

Employer Transit Pass Credit

Tax Expenditure Initial Review - TEB 1.87

Tax Expenditure Facts

Year Enacted	2000
Statute	Minn. Stat. § 290.06, Subd. 28
Tax Type	Individual Income Tax
Provision Type	Credit
Latest Fiscal Impact Estimate	Direct measure is not available
Latest Claims Estimate	Direct measure is not available
Expiration Date	None

Estimated fiscal impact is less than \$50,000 per year through FiscalYear 2025.

Tax Expenditure Description

A nonrefundable credit is allowed against the individual income tax equal to 30 percent of the expense incurred by the taxpayer to provide transit passes to the taxpayer's employees. The transit pass must be for use in Minnesota. If the employer purchases the transit passes from the transit system and resells them to the employees, the expenses used for the credit are the difference between the amount the employer paid for passes and the amount charged to employees.

Approximately 430 returns claimed this credit in tax year 2019.

Additional Background Information

A similar corporate franchise tax credit was enacted in 2000 to offset some of the employer's expense of providing transit passes to their employees (TEB 2.28).

The Employer Transit Pass Credit reduces the amount of individual income tax revenue that would otherwise be generated. Income tax revenue is deposited in the state General Fund. The credit is administered by the Department of Revenue.

Proposed Tax Expenditure Objective for Consideration

The objective of the Employer Transit Pass Credit is to incentivize Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.

Sources

The proposed objective is based on audio hearings for standalone companion bills pertaining to the Employer Transit Pass Credit for H.F. 723 and S.F. 813 from the 1999 session.ⁱ

Potential Metrics and Performance Measures

Possible evaluations and measures of this tax credit could include a historical look at utilization trends of the tax credit as well as an analysis of public transportation routes designed to address user demand from employers utilizing the tax credit. Beyond that, survey data from businesses using the tax credit could provide

insight into its usefulness and in evaluating its impact in expanding the available labor force or measure possible impacts on employee retention as a result of providing this transportation option for employees.

Other Considerations

Several policy objectives were discussed in testimony or were identified through other sources beyond that stated in the tax expenditure objective. During testimony, it was mentioned that by incentivizing employers to provide transit passes to employees, it could help alleviate traffic congestion, reduce the wear-and-tear on highways and roadways, and address parking scarcity issues in densely populated urban areas. Additionally, it was mentioned that such a tax credit would help connect employers to a broader talent pool of employees, particularly those who desire more economical transportation and parking options.

At the federal level, Executive Order 13150 mandated that all Federal agencies in the National Capital Region implement a transportation subsidy program by October 1, 2000. The Internal Revenue Service's Public Transportation Subsidy Program was established to encourage employees to use public transportation when commuting to and from work to improve air quality, reduce traffic congestion, and conserve energy by reducing the number of single occupancy vehicles on the road.ⁱⁱ

The Commission may want to consider these policy objectives in addition to, or in place of, the proposed tax expenditure objective stated above.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax and Expenditure Review Commission pursuant to [Minnesota Statutes 2023, section 3.8855, subdivision 4](#).

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For information on the Tax Expenditure Review Commission, please visit <https://www.lbo.mn.gov/TERC/index.html>.

ⁱ Minn. H., Hearing on H.F. 723 before the H. Comm. on Taxes, 81st Minn. Leg., Reg. Sess. (Mar. 23, 1999), available at <https://www.lrl.mn.gov/media/file?mtgid=811061>; Minn. Sen., Hearing on S.F. 813 before the Sen. Comm. on Taxes, 81st Minn. Leg., Reg. Sess. (Mar. 29, 1999), available at: <https://www.lrl.mn.gov/media/file?mtgid=811202>.

ⁱⁱ Treasury Inspector General for Tax Administration. (2008). Review of the Internal Revenue Service's Public Transportation Subsidy Program. Washington D.C.: Department of the Treasury. Available at <https://www.treasury.gov/tigta/auditreports/2018reports/201810033fr.pdf>.