CORPORATE FRANCHISE
INDIVIDUAL INCOME TAX
Tax Credits for Telecommunting Expenses

March 20, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1511 (Westerberg)/S.F. 1876 (Murphy)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
Assessment Credit*	----(Unknown*)----			
Start-up Credit	($0)	($0)	($300)	($400)
Ongoing Expenses Credit	($0)	($0)	($16,200)	($18,100)
General Fund	($0)	($0)	($16,500)	($18,500)

*Unknown: the bill lists no dollar limits for this credit
Effective for tax years beginning after December 31, 2001.

EXPLANATION OF THE BILL

Current Law: No credit for telecommuting expenses is allowed.

Proposed Law: An employer can claim a credit against the corporate franchise or individual income tax for expenses paid to prepare an assessment of employee telecommuting. As the bill is currently written, the amount of the credit is left blank.

The proposed law allows an employer to claim a tax credit against the corporate franchise tax or individual income tax of up to $100 per employee for 100% of expenses incurred to set up an employee to begin telecommuting.

In addition, an employer can claim for employees that telecommute five days per week a tax credit of up to $600 per year for ongoing expenses incurred to assist an employee to continue telecommuting. In order to claim the maximum tax credit of $600 per employee, the employer must incur ongoing expenses of at least $50 per month in every month of the year ($50 x 12 = $600).

A taxpayer must first have an assessment of telecommuting needs in order to claim either the start-up or the ongoing expenses credit. As understood, the taxpayer would be allowed to claim the other two credits in the year after a taxpayer claims the assessment credit.

REVENUE ANALYSIS DETAIL

- The cost of the assessment credit could not be estimated because the amount is unspecified.
- It is assumed that the credit for ongoing expenses can be taken for all employees who telecommute, not just for those who begin to telecommute after an assessment is done.
- It is assumed that all employers with employees who telecommute will complete an assessment.
- It is unclear whether the bill covers telecommuting expenses from a satellite location. This estimate covers only telecommuting expenses from an employee’s home.
- Employers will claim on average a tax credit of $95 per employee for expenses incurred to set up an employee for telecommuting. A survey of the literature on telecommuting indicates that start-up expenses are measured in the thousands of dollars per employee.
- Employers will claim on average a yearly tax credit of $450 per employee for ongoing telecommuting expenses. Many employers are assumed to have ongoing yearly expenses that exceed $600 per employee.
- Based on surveys done by the Minnesota Department of Transportation this estimate assumes that 1.3% of the workforce telecommutes five days a week.
- The consensus estimate among the experts on telecommuting is that telecommuting will grow between 10% to 15% per year. This estimate assumes a 10% growth rate.
- Estimates of the number of persons employed are based on data published by the Department of Economic Security. Their estimates assume an annual growth rate of 1.6%.
- Since the tax credit can be claimed only by organizations that are subject to income tax, the number of persons employed is reduced by the number of persons employed by government.
- It is assumed that 80% of the credit can be used to reduce current year tax liability. The other 20% will be carried over and used to reduce tax liability in the future.
- Because an assessment of telecommuting needs must take place before either the start-up or going expense can be taken, it is assumed that the revenue losses from the last two credits would begin in tax year 2003 and affect FY 2004.

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Number of Taxpayers Affected: The credit could be taken for an estimated 36,000 employees in tax year 2003. The number of employers who would use the credit was not determined.

ADMINISTRATIVE/OPERATIONAL IMPACT

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be some additional costs associated with the new individual income tax credits.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses