GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0277	**Title:**	Provide for an apprenticeship tax credit
Primary Sponsor:	Clark, Christy	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☑ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$20,575	$45,800	$44,374	$45,014
Revenue:				
General Fund	$0	($784,000)	($833,000)	($882,000)
Net Impact-General Fund Balance:	($20,575)	($829,800)	($877,374)	($927,014)

Description of fiscal impact: This bill would establish a credit against individual income tax or corporate income tax for employers who have apprentices in an apprenticeship program registered with the Department of Labor and Industry (DLI). Assuming the number of apprentices is close to the level in recent years, the cost to the general fund would be approximately $0.8 million in FY 2017 and increase to approximately $0.9 million by FY 2019.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would allow employers who participate in a registered apprenticeship program a credit against either individual income tax or corporate income tax of up to $1,000 for each apprentice who has completed the probationary period. The DLI would grant a credit of the full $1,000 for an apprentice who was in a program for a full year and would prorate the credit for apprentices who were in a program for part of the year. If a taxpayer claimed credits that were more than their tax liability, the excess would not be refunded, but would be carried forward for up to four years.
2. The number of apprentices in registered apprenticeship programs has varied over time, with employers being more willing to offer apprenticeships when the economy is growing and they have difficulty finding

skilled employees, and less willing to offer apprenticeships during downturns in the economy. Over the last ten years, the number of apprenticeships has varied from about 950 to almost 1,450. In late 2014, there were approximately 1,100.

3. The National Conference of State Legislatures (NCSL) performed a review of apprenticeship tax credit programs in July 2000. At that time, the state of Arkansas provided information to NCSL reporting a 10% increase in the number of apprentices after implementation of an apprenticeship tax credit. The state of South Carolina implemented an apprenticeship tax credit in 2007. In 2008, they reported a 25% increase in the number of active registered apprentices. Since that time, South Carolina has reported an approximately 600% increase in the number of apprentices.
4. This fiscal note assumes that, with continuing demand for construction workers in eastern Montana and with the DLI ongoing effort to expand the program to other trades, the number of apprentices will be 1,400, which is near the top of the historic range experienced in Montana.
5. Apprenticeships typically last three to four years and have a six-month probationary period. Thus, at any time, approximately 30% of apprentices are still in their probationary period. There will be the equivalent of approximately 980 ((100%-30%) x 1,400) full-year apprentices for whom a credit will be claimed. The total amount of credits claimed would be $980,000.
6. Some employers who claim the credit will not be able to use the credit in the current year because they have tax liability less than their credits. These employers will carry their credits forward. The share of credits carried forward will vary from year to year, depending primarily on the business cycle. This fiscal note assumes that 80% of credits claimed each year will be used that year, and the remainder will be used evenly over the next four years.
7. This bill would go into effect for TY 2016. Credits would first be claimed on tax returns for TY 2016 filed in the spring of CY 2017, which is in FY 2017. General fund revenue for FY 2017 would be reduced by $784,000 (80% x $980,000).
8. In following fiscal years, there would be new credit claims, and credits carried forward from previous years would be used. For FY 2018, there would be $784,000 of tax liability offset by new credits and $49,000 (¼ x ($980,000 - $784,000) of tax liability offset by credits that were carried forward from the previous year. The total reduction in general fund revenue would be $833,000. For FY 2019, the total reduction would be $882,000.
9. The DOR would need an additional 0.50 FTE tax examiner beginning in FY 2017 to process and verify claims for this credit. Personal services costs would be $35,903 in FY 2017, $37,569 in FY 2018, and $38,107 in FY 2019. Annual operating costs would be $6,599 in FY 2017, $6,805 in FY 2018, and $6,907 in FY 2019. One-time costs to set up a new employee would be $3,298 in FY 2017. Changes to tax returns would be made as part of the annual update process with no additional costs. One-time costs to add the credit to the department's data processing systems would be $20,575 in FY 2016.

Department of Labor and Industry

10. This bill has no fiscal impact to the department.

Fiscal Impact: **Department of Revenue**	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
FTE	0.00	0.50	0.50	0.50
Expenditures:				
Personal Services	$20,575	$35,903	$37,569	$38,107
Operating Expenses	$0	$6,599	$6,805	$6,907
Equipment	$0	$3,298	$0	$0
TOTAL Expenditures	$20,575	$45,800	$44,374	$45,014
Funding of Expenditures:				
General Fund (01)	$20,575	$45,800	$44,374	$45,014
TOTAL Funding of Exp.	$20,575	$45,800	$44,374	$45,014
Revenues:				
General Fund (01)	$0	($784,000)	($833,000)	($882,000)
TOTAL Revenues	$0	($784,000)	($833,000)	($882,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($20,575)	($829,800)	($877,374)	($927,014)

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*