MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
INDIVUAL INCOME TAX
Refund for Transit Pass Expenses

February 27, 2007

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 179 (Dibble) / H.F. 431 (Erhardt)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
General Fund	($300)	($300)	($400)	($400)

Effective for transit passes purchased after June 30, 2007.

EXPLANATION OF THE BILL

Current Law: Both individual and corporate franchise taxpayers are allowed a nonrefundable tax credit equal to 30% of the net expenses incurred by an employer to provide transit passes to their employees.

Proposed Law: The nonrefundable credit allowed under current law would continue. In addition, employers who are exempt from income taxation would be eligible to receive a refund that equals 30% of employer-paid transit pass expenses. Claims for refund would be filed with the Department of Revenue, and refunds would be paid at least quarterly.

Federal, state, and local governments would not be eligible for the refund. Because the University of Minnesota is considered an instrumentality of the State of Minnesota, it is not eligible for the refund.

The term exempt from income taxation has a much broader application than organizations exempt from tax by IRC Section 501(c)(3). For example, insurance companies and credit unions are exempt from income taxation under Minnesota law and would be eligible for the refund

REVENUE ANALYSIS DETAIL

- The estimate was based on data provided by Metro Transit on its Metropass and TransitWorks! programs.
- An analysis of Metropass data indicates about 10% of these bus passes are provided by employers exempt from income taxation.
- The amount of refund for eligible employers was computed from Metropass data provided by Metro Transit. Qualified employers paid on average 40% of the costs to provide bus passes to their employees.

REVENUE ANALYSIS DETAIL (cont.)

- Unlike the Metropass program, there are no data are available under the TransitWorks! program to estimate the amount of refund per employer. The employer-paid expenses are assumed to be less than those under the Metropass program. It is assumed that on average employers paid 30% of the cost of transit passes purchased through this program. Qualified employers are assumed to purchase 10% of the passes sold through the TransitWorks! program.
- The estimate of employer-paid transit expenses for the metropolitan area was increased to reflect a statewide estimate. The metro/statewide percentage of total ridership on urbanized systems of public transit was used to increase the metro area estimate to the statewide estimate.
- Five percent annual growth in employer-paid transit expenses is assumed.

Number of Taxpayers: About 200 taxpayers claim the tax credit under current law. It is estimated that at least 40 employers eligible under the bill have transit pass expenses and will claim the transit pass expense refund.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy