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## FISCAL IMPACT REPORT

SPONSOR: Hobbs DATE TYPED: 3/05/03 HB 460

SHORT TITLE: Career Preparation Education Tax Credit SB \_\_\_\_\_

ANALYST: Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(\$450.0)	(\$450.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Responses Received From:

Taxation and Revenue Department (TRD)  
State Department of Education (SDE)

### SUMMARY

Synopsis of Bill

House Bill 460 amends the Income Tax Act to provide income and corporate income tax credits for the employment of youth participating in career preparation education programs. The business claiming the credit can claim up to 50 percent of the gross wages paid to qualified students during any one-tax year. The business is limited to a maximum of ten students employed for up to 320 hours per year for three years per students. The credit has a ceiling of \$12.0 in any one-tax year.

TRD is required to issue job mentorship tax credit certificates upon request by any accredited New Mexico secondary school. The maximum number of certificates issues is dependent on the number of qualifying students in school-sanctioned career preparation programs on October 15.

Significant Issues

Under the proposed program, unused credits may be carried forward for three years. They may be claimed by “New Mexico businesses”-- partnerships, limited partnerships, limited liability companies, corporations and similar institutions that conducts business in New Mexico. However claimants must employ fewer than 300 full-time employees during any time during a tax year for which the credits are claimed. “Qualified students” are individuals aged 14 to 21 years that are full-time and attending an accredited New Mexico secondary school and participating in a certified school-to-career program. A “certified school-to-career program” is defined as a summer employment program certified by the state School-to-Work Office as a school-to-career program designed for *secondary* students to create academic and career goals and objectives and find employment in a job meeting those goals and objectives. Hence the credits would not be provided to businesses for employing students of universities, community colleges and similar institutions.

The Taxation and Revenue Department is to allocate certificates annually to the state School-to-Work Director. The School-to-Work Director is to distribute the certificates to administrators of certified school-to-career programs. The certificates are to serve as evidence of eligibility for the job-mentorship tax credit. The number of certificates issued to a single school-to-career program administrator is to equal the number of qualified school-to-career participants in the particular program on May 1 of each calendar year.

**FISCAL IMPLICATION**

According to TRD notes the following assumptions:

- The cost to a business of hiring a student for 320 hours - eight 40-hour weeks at, for example \$8 per hour would be reduced from \$2,560 to \$1,280 after taxes under the proposed measure and generate \$1280 in tax credits.
- The fiscal impact assumes 350 students participate in the program and generate an average 320 hours in credits. Although credits against personal income tax obligations from the job mentorship program totaled only about \$40,000 annually, statistics on the number of credits taken against the corporate income tax were probably much higher than amounts taken against personal income tax liability.

**TECHNICAL ISSUES**

- According to the New Mexico Department of Education (SDE), the School-to-Work Act on which the original job mentorship credit program was based is no longer in effect. SDE therefore recommends modifying language in the proposal pertaining to the school to work certificates that is similar to language in HB-460 and HB-572 stating “The Department shall issue job mentorship tax credit certificates upon request to any accredited New Mexico school that has a school-sanctioned career preparation program.” This recommendation appears appropriate.
- The apparent intent of the proposal is to allow program administrators to distribute the certificates to individuals and businesses that wish to claim the credits. Adding language to the proposal that clarifies this issue might be appropriate.

## OTHER SUBSTANTIVE ISSUES

The Job Mentorship Tax Credit was signed into law in the spring of 1999 as a three-year pilot project, beginning in the summer 2000, to encourage New Mexico employers to partner with educators to provide high-quality work-based learning experiences through summer employment for youth participating in certified school-to-careers programs. Implementation highlights included:

- Tax credit equal to 50% of the gross wages paid to employee students,
- Maximum of 320 hours eligible per student employee year,
- No more than 10 student-employees for any business,
- Each student eligible for no more than three years,
- Maximum credit claimed by any employer in a tax year limited to no more than \$12.0,
- Businesses employing 300 or more employees at any time ineligible for tax credit,
- Limited to 1,000 participants per year,
- Tax credit certificates issued by New Mexico School-to-Work Office.

The proposed legislation carries forward these elements except for the limit on the number of annual participants.

The bill limits participation to students attending secondary schools. Businesses participating in work-based learning opportunities that employ students who attend the state's postsecondary institutions would not be eligible for this credit.

SS/lb/njw