

Table 1. Apprenticeship Statistics for South Carolina

Federal Fiscal Year	Active Apprentices	New Apprentices	Completers	Active Programs	New Programs
2015	5,367	2,383	736	524	97
2016	5,297	2,004	611	569	63
2017	17,609	12,012	1,095	964	137
2018	20,763	7,042	2,158	1,054	148
2019	22,186	7,642	2,690	968	60
2020	20,715	5,987	2,079	1,183	93
Projected 2021	23,482	6,890	2,309	1,068	100
Projected 2022	23,482	6,890	2,309	1,068	108

Data Source: United States Department of Labor, Federal Fiscal Year reports; retrieved February 15, 2022
<https://www.dol.gov/agencies/eta/apprenticeship/about/statistics/2020>
Projections by S.C. Revenue and Fiscal Affairs

Based on the data shown above in Table 1 and preliminary data provided by the USDOL for 2021, we anticipate that there will be approximately 23,482 active apprentices in South Carolina in 2022. However, from discussions with Apprenticeship Carolina, we believe National Guard participants are included in these figures but are not expected to be reported by state in future years. Further, based upon data from 2021, approximately 6,774 active apprentices were employed by the S.C. National Guard, the U.S. Navy, Department of Corrections, or a city or county, which would not be eligible for a tax credit. Excluding these apprenticeships from employers who would not be eligible for tax credits, we estimate that there will be approximately 16,708 potentially eligible apprentices with employers who may receive a tax credit. Additionally, an average of approximately 6,890 new apprentices were added in South Carolina per year over the last three reported years through 2020. Using historical data reported through 2021, 50.1 percent of all apprentices were in a non-government apprenticeship or about 3,454 new apprentices per year.

Table 2 below provides estimates of the number of apprentices we anticipate will qualify for the tax credits.

Table 2. Estimate of Apprentices Eligible for Tax Credits

	Estimated Currently Active	Estimated New Apprentices Per year
Total Apprentices	23,482	6,890
Estimated Apprentices Employed by a Non-government Entity	16,708	3,454
Percentage of Formerly Incarcerated ^{/1}	5.1%	5.1%
Estimated Formerly Incarcerated Apprentices	852	176
Percentage of Veterans ^{/2}	10.77%	10.77%
Estimated Veteran Apprentices	1,799	372
Total Estimated Eligible Apprentices	2,651	548

/1: Source: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics Special Report, *Lifetime Likelihood of Going to State of Federal Prison*, March 1997

/2: Source: US Department of Labor, Employment and Training Administration, Registered Apprenticeship Sponsor Information Database (RAPIDS); through FY 2022 Q1; analysis by S.C. Revenue and Fiscal Affairs of apprentices reporting veteran status in a non-government apprenticeship

In reading the bill, we anticipate that all existing apprentices, in addition to new apprentices, that meet the qualifications would be eligible for the tax credits beginning in tax year 2022. Data reported by the USDOL in 2021 indicate that approximately 42.8 percent of apprenticeships are for one year, 24.7 percent are for two years, and the remaining 32.5 percent are for three or more years.

Under these assumptions, the estimated tax credits and resulting General Fund revenue impact are detailed below in Table 3. The impact is estimated by fiscal year based upon the currently active and new apprentices expected to qualify by year. The tax credits apply to apprenticeships before 2027. Therefore, beginning in FY 2027-28, the annual General Fund impact will decline as no new apprentices are eligible for tax credits. Please note, these estimates do not anticipate a change in behavior or increase in the number of registered apprentices as a result of the tax credit, which would further increase the revenue impact.

Table 3. Estimated General Fund Revenue Impact by Fiscal Year

	Currently Active	New 2022	New 2023	New 2024	New 2025	New 2026	Total by Year
Formerly Incarcerated	\$2,556,000	\$528,000					\$3,084,000
Veterans	\$5,397,000	\$1,116,000					\$6,513,000
FY 2022-23							\$9,597,000
Formerly Incarcerated	\$1,218,000	\$252,000	\$528,000				\$1,998,000
Veterans	\$2,573,000	\$532,000	\$1,116,000				\$4,221,000
FY 2023-24							\$6,219,000
Formerly Incarcerated	\$277,000	\$57,000	\$252,000	\$528,000			\$1,114,000
Veterans	\$585,000	\$121,000	\$532,000	\$1,116,000			\$2,354,000
FY 2024-25							\$3,468,000
Formerly Incarcerated			\$57,000	\$252,000	\$528,000		\$837,000
Veterans			\$121,000	\$532,000	\$1,116,000		\$1,769,000
FY 2025-26							\$2,606,000
Formerly Incarcerated				\$57,000	\$252,000	\$528,000	\$837,000
Veterans				\$121,000	\$532,000	\$1,116,000	\$1,769,000
FY 2026-27							\$2,606,000
Formerly Incarcerated					\$57,000	\$252,000	\$309,000
Veterans					\$121,000	\$532,000	\$653,000
FY 2027-28							\$962,000
Formerly Incarcerated						\$57,000	\$57,000
Veterans						\$121,000	\$121,000
FY 2028-29							\$178,000

In summary, the bill will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately \$9,597,000 in FY 2022-23, \$6,219,000 in FY 2023-24, \$3,468,000 in FY 2024-25, \$2,606,000 in FY 2025-26, \$2,606,000 in FY 2026-27, \$962,000 in FY 2027-28, and \$178,000 in FY 2028-29. These estimates are based upon limited data and may be impacted if the number of active apprentices differs significantly from recent years.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on January 12, 2021

State Expenditure

This bill provides an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program. The bill specifies that DOR must administer the credit and shall consult with Commerce, DEW, SCWorks, and any other agency or entity necessary to establish a process by which employers are aware of an individual's eligibility for the credits.

DOR and Commerce both indicated that the bill will not affect their expenditures. These agencies indicate that will be able to implement the new tax credit with existing staff and resources.

DEW indicates that the impact on the agency will depend on their level of involvement in implementing a system for employers to determine if an apprentice is eligible for the tax credit. They do not currently have a system that would allow them to determine employment in a qualifying apprenticeship or the apprentice's status as a formerly incarcerated individual or a veteran. Currently, Apprenticeship Carolina, a division of the S.C. Technical College System, provides employers with support registering an apprenticeship with USDOL. Based upon our discussions with Apprenticeship Carolina, the agency would be the most likely entity to provide support for these functions. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding. Based upon these responses, the expenditure impact is undetermined at this time given the issues regarding how the process of verifying eligibility for the tax credit will be implemented.

State Revenue

This bill creates a tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program that has been validated by the United States Department of Labor (USDOL) beginning in tax year 2021. The taxpayer is eligible for a credit for each eligible employee in the amount of \$3,000 in year one, \$2,500 in year two, and \$1,000 in year three if the eligible employee continues to meet the requirements. The credit may be taken against individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, or insurance premium taxes. The credit amount may not exceed the taxpayer's liability, and any unused credit may be carried over to the succeeding year. The credits are allowed for any qualifying individual employed in the registered apprenticeship program before 2026. Any apprentice employed before 2026 would be eligible for a tax credit in tax years 2025, 2026, and 2027 based on the employment requirements, at which time the credits would end.

Based on data provided by Apprenticeship Carolina, there are currently 13,659 active apprentices in South Carolina. Of those, approximately 6,869 are employed by the S.C. National Guard, the U.S. Navy, Department of Corrections, or a city or county and would not be eligible for a tax credit, leaving 6,790 potentially eligible apprentices.

In addition to data provided by Apprenticeship Carolina, we also used data published by USDOL through the third calendar quarter of 2020 to estimate the number of apprentices that would potentially qualify and the number of new apprentices that may be enrolled annually. An average of approximately 7,342 new apprentices were added in federal fiscal years 2018 and 2019. Based on the distribution of current apprentices, we assume that approximately 3,650 of these new apprentices would qualify for the tax credit annually, and the remaining would be employed by a government entity.

We estimate that approximately 5.1 percent of apprentices may be formerly incarcerated. This percentage is based upon a 1997 report by the U.S. Department of Justice, *Lifetime Likelihood of Going to State or Federal Prison*. Using these figures, the table below provides the anticipated eligible apprentices. Further, using data from USDOL and excluding the apprentices employed by the National Guard or the U.S. Navy, approximately 7.7 percent of other apprentices reported being veterans. Our estimates of currently active and new apprentices are outlined below based on these percentages.

Estimate of Apprentices Eligible for Tax Credits

	Estimated Currently Active	Estimated New Apprentices Per year
Total Apprentices	13,659	7,342
Estimated Apprentices Employed by a Non-government Entity	6,790	3,650
Percentage of Formerly Incarcerated /1	5.1%	5.1%
Estimated Formerly Incarcerated Apprentices	346	374
Percentage of Veterans /2	7.7%	7.7%
Estimated Veteran Apprentices	523	281
Total Estimated Eligible Apprentices	869	655

/1: Source: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics Special Report, *Lifetime Likelihood of Going to State or Federal Prison*, March 1997

/2: Source: US Department of Labor, Employment and Training Administration RAPIDS data for apprenticeships started 2013 and later; Estimates by RFA staff

In reading the bill, we anticipate that all existing apprentices, in addition to new apprentices, that meet the qualifications would be eligible for the tax credits beginning in tax year 2021. While apprentice programs can be less than three years, the available data and reports by the Bureau of Labor Statistics indicate that the majority of programs are three years or longer. Therefore, we assume for this analysis that the existing and new apprentices will largely be eligible for three

years, but anticipate that approximately one-third of the existing apprenticeships will be completed each year, reducing the number of existing apprentices receiving the tax credit.

Under these assumptions, the estimated tax credits and resulting General Fund Impact are detailed below. The impact is estimated by fiscal year based upon the currently active and new apprentices expected to qualify by year. The tax credits apply to apprenticeships before 2026. Therefore, beginning in FY 2026-27, the annual General Fund impact will decline as no new apprentices are eligible for tax credits. Please note, these estimates do not anticipate a change in behavior or increase in the number of registered apprentices as a result of the tax credit, which would further increase the revenue impact.

Estimated General Fund Revenue Impact by Fiscal Year

	Currently Active	New 2021	New 2022	New 2023	New 2024	New 2025	Total by Year
Formerly Incarcerated	\$1,039,000	\$558,000					\$1,597,000
Veterans	\$1,568,000	\$843,000					\$2,411,000
FY 2021-22	\$2,607,000	\$1,401,000					\$4,008,000
Formerly Incarcerated	\$577,000	\$465,000	\$558,000				\$1,600,000
Veterans	\$871,000	\$703,000	\$843,000				\$2,417,000
FY 2022-23	\$1,448,000	\$1,168,000	\$1,401,000				\$4,017,000
Formerly Incarcerated	\$115,000	\$186,000	\$465,000	\$558,000			\$1,324,000
Veterans	\$174,000	\$281,000	\$703,000	\$843,000			\$2,001,000
FY 2023-24	\$289,000	\$467,000	\$1,168,000	\$1,401,000			\$3,325,000
Formerly Incarcerated			\$186,000	\$465,000	\$558,000		\$1,209,000
Veterans			\$281,000	\$703,000	\$843,000		\$1,827,000
FY 2024-25			\$467,000	\$1,168,000	\$1,401,000		\$3,036,000
Formerly Incarcerated				\$186,000	\$465,000	\$558,000	\$1,209,000
Veterans				\$281,000	\$703,000	\$843,000	\$1,827,000
FY 2025-26				\$467,000	\$1,168,000	\$1,401,000	\$3,036,000
Formerly Incarcerated					\$186,000	\$465,000	\$651,000
Veterans					\$281,000	\$703,000	\$984,000
FY 2026-27					\$467,000	\$1,168,000	\$1,635,000
							(continued)

Formerly Incarcerated						\$186,000	\$186,000
Veterans						\$281,000	\$281,000
FY 2027-28						\$467,000	\$467,000

In summary, the bill will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately \$4,008,000 in FY 2021-22, \$4,017,000 in FY 2022-23, \$3,325,000 in FY 2023-24, \$3,036,000 in FY 2024-25, \$3,036,000 in FY 2025-26, \$1,635,000 in FY 2026-27, and \$467,000 in FY 2027-28. However, the timing of the impact may vary if taxpayers do not have sufficient tax liability to claim the full amount and carryforward the credits to the succeeding tax year.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director