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## FISCAL IMPACT REPORT

ORIGINAL DATE 03/04/11

SPONSOR Doyle LAST UPDATED 03/10/11 HB 561

SHORT TITLE Post-Secondary Intern Tax Credits SB \_\_\_\_\_

ANALYST Burrows

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$1,050.0 - \$2,620.0)	(\$1,140.0 - \$2,840.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Higher Education Department (HED)

Taxation and Revenue Department (TRD)

New Mexico State University (NMSU)

### SUMMARY

#### Synopsis of Bill

House Bill 561 would provide a personal or corporate income tax credit in the amount of 10 percent of the wages paid to post-secondary school interns to taxpayers who employ post-secondary school interns. The purpose of the tax credit is to encourage businesses to employ university students who are enrolled in internship programs or classes, to develop an employment-ready workforce for businesses in the state, and to encourage the hiring of graduates from New Mexico post-secondary educational institutions.

The bill provides any amount of the credit that exceeds the tax liability in the taxable year may be carried forward for up to three years, and the post-secondary intern credit should be applied against the taxpayer's liability before any other credit.

The proposal also requires the Department of Taxation and Revenue (TRD) to compile an annual report for the revenue stabilization and tax policy committee that includes the number of taxpayers approved to receive the tax credit, the aggregate amount of credits approved and the average and median amounts of the approved credits. TRD would determine the effectiveness of the credit every three years beginning in 2013.

The bill defines “intern” as a full-time undergraduate or master’s student enrolled in an internship program or class at a post-secondary educational institution that places a student in a one- or two-year employment position within the area of specialty in which the student is seeking a degree or in a career-path position with private industry or another business. The student must be under the supervision of a faculty advisor who provides oversight of the student’s progress, and enrolled in a program or class for which the student is paid and receives credits toward a degree.

The provisions of this bill apply to taxable years beginning on or after January 1, 2011.

## **FISCAL IMPLICATIONS**

According to the Higher Education Department’s 2009 Annual Report, approximately 84,000 students were enrolled full-time in New Mexico post-secondary schools in the Fall 2008. The National Association of Colleges and Employers report that about 50 percent of graduates in 2008 had interned during their time in college or university.

Enrollment data provided by New Mexico State University report approximately 254 students were enrolled in internship classes and programs in the Spring 2011. Assuming university enrollment rates were fairly consistent with those of Fall 2008, about 2 percent of full-time students were enrolled in internship programs in Spring 2011.

The fiscal impact assumes credits are claimed on 2-5 percent of qualifying interns. The analysis also assumes 20 percent of taxpayers carry forward the credit over a period of three years due to insufficient tax liability.

As written, the definition of “intern” on pages 4 and 7 is sufficiently restrictive to exclude many traditional internships, including internships of durations less than one year and internships that are not eligible for educational credits (see Technical Issues). This analysis assumes the duration requirement will be amended. If the bill is amended to include internship programs that are not offered for credit, the fiscal impact could be much greater.

TRD provides an analysis that assumes approximately half of all students receive internships, and approximately 1-10 percent of taxpayers claim the credit, with similar results.

## **SIGNIFICANT ISSUES**

Internships can provide many advantages to post-secondary students, including career exploration, on-the-job experience, professional networking, increased success in job searches, and professional skills, which could contribute to career success after graduation.

Since many internships are unpaid or pay relatively low wages, additional incentive to hire interns may not be necessary. Several studies have shown an increase in the number of available internships to coincide with the recent economic downturn as employers take advantage of surplus labor. However, the tax credit could provide employers the flexibility to offer higher wages to interns, thereby encouraging a larger applicant pool, better qualified interns, and more internship opportunities for students.

TRD notes the proposed tax expenditure creates a tradeoff. It goes against the tax policy

principles of simplicity, equity, and efficiency. It will add complexity to New Mexico's tax system. The incentives created by the bill may lead to hiring choices that are not the most economically efficient. It will also treat similar New Mexico employees differently. The tax expenditure may achieve other non-tax policy goals that should be evaluated with the same framework used for spending choices such as performance budgeting criteria.

### **PERFORMANCE IMPLICATIONS**

According to HED, the State Master Plan for Higher Education recommends creation of a statewide plan for economic development, designed and implemented in collaboration with the higher education community, to identify workforce and education priorities for the state. House Bill 561 would help HED to accomplish this goal.

### **ADMINISTRATIVE IMPLICATIONS**

The Department of Higher Education (HED) reports that graduation rate and workforce data will likely need to be provided by HED and the Department of Workforce Solutions to measure the efficiency of the tax credit program.

TRD would need to develop forms and schedules to attach to income tax returns for both CIT and PIT. This could occur with the cyclical revision at no additional cost. The bill would also require a business credit manager to be added to the TRD tax system to collect the required data, produce an annual report, and report the effectiveness of the credit.

### **TECHNICAL ISSUES**

On page 2, line 6 and page 6, line 3, "work force" should be "workforce".

HED notes that House Bill 561 references "the department" numerous times, but does not specifically mention which department is administratively responsible for the duties set forth in the bill. Some clarification might be needed.

### **OTHER SUBSTANTIVE ISSUES**

TRD notes that the definition of "intern" on pages 5 and 7, subsection J is overly broad. TRD states a wide variety of paid internships could qualify for this treatment.

HED notes there may be other existing intrinsic values to a business to hire post-secondary education interns.

### **AMENDMENT**

The bill provides that taxpayers will only be eligible for the tax credit if they hire interns for a period of one or two years. The duration of many programs and classes is one semester; some last only 8-12 weeks. As written, many internship programs will be excluded from the tax credit. These programs satisfy the purpose of the credit, which is to encourage businesses to employ university students, to develop an employment-ready workforce, and to encourage the hiring of post-secondary graduates. A possible amendment would decrease the duration requirement to one semester.

Many internships are not eligible for education credits. As written, taxpayers would only be eligible for the tax credit if they employ interns enrolled in specific post-secondary internship programs or classes. If insufficient programs or classes are available, taxpayers may not be able to benefit from this tax incentive. Language in the bill places employers at the mercy of post-secondary institutions to create classes and programs to qualify for the credit. A possible amendment would make optional the requirement that the internship be taken for credit.

NMSU offers several cooperative education programs, which are similar to internships, but often of longer duration and more in-depth. In Spring 2011, 71 students were enrolled in these programs at NMSU. A possible amendment would extend eligibility for the credit to taxpayers who hire post-secondary students through cooperative education programs.

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Taxpayers who employ post-secondary education interns will not receive a tax credit.

LKB/bym

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***