

Fiscal Note

BILL # HB 2290

TITLE: apprenticeship program; income tax subtraction

SPONSOR: Fillmore

STATUS: House Engrossed

PREPARED BY: Benjamin Newcomb

Description

The bill would establish the Arizona Student Apprenticeship Program in the Arizona Department of Education (ADE). Under the program, an employer could provide job training to eligible high school students. Participating students would have an interest-bearing account created by the employer into which 10% or more of the student's earnings would be deposited. The percentage amount is determined by the student. The employer would then be required to match the student's contributions throughout the duration of the apprenticeship program. Upon completion of the program, the student would be able to retain all of the money in the account and the employers could claim an income tax subtraction equal to the amount of matching deposits made into the account. The bill has a general effective date.

Estimated Impact

We estimate the income tax deductions will decrease General Fund revenue by \$(30,000) in FY 2024, which would be the first full-year impact following the implementation of the program.

The bill would generate workload for the Arizona Department of Education (ADE), which would be tasked with administering the apprenticeship program. ADE estimates the agency would need \$200,000 and 1 additional FTE Position for administrative program functions. We think the agency's estimate is reasonable.

The Department of Revenue (DOR) has not provided an estimate of HB 2290.

Analysis

According to the Arizona Department of Economic Security, there are approximately 4,000 apprentices participating in programs throughout Arizona as of June 2021. This represents about 0.1% of Arizona's total workforce. Applying this percentage to the number of currently enrolled public high school students, we estimate around 500 students will participate in the Student Apprenticeship Program in TY 2023.

We assume that the average participating student will be earning \$13.08 per hour, which was the average entry level wage in Arizona in 2020 per the Office of Economic Opportunity (OEO). Combining this with the average weekly hours worked by high school students, which according to survey data is about 19 hours, we estimate that the yearly earnings of a participating student would be approximately \$12,900. Assuming the student elects to deposit the minimum 10% into an apprenticeship account, the employer would pay \$1,290 in matching deposits throughout the year. With 500 participating apprentices, we estimate there will be a total of \$600,000 deducted from taxable income. Applying the 4.9% corporate income tax rate to this amount, we estimate the General Fund cost would be \$(30,000) in FY 2024.

Some students may elect to deposit more than 10% of their earnings into their apprenticeship accounts; there is no cap in the bill on the percentage of their wages a student may deposit. To the extent this occurs, our estimate will be understated.

(Continued)



Local Government Impact

Beginning in FY 2024 and continuing each year thereafter, incorporated cities and towns will receive 18% of income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. The bill would have minimal impact on URSF distributions.

3/16/22