SCHOOL-TO-CAREER EXPENSES CREDIT

EVALUATION SUMMARY | JANUARY 2022 | 2022-TE7

TAX TYPE	Income	REVENUE (TAX YEAR 2018)	$41,860
YEAR ENACTED	1996	NUMBER OF TAXPAYERS	51
REPEAL/EXPIRATION DATE	None		

KEY CONCLUSION: The credit is likely not meeting its purpose because it has been used by a relatively small number of taxpayers, none of whom submitted the required documentation demonstrating that they were eligible for the credit.

WHAT DOES THE TAX EXPENDITURE DO?

The School-to-Career Credit allows taxpayers that incur certain expenses for employees or interns who are participating in a qualified school-to-career program to claim an income tax credit equal to 10 percent of these expenses. Expenses eligible for the credit are wages, training expenses, and premiums for workers' compensation insurance and unemployment insurance.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute states that the purpose of the School-to-Career Credit is "to encourage private investment in programs that integrate traditional education with on-the-job training [and] to foster and encourage cooperation among the private sector and the educational community in creating programs that will open doors of opportunity for students and enable them to develop the knowledge and skills that will empower them to become productive members of society."

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to:

- Establish performance measures for the credit.
- Review the extent to which the credit is meeting its purpose and consider repealing it or making changes to increase its usage.

SCHOOL-TO-CAREER EXPENSES CREDIT

EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

Under the School-to-Career Expenses Credit (School-to-Career Credit) [Section 39-22-520(2)(a), C.R.S.], taxpayers that incur certain expenses for employees or interns who are participating in a qualified school-to-career program may claim an income tax credit equal to 10 percent of these expenses. In order to qualify, the funds must be "directly expended" to employ a student to work or allow a student to participate in an internship through one of these programs. Expenses eligible for the credit are wages, training expenses, and premiums for workers' compensation insurance and unemployment insurance.

Statute [Section 39-22-520(2)(b)(II), C.R.S.] defines "qualified school-to-career program" as "a program that integrates school curriculum with job training [and] encourages placement of students in jobs or internships that will teach them new skills and improve their school performance…" Additionally, qualified programs must be approved by one of the following entities:

- The board of education of the school district in which the program is operating
- The State Board for Community Colleges and Occupational Education
- The Colorado Division of Private Occupational Schools
- The Colorado Commission on Higher Education

Department of Revenue (Department) staff stated that the credit is only allowed for qualified expenses incurred during the tax year in which the credit is being claimed. The credit is not refundable, but any amounts exceeding the taxpayer's income tax liability may be carried forward for up to 5 years.

Taxpayers generally claim the School-to-Career Credit on the credit schedule for their respective income tax returns:

- Individuals claim the credit on Line 23 of the 2020 Individual Credit Schedule (Form DR 0104CR), which must be attached to the 2020 Colorado Individual Income Tax Return (Form DR 0104).

- Corporations claim the credit on Line 13 of the 2020 Credit Schedule for Corporations (Form DR 0112CR), which must be attached to the 2020 Colorado C-Corporation Income Tax Return (Form DR 0112).

- Pass-through entities, such as S corporations and partnerships, report the credit on Line 10 of the 2020 Colorado Pass-Through Entity Credit Schedule (Form DR 0106CR), which must be attached to the 2020 Colorado Partnership and S Corporation and Composite Nonresident Income Tax Return (Form DR 0106). Separate co-owners of pass-through entities may claim their separate shares of the credit on their respective credit schedules, or, if the individual co-owners are nonresidents, the pass-through entity may claim the credit on the co-owners' behalf on Form DR 0106CR.

The Department also requires taxpayers to submit a certification letter from the program's approving authority that certifies the program qualifies and the taxpayer is approved for the credit.

The School-to-Career Credit was enacted in 1996 by Senate Bill 96-193. Originally, it required that the student(s) benefitting from the qualified expenses be employed to work "predominantly within an enterprise zone." However, this requirement was removed in 1997 by House Bill 97-1152, which also added a purpose statement and allowed for expenses for students in internships in addition to employed students. The credit has not been changed substantively since then.

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Neither statute nor the enacting legislation explicitly states the intended beneficiaries of the School-to-Career Credit. Based on the operation of the credit, we considered the credit's intended beneficiaries to be businesses that incur qualified expenses for their employees who are students or interns and are participating in a qualified school-to-career program. Additionally, to the extent that the credit encourages employers to hire school-to-career program participants or pay for their employees to participate in these programs, the employees and interns also appear to be intended beneficiaries.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute [Section 39-22-520(1), C.R.S.] states that the purpose of the School-to-Career Credit is "to encourage private investment in programs that integrate traditional education with on-the-job training [and] to foster and encourage cooperation among the private sector and the educational community in creating programs that will open doors of opportunity for students and enable them to develop the knowledge and skills that will empower them to become productive members of society."

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We determined that the School-to-Career Credit is likely not meeting its purpose because it has been used by relatively few employers. Additionally, none of the taxpayers who claimed the credit submitted the documentation required to show that they incurred eligible expenses for employed school-to-career program participants, and several submitted other documentation indicating that they were not qualified for the credit or had intended to claim a different credit.

Statute does not provide quantifiable performance measures for this credit. Therefore, we created and applied the following performance measure to determine the extent to which the credit is meeting its purpose:

PERFORMANCE MEASURE: *To what extent has the School-to-Career Credit caused employers to incur eligible expenses for employees or interns who are participating in a qualified school-to-career program?*

RESULT: We determined that few, if any, employers have incurred qualified expenses related to a school-to-career program and claimed the School-to-Career Credit for these expenses. Specifically, our review of information in GenTax, the Department's tax processing and information system, indicates that although 51 taxpayers claimed the credit in Tax Year 2018, none of these taxpayers submitted the required letter certifying that the program qualifies and that the taxpayer is approved for the credit. Additionally, 12 of these taxpayers submitted documentation indicating that they had claimed the credit incorrectly, generally claiming it for their own tuition expenses at a vocational school or claiming a different credit on the School-to-Career Credit line of the income tax return. Only one taxpayer submitted documentation indicating that they claimed the credit for potentially eligible expenses, though it is unclear whether this taxpayer's employee was enrolled in a certified school-to-career program. For the remaining 38 taxpayers, we were unable to confirm or deny the validity of the taxpayers' credit claims because they had not submitted any documentation supporting their claims. Therefore, it is possible that some or all of these taxpayers may have claimed the credit without incurring any eligible expenses for an employee who was enrolled in a qualified program. EXHIBIT 1 provides the results of our analysis of GenTax data for the 51 taxpayers who claimed the credit.

EXHIBIT 1. SUMMARY OF IMPROPER SCHOOL-TO-CAREER CREDIT CLAIMS, TAX YEAR 2018	
Credit claimed correctly	0
Credit claim may be valid based on documentation submitted	1
Unable to verify whether claim is valid due to lack of supporting documentation	38
Ineligible for credit	12
Total credit claims	51

SOURCE: Office of the State Auditor analysis of Department of Revenue GenTax data.

Additionally, even if some or all of the 39 potentially qualified taxpayers claimed the credit for eligible expenses, we determined that a significant number of employers with eligible expenses (or expenses that would be eligible if the relevant school-to-career program were approved) are not claiming the credit. We were unable to determine how many programs have been approved for the credit or how many businesses are participating in those programs because some of the entities with the authority to approve qualified programs were either unaware of the credit or stated that they had delegated approval authority to the individual schools under their purview. However, some of these entities stated that it is likely that most or all of the internship, apprenticeship, or similar programs available at secondary or post-secondary schools under their purview would meet the statutory definition for qualified school-to-career programs. Based on our examination of approving entities' websites, we determined that there were at least 800 potentially qualified programs available at Colorado schools between 2020 and 2021. This number does not include programs at several types of Colorado schools for which data was unavailable, so it is likely that the actual number of qualified programs in Colorado is higher than 800. Therefore, even if each of these programs only had one participating employer, the 39 potentially qualified taxpayers who claimed the credit in Tax Year 2018 represent, at most, 5 percent of eligible taxpayers. Furthermore, this hypothetical likely overestimates the potential percentage of employers that claimed the credit and participated in these programs because some of the taxpayers who claimed it may have been co-owners of pass-through entities such as partnerships and limited liability companies, meaning than the credits claimed by the 39 potentially eligible taxpayers may have originated from fewer than 39 business entities.

Finally, the large number of qualified school-to-career programs in the state suggests that, despite the credit's low usage, the private sector and the educational community are creating programs that integrate traditional education with on-the-job training. This may be because there are a number of benefits available for employers participating in these types of programs even without the added benefits of the credit. For example, according to the Colorado Department of Labor and Employment (CDLE), the benefits of employer participation in apprenticeship programs include:

- Developing a highly skilled workforce, including training current employees for more advanced roles within the company
- Creating customized training solutions that meet the company's unique needs
- Retaining industry knowledge as experts within the company approach retirement
- Saving on recruitment costs, reducing turnover, and fostering employee loyalty

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

According to data provided by the Department, the School-to-Career Credit resulted in a total of $41,860 in forgone revenue to the State in Tax Year 2018. As discussed, some taxpayers claimed the credit incorrectly, and we were unable to confirm whether any of the remaining taxpayers claimed the credit for eligible expenses. The 39 taxpayers who may have done so, claimed a total of $33,035. Since the credit is calculated as 10 percent of qualified expenses, this forgone revenue is associated with a maximum of $330,350 in possibly eligible expenses. However, the actual amount is likely substantially less since, as discussed, it appears that many of these taxpayers may not have incurred eligible expenses. In addition, although the credits were claimed in Tax Year 2018, some of these expenses may have been incurred in prior tax years since any unused credit amounts may be carried forward for up to 5 tax years.

Finally, as discussed above, we found that there are over 800 Colorado programs that likely meet the statutory definition of "qualified school-to-career program" and are available for employers' participation. This suggests that the revenue impact of the School-to-Career Credit could be higher if more programs become approved or if more taxpayers become aware of and/or begin claiming the credit for their eligible expenses.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

If the School-to-Career Credit were eliminated, taxpayers that incur expenses for wages, training, and premiums for workers' compensation insurance and unemployment insurance related to employing a student or hosting an intern who is participating in a qualified school-to-career program would no longer be able to claim a credit for these expenses against their state income tax liability. In Tax Year 2018, the 39 taxpayers who may have incurred eligible expenses claimed an average credit amount of $847 on their income tax returns. Most (77 percent) of these taxpayers received a credit amount between $100 and $2,000, but a few taxpayers received credits below or above this range. We also found that 44 percent of these taxpayers did not have any income tax liability remaining after the School-to-Career Credit was applied, and taxpayers claimed 18 percent of the total credit amount allowed. The remaining 82 percent of credit amounts may be carried forward to subsequent tax years, provided that the taxpayer in question had not reached the 5-year limit on the total number of tax years for which the credit can be carried forward.

To the extent that the credit may have encouraged employers to participate in or increase the amount of expenditures related to their employees' or interns' participation in qualified programs, these employers may decide to spend less on qualified expenses if the credit were eliminated. The credit may also have helped to defray the additional training and education expenses that employers may incur as a result of hiring less experienced employees as opposed to hiring employees who are already trained. However, as discussed, it is unclear whether any of the taxpayers who claimed the credit in Tax Year 2018 incurred eligible expenses.

Under the Internal Revenue Code [26 U.S.C. Section 162(a)], businesses may deduct all ordinary and necessary business expenses, which generally include wages, premiums for workers' compensation insurance, and education and training expenses, when calculating federal taxable income. The only expenses eligible for the credit that may not be deductible for federal income tax purposes are premiums for unemployment insurance. Therefore, if the School-to-Career Credit were eliminated, taxpayers would continue to be able to deduct most types of expenses that are currently eligible for the credit from their taxable income, and these amounts would not be subject to either federal or Colorado income taxes.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

We identified 19 other states with a combined total of 21 credits for employers that offer educational or training programs to their employees, including apprenticeship programs, internship programs, and training programs for new or existing employees. As is the case for Colorado's School-to-Career Credit, a substantial portion of the credits in other states are calculated as a percentage of training costs (seven out of 21 credits, or 33 percent) and/or wages of the individual(s) receiving the training (eight out of 21 credits, or 38 percent), as shown in EXHIBIT 2. However, Colorado's credit also allows for the costs of premiums for unemployment insurance or workers' compensation insurance to be included in the calculation of the credit amount, and we did not identify any other states that allow for these costs. Finally, we determined that 76 percent of the credits available in other states impose a cap on the credit amount for any given employer; in contrast, Colorado's credit is not capped.

EXHIBIT 2. METHODS OF DETERMINING CREDIT AMOUNTS FOR OTHER STATES' CREDITS

Method of Determining Credit Amount	Example	Number of Other States' Credits[1]	Range of Credit Amounts in Other States
Percentage of wages of individual(s) receiving training	Arkansas' apprenticeship credit is calculated as 10 percent of wages earned by the apprentice.	8	2.5% – 50%
Percentage of training costs	Rhode Island's training credit is calculated as 50 percent of vocational training costs for employees.	7	35% – 100%
Flat amount per individual receiving training	South Carolina's apprenticeship credit is $1,000 for each apprentice employed.	6	$750 – $7,000
Hourly rate (per hour of work completed by individual(s) receiving training)	West Virginia's apprenticeship credit is $2 per hour worked by the apprentice during the tax year.	3	$1.25 – $6 per hour
Total credits available in other states		21	–

SOURCE: Office of the State Auditor analysis of Bloomberg Law resources and other states' statutes, official websites, and tax forms.
[1]The sum of number of credits using each calculation method is over 21 because a few credits allow for more than one method of calculating the amount of the credit allowed.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

We identified one tax expenditure and several programs in Colorado that support the integration of traditional education and on-the-job training, including:

ENTERPRISE ZONE QUALIFIED JOB TRAINING PROGRAM INVESTMENT TAX CREDIT [SECTION 39-30-104(4)(a)(II), C.R.S.]. This credit is one of a number of tax expenditures that are available to businesses located in designated economically distressed areas of the state known as enterprise zones. The credit is equal to 12 percent of an employer's expenses for a structured training or basic education program that is conducted to improve the job skills of employees. Allowable expenses include supplies, training staff wages or fees, and training contract costs.

We evaluated this credit in 2020, along with a number of other enterprise zone tax expenditures, and the evaluation report is available in the *Office of the State Auditor 2020 Tax Expenditure Compilation Report.*

SKILL ADVANCE COLORADO GRANT PROGRAM. Skill Advance Colorado offers reimbursement grants to employers for the costs of customized job training for their employees, which may be conducted by community college faculty and staff, college contractors, qualified internal employees, or third party training vendors. The program is administered jointly by the Colorado Community College System (CCCS) and the Colorado Office of Economic Development and International Trade (OEDIT), and it is managed locally by the individual community colleges participating in the program. In order for employers to be eligible, the employees receiving training must be full-time, non-seasonal employees and receive wages above certain thresholds. Additionally, employers must contribute a minimum of 40 percent of the total training costs in order to receive grant funds, and each business is limited to $200,000 in grant funds per year. According to the CCCS website, the average grant amount is $75,000, and the program's funds have gone towards training for over 4,000 Colorado employees per year.

Skill Advance Colorado offers two types of grants to Colorado employers:

- COLORADO FIRST JOB TRAINING GRANTS. These grants are available for training net new hires at companies that are relocating to or expanding in Colorado. For Fiscal Year 2022, the average grant amount per employee learner is capped at $1,400.

- EXISTING INDUSTRY JOB TRAINING GRANTS. These grants are available for employee training in order to help established Colorado companies remain competitive in their industry, adapt to new technology, and prevent layoffs. For Fiscal Year 2022, the average grant amount per employee learner is capped at $1,200.

APPRENTICESHIP PROGRAMS. Apprenticeship programs are industry-driven career pathways that combine paid work experience with classroom instruction. Employers may work with the CDLE to register their apprenticeship programs with the U.S. Department of Labor (USDOL), which requires that programs adhere to certain standards for apprentices, including:

- At least one guaranteed wage increase.
- On-the-job training and workplace experience supervised by qualified mentors.
- Job-related instruction, which may be provided by post-secondary institutions (such as community, technical, and four-year colleges), unions, K-12 schools, private training providers, and/or internally at the company.
- An industry-recognized credential upon successful completion.

According to CDLE data, there were 222 Registered Apprenticeship Programs in Colorado as of July 2021. However, it is likely that there are more apprenticeships than this in Colorado, since apprenticeships are not required to register with USDOL.

COLORADO COLLEGIATE APPRENTICESHIP PROGRAM. This program utilizes grant funds from the USDOL to establish new apprenticeship programs in healthcare and information technology. It is administered by the Colorado Department of Higher Education in partnership with Colorado colleges and universities, with the goal of creating over 6,000 apprenticeships by the summer of 2024. In addition to assisting employers with establishing and customizing their apprenticeship programs, the Colorado Collegiate Apprenticeship Program also offers wage reimbursements to small healthcare businesses for their employees who participate in these programs.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

We did not identify any data constraints during our evaluation of the credit.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH PERFORMANCE MEASURES FOR THE SCHOOL-TO-CAREER CREDIT. As discussed, statute and the enacting legislation for the credit do not provide performance measures for evaluating its effectiveness. Therefore, for the purposes of our evaluation, we developed a performance measure to assess the extent to which the credit is meeting its purpose. However, the General Assembly may want to clarify its intent for the credit by providing performance measure(s) in statute. This would allow our office to more definitively assess the extent to which the credit is accomplishing its intended goal(s).

THE GENERAL ASSEMBLY MAY WANT TO REVIEW THE EXTENT TO WHICH THE SCHOOL-TO-CAREER CREDIT IS MEETING ITS PURPOSE AND COULD CONSIDER MAKING CHANGES TO STATUTE. As discussed, the credit is likely not meeting its purpose of encouraging private investment in programs that integrate traditional education with on-the-job training because few, if any, employers who provide eligible school-to-career programs use the credit. The credit is only being used by a small number of taxpayers, none of whom submitted the required documentation to substantiate that they hired employees or interns from a certified school-to-career program. Of the 51 taxpayers that claimed the credit in Tax Year 2018, only one submitted documentation indicating that they claimed the credit for potentially eligible expenses. Twelve taxpayers submitted documentation indicating that they had claimed the credit incorrectly and had not incurred eligible expenses, and the remaining 38 taxpayers did not submit any documentation showing that they were qualified. Given that only one of the taxpayers who submitted documentation may have qualified for the credit, it is likely that a substantial portion of the 38 taxpayers who did not provide documentation also did not qualify, and it is unclear whether any of them incurred expenses related to qualified school-to-career programs that the credit is intended to encourage.

Additionally, even assuming that the 39 taxpayers for whom we could not verify eligibility had properly claimed the credit and incurred eligible expenses, we determined that a significant number of employers with eligible expenses (or expenses that would be eligible if the relevant school-to-career program were approved) are not claiming the credit. We estimated that there were at least 800 potentially qualified school-to-career programs available at Colorado schools between 2020 and 2021. Even if each of these programs only had one employer with a participating employee in 2018, we estimated that no more than 5 percent of these employers would have claimed the credit during the year.

Finally, the large number of qualified school-to-career programs in the state suggests that despite the credit's low usage, the credit's purpose is being met through other means. This may be because there are a number of benefits available for employers participating in these types of programs even without the added benefits of the credit, such as developing a more skilled workforce, creating customized training, retaining industry knowledge when experts reach retirement age, and saving on recruitment costs. Additionally, we identified a number of programs and organizations in Colorado that support employers in their endeavors to create or join apprenticeship, internship, or training programs for employees.

Therefore, the General Assembly may want to review the credit and could consider repealing it if it is not meeting its purpose to the extent intended. Alternatively, the General Assembly could make changes to address the credit's low usage. However, since a substantial portion of taxpayers who claimed the credit in Tax Year 2018 likely did not qualify for the credit, there is a risk that without additional oversight or controls over eligibility, a continuation or expansion of the credit could result in more taxpayers claiming it improperly. According to Department staff, the Department manually reviews some credit claims and disallows the credit if the taxpayer does not submit supporting documentation. However, the Department does not have the resources to manually review all claims of the credit. Finally, to the extent that statutory changes increase the number of employers claiming the credit, this could increase the credit's revenue impact.