

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Subtraction for Railroad Track Maintenance Expenditures

April 11, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 1301 (Koenen) / H.F. 1623 (Beard) *Analysis Revised to Reflect Current Miles of
Track Owned in Minnesota*

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
Individual Income Tax	(\$120)	\$0	\$0	\$0
Corporate Franchise Tax	<u>(\$80)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	(\$200)	\$0	\$0	\$0

Effective beginning with tax year 2013.

EXPLANATION OF THE BILL

The bill creates a subtraction from federal taxable income for individuals, corporations, estates, and trusts. The subtraction is equal to the credit awarded pursuant to Section 45G (a) of the Internal Revenue Code for qualified track maintenance expenditures. The federal credit is equal to 50% of the qualified maintenance expenditures, not to exceed \$3,500 per mile of track owned or leased by the eligible taxpayer. In the case of a shareholder of an S corporation or a partner in a partnership, the subtraction shall be equal to the credit times the percentage of the shareholder's or partner's share of the net income of the S corporation or partnership.

REVENUE ANALYSIS DETAIL

- The federal credit for track maintenance currently expires on December 31, 2013.
- The Minnesota Regional Railroads Association lists 14 Class III railroads in Minnesota with a total of 727 miles of track. Minnesota does not currently have any Class II railroads.
- The maximum federal credit that could be earned by Minnesota railroads would be \$2.5 million per year.
- Approximately 33% of track miles are held by C corporations and 67% are held by S corporations and partnerships.
- The marginal individual income tax rate used for this analysis is 7%. The corporate franchise tax rate is 9.8%.
- Tax year impact was allocated to the following fiscal year.

Source: Minnesota Department of Revenue
Tax Research Division
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)