



**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.*

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<b>Bill Number:</b>	S. 0557	Signed by Governor on May 21, 2024
<b>Author:</b>	M. Johnson	
<b>Subject:</b>	Apprentice Tax Credit	
<b>Requestor:</b>	Senate	
<b>RFA Analyst(s):</b>	Jolliff	
<b>Impact Date:</b>	May 22, 2024	

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### **Fiscal Impact Summary**

This bill expands the current apprenticeship tax credits by increasing the amount of the credit from \$1,000 to \$4,000 per apprentice or \$6,000 for the youth apprentice program. 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 maximum aggregate credit for all taxpayers in a tax year may not exceed \$5,000,000. The bill allows a taxpayer to carry forward any unused credits for three years and takes effect upon approval by the Governor.

The bill does not specify how the tax credits are to be allocated, but we expect based on previous discussions with the Department of Revenue (DOR) that the credits will be allocated on a first-come, first-served basis. Under this assumption, DOR will develop forms and guidance for this tax credit with existing staff and resources, and therefore, this bill is not expected to 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.

Assuming the provisions first apply in tax year 2024, we estimate the bill would reduce General Fund individual income tax revenue by approximately \$860,000 and General Fund corporate income tax revenue by approximately \$2,693,000, for an estimated total impact of \$3,553,000 beginning in FY 2024-25. The timing of the impact may vary as taxpayers may carry forward unused credits for three tax years. Also, we anticipate that these amounts will likely grow in future years as the significant increase in the credit amount is likely to further increase participation in the program for those employers with a tax liability. The estimated impact of the current apprenticeship tax credit for tax year 2024 totals \$1,423,000. Combining this with the estimated total impact for the new credits of \$3,553,000 results in an estimated aggregate credit amount of \$4,976,000 for tax year 2024, which is below the \$5,000,000 limit.

### **Explanation of Fiscal Impact**

#### **Signed by Governor on May 21, 2024**

#### **State Expenditure**

This bill expands the current apprenticeship tax credits in Section 12-6-3477. The aggregate credit is limited to \$5,000,000 for all taxpayers in a tax year. The bill does not specify how the

tax credits are to be allocated, but we expect based on previous discussions with DOR that the credits will be allocated on a first-come, first-served basis. Under this assumption, DOR will develop forms and guidance for this tax credit with existing staff and resources, and therefore, this bill is not expected to 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. The maximum aggregate credit for all taxpayers may not exceed \$5,000,000 in a tax year. The General Assembly may increase or decrease the limit in the annual appropriations act.

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**

Tax 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	23	\$1,397,674	66	\$1,606,847
2022	41	\$186,555	n/a	n/a	n/a	n/a

*n/a: Not available*

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

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 the youth apprentice program, which applies to individuals ages 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.<sup>1</sup> 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.

The table below provides the history of active apprentices in South Carolina based on data published by the U.S. Department of Labor. From this information, approximately 6,243 apprentices were active in 2024. Of those apprentices, 39 percent were in the 16-24 age group and may qualify for the youth apprentice increased credit amount. We have assumed that the same 39 percent will apply to claims for the larger youth apprentice credit amount.

**Active Apprentices in South Carolina (by Program Location)**

	2021	2022	2023	2024
Active Apprentices	6,808	7,514	6,024	6,243
Age 24 and under	2,378	2,628	2,241	2,428
Percentage Under 24	35%	35%	37%	39%

Source: U.S. Department of Labor, Apprenticeship.gov

As of 2021, which is the last year for which corporate income tax figure are available, taxpayers are claiming credits for approximately 1,607 apprentices based on total credits and assuming taxpayers claim the full \$1,000 amount. Given that this is much smaller than the number of active apprentices, we expect that many businesses do not have a sufficient state income tax liability to claim the credit. We do, however, anticipate that the number of companies employing apprentices and claiming tax credits will continue to grow, particularly with a significant increase in the allowable credit amount. The estimates below are based on the current tax credit experience and the number of active apprentices reported by the US Department of Labor above for 2023 and 2024.

**Estimated Apprenticeship Tax Credit - Current**

	Individual		Corporate		Total	
	Returns	Amount	Returns	Amount	Returns	Amount
Est. 2023 Credits	43	\$196,000	20	\$1,215,000	63	\$1,411,000
Est. 2024 Credits	45	\$205,000	21	\$1,218,000	66	\$1,423,000

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 number of apprentices for

<sup>1</sup> 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>

which employers are currently claiming credits 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 New Credits for Tax Year 2024**

	<b>Individual</b>	<b>Corporate</b>	<b>Total</b>
Total Estimated Apprentices (claimed)	219	1,254	1,473
Youth (new \$6,000 credit)	85	488	573
Adult (new \$4,000 credit)	134	766	900
Potential New Credits (Amount above \$1,000 current credit)	\$827,000	\$4,738,000	\$5,565,000
Use Rate (\$6,000 credit)	44.0%	21.7%	
Use Rate (\$4,000 credit)	53.0%	31.9%	
<b>Estimated Impact (Increased Apprenticeship Credit)</b>	<b>\$400,000</b>	<b>\$1,263,000</b>	<b>\$1,663,000</b>
Estimated Credits for Employed Apprentices	\$657,000	\$3,762,000	\$4,419,000
Use Rate (\$1,000 credit)	70%	38%	
<b>Estimated Impact (Employed Apprentice Credit)</b>	<b>\$460,000</b>	<b>\$1,430,000</b>	<b>\$1,660,000</b>
<b>Estimated Total New Credits (Claimed)</b>	<b>\$860,000</b>	<b>\$2,693,000</b>	<b>\$3,553,000</b>

Assuming the provisions first apply in tax year 2024, we estimate the bill would reduce General Fund individual income tax revenue by approximately \$860,000 and General Fund corporate income tax revenue by approximately \$2,693,000, for an estimated total impact of \$3,553,000 beginning in FY 2024-25. The timing of the impact may vary as taxpayers may carry forward unused credits for three tax years. The estimated impact of the current apprenticeship tax credits

totals \$1,423,000 for tax year 2024. Combining this with the estimated total impact for the new credits of \$3,553,000 results in an estimated aggregate credit amount of \$4,976,000 for tax year 2024, which is below the \$5,000,000 limit. Also, we anticipate that these amounts will likely grow in future years as the significant increase in the credit amount is likely to further increase participation in the program for those employers with a tax liability.

**Local Expenditure**

N/A

**Local Revenue**

N/A



Frank A. Rainwater, Executive Director