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F I S C A L I M P A C T R E P O R T

SPONSOR: Hobbs DATE TYPED: 02/05/01 HB 67

SHORT TITLE: Permanent Job Mentorship Tax Credit SB

ANALYST: Williams

REVENUE (SEE FISCAL IMPLICATIONS)

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
			Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to HJM 12 to develop a school-to-work sustainability plan

SOURCES OF INFORMATION

LFC Files
Economic Development Department
State Department of Education (SDE)
Taxation and Revenue Department
Department of Finance and Administration staff telephone conversation

SUMMARY

Synopsis of Bill

The bill would permanently authorize the job mentorship tax credit, a pilot program authorized for tax years 1999 through 2001. The current program sunsets effective January 1, 2002. The bill would eliminate the 1,000 student participant cap on the current program, and the credit authorized in this bill would apply beginning tax year 2001.

The credit could be claimed against personal and corporate income taxes, and its purpose is to encourage businesses to hire youth participating in certified school-to-career programs. The credit is limited to 50% of the gross wages paid to a qualified student participating in a certified school-to-work program. A qualified student is between 14 and 21 years of age. The maximum aggregate credit per business shall not exceed 50% of the gross wages paid to no more than 10 qualified students employed for up 320 hours in a taxable year (only two months if working a 40 hour week). The total credit cannot exceed $12,000 thousand per year and can only be used to offset the tax liability of the taxpayer. Any unused portion may be carried forward for three years. The taxpayer must certify that hiring the qualified student does not displace or replace a current employee.

Administrative responsibility rests with the School to Work Office of the Department of Finance and Administration which operates 17 school-to-work regional partnerships.

Significant Issues

This credit has not been widely used. TRD reports for 1999 personal income tax returns, the total cost was about $17.0. Only sixteen claims were filed at an average of about $100 per claim. TRD notes about 1/3 of the vouchers attached to last year's personal income tax returns were erroneous. The student attached the voucher to his/her return, rather than giving the voucher to the employer, the person/entity authorized to receive the credit.

SDE reports, only 148 applications were processed in 1999 by the School To Work Office, with only one application processed from each of the Albuquerque and Las Cruces areas.

According to the SDE, program information was not distributed to school through School-To-Career Partnerships until Spring 2000.

PERFORMANCE IMPLICATIONS

See questions below.

FISCAL IMPLICATIONS

Because of the slow ramping up of the pilot program and lack of understanding about the credit, there is considerable uncertainty on the fiscal impact of this legislation.

There are several scenarios which have been considered by LFC in determining the potential cost. All of these scenarios assume a business would not exceed the employer limits on the credit, i.e. the credit claim is not reduced to the $12,000 maximum. The following summarizes these approaches to illustrate the potential uncertainty surrounding the bill. Note that the uncertainty is really driven by acceptable credit claim levels, not necessarily student participation.

1) In the pilot program, there were 16 acceptable claims against personal income tax at an average amount per claim of roughly $1,000, generating a total cost of the credit of approximately $17,000. Thus, if the program did not grow and continued to have participation and credit claiming problems, the cost would remain in this ballpark.

2) If the current program doubled or tripled, then the cost would be $34,000 to $51,000. Given the size of New Mexico's high school age population, total credit claims of this magnitude seem unreasonable if the program becomes more effective.

3) If the size of the eligible claims grew to 1,000 for both personal and corporate income taxes, without triggering any employer claim limits, and the average amount of claim continued at $100, then the total cost could be $1 million. This number of eligibles is a dramatic increase from current participation levels.

4) Alternatively, if a student was paid above minimum wage at $6.00 per hour for up to 320 hours, the gross wages paid would be $1,920 per student. Given the 50% limitation on gross wages paid, the credit claim could be $960 per student. Note that this is not much different than the average per student amount claimed under the pilot program.

The Taxation and Revenue Department estimates a full year cost of the credit at a General Fund revenue loss of $800.0. This fiscal impact assumes a sizeable number of the 4,000 participating students work for non-profit and other business which are not eligible to claim the credit. Thus, qualifying credit students are substantially less than 4,000 in the TRD analysis.

To be certain of the maximum fiscal impact, the legislation could be amended to include a cap, such as that currently in statute.

OTHER SUBSTANTIVE ISSUES

At the House Business and Industry hearing, reportedly educators noted over 1,000 students participated in this program each year. However, TRD reports only 16 eligible claims were processed. One contributing factor may be the number of students working for non-profit organizations which are not eligible to claim the credit. There may be numerous other factors as well.

The SDE suggests this be made a "year-round" program, on that basis that such a program would not take jobs away from adults. If the program were year-round, the SDE projects approximately 500 certificates would be issued.

The school-to-work program administered by the Department of Finance and Administration is entirely funded with approximately $3 million per year of federal funds. The last year of the program will be FY02, then staff at DFA report the school-to-work office will cease to exist.

Given the uncertainty of the number of eligible credits, should a cap be included in the bill?

POSSIBLE QUESTIONS

1. What are the main reasons the pilot program was under-utilized from the tax credit perspective? Why was there a lack of information about the program? Are there reasons beyond lack of information which contributed to the problem?

2. Would a "year-round" program take jobs away from adults?

3. Is the Department of Finance and Administration the best place for the school-to-work program? To achieve more emphasis on outcomes in a managing for results context, would the program be better housed at the Department of Labor or at the SDE?

AW/ar