

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 1159
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: SEPTEMBER 9, 2020

SUMMARY

Synopsis: Provides corporation business tax and gross income tax credits for businesses that employ apprentices in DOL registered apprenticeships.

Type of Impact: Annual net State revenue decrease to the General Fund and Property Tax Relief Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
Direct State Revenue Loss	Indeterminate
Indirect State Revenue Gain	Indeterminate

- The Office of Legislative Services (OLS) estimates that the bill would result in an annual net decrease in State revenues. Several factors, such as the number of new apprentices hired and characteristics specific to those apprentices, will impact the specific magnitude of the direct and indirect State revenue effects of the bill.
- The direct State revenue loss may be partially offset by the indirect State revenue effects catalyzed through new apprenticeship opportunities, such as additional State tax revenues from workers hired as apprentices. In contrast, indirect fiscal effects generated by credit-receiving apprenticeship programs that will be created irrespective of the tax credit award cannot be attributed to the bill.
- Although the bill sets a maximum tax credit amount of \$5,000 initially, with annual adjustments each year, the bill does not limit the total amount of tax credits that may be awarded annually.

BILL DESCRIPTION

The bill provides businesses with a credit against the corporation business tax or the gross income tax for each employee of the business employed pursuant to an apprenticeship registered with the United States Department of Labor (DOL).

The bill gives businesses a credit of \$1,000 for each apprentice employed for seven months or more during the taxable year. The credit may be increased by \$2,000 if the apprentice is a veteran, was eligible to receive benefits under the Work First New Jersey program or the Supplemental Nutrition Assistance Program within twelve months preceding the beginning of the apprenticeship, is a displaced worker, or was previously incarcerated. Similarly, the credit may be increased by \$2,000 if the apprentice belongs to a group that is underrepresented in that career field based on their race, color, religion, national origin, sex, sexual orientation, disability or age. These two bonus credits are additive, so that a taxpayer may be able to receive a tax credit of up to \$5,000 for a qualifying apprentice.

The tax credit amounts will be annually adjusted according to any adjustments in the Statewide average weekly wage. An employer may take the credit for an individual apprentice for a maximum of four taxable years of the apprentice's employment. The credits are nonrefundable and are not to be granted in a manner which displaces current employees, duplicates existing apprenticeship programs, or impairs existing collective bargaining agreements.

The bill takes effect immediately and allows tax credits for privilege periods and tax years beginning on or after January 1, 2020.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill results in an indeterminate annual net loss of State revenues starting in FY 2021 from granting tax credits to businesses that employ apprentices pursuant to an apprenticeship registered with the DOL. Although the maximum tax credit amount that may be awarded to a business for an individual employee is \$5,000, the bill does not limit the total amount of tax credits that may be awarded in a single tax year or privilege period. The direct State revenue loss may be partially offset by the indirect State revenue effects catalyzed through the employment of apprentices. In this scenario, an indirect State revenue gain occurs when an apprentice receives a salary or wage that is subject to the State's GIT, or if that trainee spends the resultant income on goods and services that are subject to the sales and use tax. Multiple factors will influence the magnitude of the direct and indirect revenue effects of the bill. These factors include the number of new apprentices hired and characteristics specific to those apprentices (i.e., status as a veteran, formerly incarcerated person, or a person belonging to a group that is underrepresented in a particular career field).

The total amount of tax credits awarded will fluctuate annually based on the number of eligible apprentices for whom a tax credit is claimed and changes in the value of the tax credit. According to the Employment and Training Administration in the DOL, there were approximately 7,000 active apprentices in New Jersey in each federal fiscal year since 2014. The DOL data include registered, suspended, and reinstated apprentices. If we assume that all 7,000 apprentices are employed for seven months or more during a taxable year or privilege period, then the State could approve tax credits totaling between \$7 million (if businesses receive a \$1,000 tax credit per apprentice for 7,000 apprentices) and \$35 million (if businesses receive a \$5,000 tax credit per apprentice for 7,000 apprentices).

The bill requires the tax credit amounts to be adjusted annually according to adjustments in the Statewide average weekly wage. Information available through the New Jersey Department of Labor and Workforce Development indicates that the Statewide average weekly wage increased by 2.15 percent per year from calendar year 2014 through calendar year 2019. If the Statewide average weekly wage increases at that rate going forward, then the base tax credit amount of \$1,000 would increase to approximately \$1,022 in calendar year 2020 and then to approximately \$1,043 in calendar year 2021.

The direct State revenue loss of the bill may be partially offset by new State tax revenues generated by apprentices during their apprenticeship and subsequent employment, but only to the extent that the apprenticeship positions would not be available absent the bill's incentives. In contrast, the indirect fiscal benefits of employment positions that would be filled irrespective of the bill's incentives cannot be attributed to the bill and therefore would have to be excluded from the tabulation of the indirect State fiscal gain this bill may generate.

Section: Revenue, Finance and Appropriations
Analyst: Scott A. Brodsky
Principal Fiscal Analyst
Approved: Frank W. Haines III
Legislative Budget and Finance Officer

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).