

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX INDIVIDUAL INCOME TAX Tax Credit for Telecommuting Expenses

March 8, 2007

Department of Revenue
Analysis of S.F. 224 (Sieben)/ H.F. 1250 (Bunn)

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
General Fund	(\$600)	(\$700)	(\$800)	(\$900)

Effective for tax years beginning after December 31, 2006.

EXPLANATION OF THE BILL

The proposal would allow an employer or an employee to claim a one-time tax credit against the corporate franchise or individual income tax for 10% of the expenses incurred to set up an employee to begin telecommuting. To qualify for the credit, the employer must have at least ten full-time employees in Minnesota, and the telecommuting employee must be a full-time employee. Eligible expenses would include computer hardware and software, modems, printers, fax machines, copiers, and office furnishings. The maximum credit is \$500.

Note: For purposes of this analysis, it is assumed in the case of an employer that the maximum credit of \$500 is a maximum per employee who telecommutes, not per employer.

REVENUE ANALYSIS DETAIL

- Estimates of the number of persons employed in Minnesota are based on Department of Employment and Economic Development (DEED) data. Their estimates assume an annual growth rate of 1.3%.
- Data from the Census Bureau's 2005 American Community Survey indicates that 61.8% of jobs in Minnesota are full-time positions.
- Based on information from DEED and adjusting for the assumption that 61.8% of Minnesota jobs are full-time positions; this estimate assumes that 81.8% of full-time employees work for firms employing at least 10 full-time employees.
- Based on surveys done by the Bureau of Labor Statistics this estimate assumes that 2.7% of the workforce telecommuted at least once per week during calendar year 2006.
- The credit is measured against growth after the base year of 2006. This estimate assumes that 40,484 full-time employees at firms employing at least 10 full-time employees telecommuted at least one day per week during calendar year 2006.

REVENUE ANALYSIS DETAIL (Continued)

- The consensus estimate among the experts on telecommuting is that telecommuting will grow between 10% and 15% per year. This estimate assumes a 10% annual growth rate in the telecommuting rate.
- A survey of the literature on telecommuting indicates that expenses qualifying for the credit range from \$800 to almost \$2,000. This estimate assumes that on average, taxpayers will make \$1,400 in qualifying expenses per employee, resulting in an average tax credit of \$140 per employee.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: The credit could be taken for an estimated 4,600 employees in tax year 2007. The number of employers who would use the credit was not determined.

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