Minnesota Tax Expenditure Evaluation: Employer Transit Pass Credits for Corporate and Individual Tax Filers

Prepared for the Tax Expenditure Review Commission

By the Legislative Budget Office

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Prepared by the Legislative Budget Office on behalf of the Tax Expenditure Review Commission.

For comments, questions, or concerns regarding this review please contact the Legislative Budget Office:

658 Cedar St.
Centennial Building, 1st floor
St. Paul, MN 55155

E-mail: lbo@lbo.mn.gov

Phone: 651-297-7146

Evaluation Team:

Laura Cecko

Carlos Güereca

Annie Lemieux

Jordan Peoples

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Executive Summary

The Tax Expenditure Review Commission (TERC) is responsible for reviewing the effectiveness and efficiency of Minnesota's tax expenditure policies. The Tax Expenditure Review Commission has elected to review and evaluate Minnesota's Employer Transit Pass Credits for both corporate and individual tax filers. This report provides an assessment of the credits with consideration to the first eight components of review required under Minnesota Statutes, section 3.8855, subdivision 5. The commission may consider the findings of this report to provide a recommendation to the legislature to repeal, modify, or leave the policy as is.

The Employer Transit Pass Credits are available to employers who provide transit passes to their employees for free or at a reduced charge with the objective of incentivizing Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.

This evaluation finds that employer participation and employee utilization of public transit has decreased substantially post the COVID-19 pandemic. Further it is not possible to definitively attribute any growth in transit ridership to these tax credits alone in the years prior to or after the COVID-19 pandemic due to the limitations of available data and the complexity of external factors that can impact ridership like the rise of work from home arrangements.

The Metropass program is the transit pass associated with the Employer Transit Pass Credit within the Metro Transit system. Between 2012-2019, 15% of all Metro Transit system rides were attributed to Metropass holders. In 2024, 3% of all Metro Transit rides were associated with the Metropass, indicating reduced utilization. Additionally, employer participation decreased significantly from 483 employers in 2019 to 62 employers in 2023 based on taxpayer filing data. This report goes into further detail on employer participation and employee utilization of public transit through the Metropass program in comparison to other public transit pass programs.

Further, the analysis of credit utilization trends reveals that amongst all corporate franchise tax claimants, on average, about 79% of the credit amount claimed is utilized, while about 21% is not utilized due to the non-refundable nature of the credits. More analysis is provided on the rate at which corporate filers benefit from their full claim of these credits.

Introduction

The Tax Expenditure Review Commission (TERC) has directed the Legislative Budget Office (LBO) to evaluate the Minnesota Employer Transit Pass Credits. This report includes an evaluation of the following:

- Individual Income Tax Employer Transit Pass Credit
- Corporate Franchise Tax Employer Transit Pass Credit

The Employer Transit Pass Credits are available to employers who provide transit passes to their employees for free or at a reduced charge. Both are non-refundable credits equal to 30% of expenses incurred by the employer to provide transit passes to employees for use in Minnesota. These two tax expenditures are evaluated together within this report as they share the same policy objective. Employers filing income taxes under the individual income tax status claim the Individual Income Tax Employer Transit Pass Credit. Employers filing under the corporate franchise tax status claim the Corporate Franchise Tax Employer Transit Pass Credit.

Both tax expenditures can be found in the 2024 Tax Expenditure Budget published by the Department of Revenue (DOR) Tax Research Division under index numbers 1.6.04 (individual income tax) and 2.6.02 (corporate franchise tax).

This evaluation includes a brief background and a legislative history on the credits; a review of available information on similar tax expenditures in other states; an analysis of available tax filings claiming the two credits; and publicly available data specific to public transit ridership in Minnesota. The LBO worked closely with the DOR Tax Research Division to better understand the underlying policies and administration of the Employer Transit Pass Credits. The LBO also worked with ridership and transit pass sales data published by the Metropolitan Council (Met Council), the administrator of the Metro Transit system. There was limited data with respect to transit providers in greater Minnesota.

Background

The Employer Transit Pass Credits were enacted in the year 2000, creating a non-refundable credit allowed against the individual income tax and the corporate franchise tax equal to 30% of the expense incurred by the taxpayer to provide transit passes to the taxpayer's employees. The qualifying expense is the difference between the amount the employer paid for passes and any amount charged to employees for the passes (Qualifying Expense = Employer Payment – Employee Charge). Eligible transit passes must be used in Minnesota.

To leverage this tax incentive, the Metro Transit System allows employers in the Twin Cities to provide their employees access to discounted, unlimited-ride transit passes through the Metropass transit program. The Metropass program is available to employers with at least five participants. Each discounted pass costs $83 per month.[1] Employers can pass the cost of the transit pass on to participants (i.e. charge employees the full $83), or employers can subsidize a portion of the cost and earn tax credits.[2] A full price monthly pass for adult riders ranges from $65-120 based on eligible routes.[3] The latest participation figures from 2024 report 318 employers, consisting of 8,960 Metropasses in use. Rides associated with the Metropass have decreased to 1.5 million in 2024 from a peak of 12.8 million prior to the COVID-19 pandemic.[4] More details to participation trends are provided in the Analysis section of the report.

Total estimated forgone revenue for the Employer Transit Pass Credit under the individual income tax is projected to remain consistent at $100,000 for fiscal years 2024-2027. Total estimated forgone revenue under the corporate franchise tax is projected to be $900,000 for fiscal years 2024-2026 and increase to $1,000,000 for fiscal year 2027.

Research on the impact of transit-related financial incentives on employee ridership and employer engagement is limited and mixed. Brough et al. (2023) found that providing low-income families and individuals free public transit doubles usage, whereas Rivers and Plumptre (2016) identified minimal effects on overall ridership. [5]

Minnesota Transit Service Overview

According to the US Census Bureau, for years 2020-2024, approximately 2% of Minnesota's workforce commuted by public transit; over 76% commuted by vehicle; less

1"Metropass for Employers." Metropass for Employers - Metro Transit. Accessed December 16, 2024. https://www.metrotransit.org/metropass-overview.
2 "Metropass for Employers" by Metro Transit. Accessed December 16, 2024. https://www.metrotransit.org/metropass-overview
3 "Metro Transit Go-To Card," Accessed July 7, 2026, https://www.metrotransit.org/go-to-card
4 "Metro Transit Facts" by Metro Transit. Accessed December 16, 2024. Metro Transit Facts - Metro Transit
5 Rebecca Brough, Matthew Freedman, and David C. Phillips, "Eliminating Fares to Expand Opportunities: Experimental Evidence on the Impacts of Free Public Transportation on Economic and Social Disparities," University of California, 2023.; Nicholas Rivers and Bora Plumptre, "The Effectiveness of Public Transit Subsidies on Ridership and the Environment: Evidence from Canada," University of Ottawa, 2016.

than 18% worked from home, 2.5% walked to work; just over 1% used taxi or ride-hailing services; and 0.5% rode a bicycle.[6]

Metropolitan area public transit service is provided by the Met Council through four integrated transportation systems: Metro Transit, Metro Mobility, Transit Link, and Metro Move. Metro Transit includes bus and rail service. Metro Mobility, Transit Link, and Metro Move cater to individuals living with a disability or having limited access to Metro Transit lines. Together these four systems provide transit services within the seven-county Twin Cities metropolitan area, along with some regional transit providers primarily in the southern and western Twin Cities suburbs.[7] These systems include ridership on bus routes, rail service on the green and blue lines, as well as the NorthStar rail line.[8]

Greater Minnesota's 47 public transit systems are operated by local governments, joint powers organizations, non-profits, and tribal governments. The number of rides is recorded daily by all transit systems and reported to the Minnesota Department of Transportation (MnDOT) monthly.[9] MnDOT supports these systems in 80 non-metro counties through planning, research, technical assistance, and management of state and federal transit funding programs.[10]

Legislative History

During testimony for HF723 before the 1999 House Committee on Taxes, it was stated that incentivizing employers to provide transit passes to employees could help alleviate traffic congestion, reduce wear-and-tear on highways and roadways, and address parking scarcity issues in densely populated urban areas.[11] It was also 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.

The Employer Transit Pass Credits received a preliminary review by the TERC on January 25, 2024, and an objective of the credit was approved for evaluation on March 15, 2024. The TERC approved objective of the Employer Transit Pass Credits is, "to

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6 U.S. Census Bureau. "Commuting Characteristics by Sex." American Community Survey, ACS 5-Year Estimates Subject Tables, Table S0801, Accessed on 2 Mar 2026, https://data.census.gov/table/ACSST5Y2024.S0801?q=S0801&g=040XX00US27.

7 "Transportation: Planning and Building a 21st Century Transportation System." Metropolitan Council. Accessed December 16, 2024. https://metrocouncil.org/Transportation.aspx.; The seven-country metro includes Anoka, Washington, Hennepin, Ramsey, Carver, Scott, and Dakota county.

8 "Metro Transit: Schedules & Maps." Schedules & Maps - Metro Transit. Accessed December 16, 2024. https://www.metrotransit.org/schedules-maps.

9 Transit pass sales in Greater Minnesota are not tracked by local transit providers, so the number of passes sold under this program in greater Minnesota was not known for this evaluation.

10 "Greater Minnesota Transit Ridership." Greater Minnesota Transit Boardings: Performance Dashboard. Accessed December 16, 2024. https://performancearchive.minnesotago.org/critical-connections/access/annual-boardings-recorded-public-transit-providers-serving-greater-minnesota-counties-amtpr.

11 The proposed objective is based on audio hearings for standalone companion bills pertaining to the Employer Transit Pass Credit for Minnesota House File 723 and Senate File 813 from the 1999 session. Minnesota House Hearing on H.F. 723 before the House Committee 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.

incentivize Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.”

Federal Incentives

A consideration of federal incentives provides a broader view of the overall transportation subsidy landscape. The federal qualified transportation fringe benefit complements the state-level incentive for employers. Employers can exclude the value of the transportation benefit provided to an employee from taxable employee wages. The qualified transportation fringe benefits for transit passes have a monthly limit of $340 in 2026.[12] Per the Internal Revenue Code Section 132(f)(2)(A), qualified transportation fringe benefit means any of the following provided by an employer to an employee:

- Transportation in a commuter highway vehicle if such transportation is in connection with travel between the employee's residence and place of employment
- Any transit pass
- Qualified parking
- Any qualified bicycle commuting reimbursement

To analyze whether the Employer Transit Pass Credits (TEB 1.6.04 and TEB 2.6.02) effectively drive desired behaviors among employers and employees, it would be ideal to understand if there is any overlap in claims between state and federal incentives. Additionally, we would need to understand individual employee commuting patterns. We did not have access to individual taxpayer data to understand which individual employers claim the state credit and the federal fringe benefit, nor did we have a reasonable method to survey all participating employees during the course of this evaluation.

Review of Other States

This section highlights different program structures found across various states similar to Minnesota’s two credits. Comparable programs were identified in Colorado, Connecticut, Illinois, Washington, and Maryland. Neighboring states to Minnesota-Wisconsin, Iowa, North Dakota, and South Dakota-have no statewide commuter benefit programs.[13] There is limited publicly available data on these public transit programs, so this section serves to describe a variety of policy design rather than report on their merits.

Colorado

In tax years 2023 and 2024, Colorado employers can claim a tax refund of up to $2,000 per employee and $250,000 total per year for providing alternative transportation

12 Publication 15-B, Employer's Tax Guide to Fringe Benefits. (2024). Internal Revenue Service. https://www.irs.gov/publications/p15b

13 “Employment, Comparison Table - State & Local Commuter Benefits Laws.” Bloomberg Law. Accessed December 16, 2024. https://www.bloomberglaw.com/external/document/XBSB5FF0000000/employment-comparison-table-state-local-commuter-benefits-laws.

options to employees.[14] Alternative transportation options are defined as “ridesharing arrangements, provision of ridesharing vans or low-speed conveyances such as human-powered or electric bicycles, shared micro-mobility options such as bike sharing and electric scooter sharing programs, carsharing programs, and guaranteed ride home programs.”[15]

Connecticut

Connecticut established a corporate business tax credit with the intent to reduce traffic congestion and align with the goals in the Clean Air Act. The credit is equal to 50% of a corporation’s expenses related to traffic reduction, limited to $250 annually per employee for businesses that have at least 100 employees. The annual credit limit is $1,500,000.[16] The program is currently inactive, however, pending action by the Environmental Protection Agency to designate qualifying poor air quality zones.

Illinois

Illinois requires employers that meet certain qualifications and are located within one mile of a six-county Regional Transit Authority fixed-route transit service to offer a pre-tax commuter benefit, allowing for the purchase of a transit pass through a payroll deduction. The cost of employer-sponsored subsidies are deductible from payroll wages. The program closely resembles the federal qualified transportation fringe benefit, but for the requirement that certain employers must include this program in their benefits package.[17]

Maryland

Maryland has a tax credit program that allows employers to claim up to 50% of the cost of providing commuter benefits up to $100 per month per individual.[18] The Maryland Commuter Tax Credit applies to various types of commuter benefits, not just transit system passes. Commuter benefits include vanpools, carpools, guaranteed ride home programs, and active transportation programs (bicycles and e-bikes, scooters, equipment and maintenance, walking). Commuter benefits extend to the telework subsidies provided by employer funded programs.[19] The 2024 Maryland Commuter Survey highlights that Maryland workers have transitioned back to in-person work at levels higher than before the COVID-19 pandemic, but that most in-person commuting increases occur via automobile while the proportion of commuting attributed to the public transit system has declined.[20]

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14 “Alternative Transportation Option Tax Credit”. (2023). Colorado Department of Revenue Taxation Division. Accessed December 19, 2024. https://tax.colorado.gov/alternative-transportation-option-tax-credit

15 Colorado Department of Revenue, “Alternative Transportation Options Credit Annual Employer Plan Report”. (2023).

16 Connecticut General Statutes, Section 12-217; 13b-38p

17 Bloomberg Law, “Employment, Comparison Table - State & Local Commuter Benefits Laws.”

18 Bloomberg Law, “Employment, Comparison Table - State & Local Commuter Benefits Laws.”

19 “Maryland Commuter Trax Credit,” Maryland Department of Transportation Brochure. Accessed on 03/09/2026. Available at https://www.mdot.maryland.gov/OPCP/Comm_TaxCreditBro_v3kFinal.pdf.

20 Harvey, C; Shokputov, A. “2024 Maryland Commuter Survey Final Report.” Transportation Policy Research Group National Center for Smart Growth University of Maryland.

Washington

Washington State provides a similar tax credit to Maryland's, without the inclusion of telework arrangements as an alternative to commuting. Washington's tax credit has a monthly limit of $60 per individual, an annual limit of $100,000 per employer, and $2.75 million annual state-wide limit. A 2022 evaluation of this program stated that two program objectives had been met, though the credit likely had a limited impact. The two objectives include increasing the percentage of Washingtonians using commute alternatives; and the reduction of traffic congestion, auto-mobile-related air pollution, and energy use through the use of employer-based commute trip reduction programs. The Washington evaluation cited a reduced number of employers, especially small employers, claiming the credit in the years leading up to and immediately after the COVID-19 pandemic.[21]

Again, this section is meant to highlight policy design alternatives found across other states. There is limited information with respect to each program's performance in achieving established goals. Additionally, all seven states saw a reduction in public transit commuting in the years following the COVID-19 pandemic, despite the availability of these programs according to the American Community Survey of the U.S. Census.[22]

Analysis

This evaluation attempts to assess the effectiveness of the Employer Transit Pass Credit in incentivizing Minnesota employers to subsidize transit passes for their employees, thereby promoting the use of public transit. Metropass participation rates are analyzed along with aggregated claims data to understand utilization of public transit associated with the two eligible tax types, individual income tax and corporate franchise tax.

The main takeaways are that the number of Metropass participants and rides associated with the program has decreased significantly since the COVID-19 pandemic. Additionally, the number of employers participating in the program has also decreased substantially. There is no way to definitively state the impact of the program without more insight into employer subsidy levels; work from home arrangements by participating and non-participating employers; and employee commuter behavior of those same participating and non-participating employers.

[21] "Commute Trip Reduction." Washington Joint Legislative Audit and Review Committee. 22-05 Final Report: 2022 Tax Preference Performance Reviews. November 2022. https://leg.wa.gov/jlarc/taxReports/2022/CTR/f_11/default.html

[22] U.S. Census Bureau. "Selected Economic Characteristics." American Community Survey, ACS 5-Year Estimates Data Profiles, Table DP03, Accessed on 27 Mar 2026, https://data.census.gov/table/ACSDP5Y2019.DP03?g=040XX00US08,09,17,24,27,53&y=2019&d=ACS+5-Year+Estimates+Data+Profiles.; U.S. Census Bureau. "Selected Economic Characteristics." American Community Survey, ACS 5-Year Estimates Data Profiles, Table DP03, https://data.census.gov/table/ACSDP5Y2024.DP03?g=040XX00US08,09,17,24,27,53&y=2024&d=ACS+5-Year+Estimates+Data+Profiles. Accessed on 27 Mar 2026.

Participation of Metro Transit Pass Programs

To speak to the utilization of the Metro Transit system broadly, the 2020 Metropolitan Council Bus Service Allocation Study cited a 2016 survey that noted that 45% of all riders were making a trip to or from work using high-capacity light rail and bus rapid transit routes in addition to local transit rider providers. Additionally, about 90% of transit riders using commuter and express routes were traveling for work or school, and a majority of the transit users had access to a vehicle.[23]

Figure 1 shows participation rates in the Metropass program from 2012-2024. The number of participating employers, Metropasses associated with these employers, and rides using these Metropasses increased between 2012 and 2019. Each has decreased since 2019, with the number of Metropasses provided through this program experiencing the largest decline. According to the data published by Metro Transit, the number of participating employers has been relatively consistent though at a declining rate. This data differs from tax filing data provided by DOR. More research is necessary to understand discrepancies in estimates of employer participation. The main takeaway from this analysis, however, is that employee utilization of the program has dropped notably in terms of passes purchased and rides taken. No data is available to analyze how employers choose to subsidize Metropass costs to employees. Possibilities range from employers covering the entire cost of the pass to none at all.

Figure 1. Metropass Program Participation 2012-2024

Year	Number of Employer Participants	Passes In Use	Rides (millions)	Average Rides per Pass
2012	270	33,754	12.0	355
2013	275	43,571	12.1	278
2014	288	47,032	12.0	255
2015	301	33,130	12.0	362
2016	333	36,091	12.3	340
2017	363	37,254	12.8	343
2018	373	37,650	12.8	340
2019	395	38,961	12.5	321
2020	375	7,587	3.0	395
2021	No data published	No data published	No data published	-
2022	343	9,355	1.5	160
2023	331	9,215	1.6	174
2024	318	8,960	1.5	167

Data Source: Metro Transit Performance Website

23 "Metropolitan Council Bus Service Allocation Study." Metropolitan Council. Accessed December 18th, 2024. https://metrocouncil.org/Transportation/System/Transit/Studies/Transit-Service-Allocation-Study/FinalDocs/Transit-Allocation-Study.aspx

In addition to an analysis of Metropass participation, it is worth exploring the utilization of this program in comparison to five other transit pass programs. These programs include the Student Pass for high school students; the College Pass for participating colleges; the Universal Transit Pass for University of Minnesota Students; the Access Pass for participating organizations; and the Metro Transit's Transit Assistance Program for eligible low-income residents. These five programs apply to the same transit systems; however, participating entities do not qualify for the same corporate or individual income tax credits.[24]

Figure 2 provides the number of rides across all five pass programs and Metropass going back to 2012 as percentages of all rides including local bus routes, bus rapid transit, Green and Blue line light rail, and Northstar commuter rail. Together, the six programs accounted for about 27% of all rides in 2012, peaking at 29% in 2019, and falling to 19% in 2024. The Metropass program alone accounted for about 15% of all rides on the metro transit system from 2012 through 2019 but has dropped to approximately 3% since 2020. The next highest ride percentage at 6% was attributed to users of the Universal Transit Pass, which is available to students of the University of Minnesota system. In contrast to the steep drop observed for Metropass users to 3% of rides within the system, rides by Universal Transit Pass users remains at 6%. This suggests a reduction in commuting behavior for work but not for education in recent years, possibly related to work-from-home arrangements brought about by the COVID-19 pandemic.

Figure 2. Percentage of Rides Using Transit Pass Programs

Year	Metropass	Student Pass	College Pass	Universal Transit Pass	Access Pass	Transit Assistance Program
2012	15%	2%	4%	6%	-	-
2013	15%	4%	4%	6%	-	-
2014	14%	4%	3%	6%	-	-
2015	14%	5%	3%	5%	-	-
2016	15%	5%	2%	5%	-	-
2017	16%	5%	2%	4%	-	-
2018	16%	5%	2%	4%	-	1%
2019	16%	4%	2%	4%	-	3%
2020	8%	2%	1%	2%	-	3%
2021	-	-	-	-	-	-
2022	4%	4%	1%	2%	5%	3%
2023	3%	3%	1%	4%	5%	2%
2024	3%	2%	1%	6%	5%	2%

Data Source: Metro Transit Performance Website

24 "Metro Transit Facts Through Dec. 31, 2023", Accessed December 16, 2024. https://www.metrotransit.org/Data/Sites/1/media/blog/2023_factbook_letter_new_final_final.pdf

Figure 3 provides the rides associated with each program as a simple count. The total number of rides has decreased since 2020 most significantly for Metropass users despite the fact that the number of participating employers has remained comparatively stable in the Metro Transit data. Again, employer participation differs from data provided by DOR. It is difficult to understand how ridership has been impacted by work from home arrangements, distance learning availability, and social distancing efforts since the COVID-19 pandemic. However, the ridership data published by Metro Transit indicates that commuters who previously utilized the Metropass option have decreased since 2020.[25]

[25] Rides not attributed to any of the six transit programs are assumed to be paid for by cash, weekly or monthly passes, Go-To stored value cards, or were free fare zone rides.

Figure 3. Counts of Metro Transit System Rides by Transit Pass Program

Year	Metropass	Student Pass	College Pass	Universal Transit Pass	Access Pass	Transit Assistance Program	Total
2012	12,000,000	1,910,000	3,240,000	5,060,000	-	-	81,000,000
2013	12,100,000	2,900,000	3,030,000	4,790,000	-	-	81,400,000
2014	12,000,000	3,500,000	2,800,000	4,700,000	-	-	84,500,000
2015	12,000,000	3,900,000	2,500,000	4,400,000	-	-	85,800,000
2016	12,300,000	4,200,000	2,000,000	4,100,000	-	-	82,600,000
2017	12,800,000	4,300,000	1,700,000	3,600,000	-	-	81,900,000
2018	12,840,000	3,950,000	1,450,000	3,370,000	-	1,000,000	80,600,000
2019	12,520,000	3,340,000	1,270,000	2,970,000	-	2,180,000	77,900,000
2020	3,000,000	822,991	335,434	728,055	-	900,697	35,900,000
2021	-	-	-	-	-	-	32,900,000
2022	1,460,000	1,450,000	295,070	850,595	2,104,790	985,097	38,800,000
2023	1,550,000	1,310,000	241,785	1,914,776	2,162,306	953,585	45,000,000
2024	1,500,000	1,050,000	258,225	2,782,194	2,390,000	1,080,000	47,500,000

Note: The Total column represents all rides inclusive of transit pass programs, fares paid through cash, Go-To Stored Value cards, and Fare Free Zones.

Claiming the Credit

From 2014-2019, the average number of Employer Transit Pass Credits claimed under the individual income tax was 421 claims per year, while 45 tax returns were filed annually, on average, under the corporate franchise tax.

DOR estimates forgone revenue for individual income tax filers, at $100,000 in fiscal year 2027. In contrast, claims for the credit under the corporate franchise tax are estimated at $1,000,000 in fiscal year 2027.[26]

From 2014-2019, the average total of Employer Transit Pass Credit claims under the individual income tax was $47,323 per tax year. Claims did drop in the years after the pandemic for this tax type. From 2014-2019 the average total of claims under the corporate franchise tax was $1,116,664 per tax year grouping. More detail is provided for the years after the COVID-19 pandemic in the following sections.

In addition to basic claims data, DOR was able to summarize credit claims versus credits utilized for tax years 2012-2020 under the corporate franchise tax. The difference in claims and utilization represents the credit value that corporations are unable to utilize because it would lower their tax liability to below zero. On average, 79% of claimed Employer Transit Pass Credits were utilized by corporations to reduce their tax liability, meaning that 21% of claimants were unable to utilize their credit because their tax liability would drop below zero. From 2012-2020, the average number of corporate claimants was 44 and average number of recipients was 39.

DOR Tax Research determined that if the tax expenditures were repealed, the change in either the individual income tax rate or the corporate franchise tax rate would be negligible.

Claims under the Individual Income Tax

DOR Tax Research provided summary data for the Employer Transit Pass Credit under the individual income tax for tax years 2014-2023. Figure 4 tabulates that data by the number of claims, the total amounts claimed, and the average claim amount.[27]

The number of tax filings claiming the credit remains fairly consistent from tax year 2014 to tax year 2019. The average claim amount under the individual income tax fluctuates between $92 to $127 from tax year 2014 to 2019. There is a drop-off in claims starting in 2020, likely attributed to the decrease in overall transit usage during the COVID-19 pandemic. The decrease in claims numbers continues to drop sharply in tax years 2021 and 2022, despite increased claim dollar amounts. The claim dollar amounts appear to

26 [2024 Tax Expenditure Budget – Forgone Revenue Estimates](https://www.revenue.state.mn.us/sites/default/files/2025-01/2024-tax-expenditure-budget-162024-revision.pdf), “Minnesota Department of Revenue Tax Research Division”, pages 88 and 121 (2024): https://www.revenue.state.mn.us/sites/default/files/2025-01/2024-tax-expenditure-budget-162024-revision.pdf

27 MnDOT distributed a one-question survey to the 34 transit authorities in Greater Minnesota asking “Does your agency track the sale of transit passes to businesses? Y/N”. All but two transit authorities responded that they do not track the sale of transit passes to businesses. There was no follow-up on the number of passes sold to businesses annually, percent of sales, or trend of sales to businesses.

be outliers. This data was confirmed by DOR however, and increased credit amounts are attributed to increased participation by certain employers.

Figure 4. Individual Income Tax Filings Claiming Employer Transit Pass Credit

Tax Year	Number of Claimants	Credit Amount	Average Amount Per Individual Claimant
2014	419	$42,277	$101
2015	418	$49,223	$118
2016	400	$50,688	$127
2017	430	$39,694	$92
2018	422	$48,057	$114
2019	439	$53,996	$123
2020	206	$21,848	$106
2021	26	$147,900	$5,688
2022	30	$111,520	$3,717
2023	26	$6,477	$249

Data Source: Minnesota Department of Revenue Tax Research

Corporate Income Tax Employer Transit Pass Credit

Figure 5 tabulates summary data under the corporate franchise tax including the number of legal entities claiming the credit, total credit amounts claimed per tax year, and average claim per individual claimant for tax years 2014-2023. Please see the note under Figure 5 for a more detailed description of how this data is organized into data set years.

Additionally, DOR Tax Research provided aggregated data on claims and utilization for the Employer Transit Pass Credit under the corporate franchise tax for tax years 2012-2020. The average claim for the Employer Transit Pass Credit by corporate filers was $1,039,281 for years 2012-2020. The average amount utilized was $811,484 during the same time period. Overall, there is an average of $227,797 in forgone credit. This forgone credit represents the amount of the transit pass credit that legal entities could benefit from but are unable to utilize due to the non-refundable nature of the transit pass credit.[28] That is to say that some corporations have reduced their tax liability to zero dollars and do not utilize the full amount of the credit.

On average 79% of claimed Employer Transit Pass Credits were utilized by corporations to reduce their tax liability. See Figure 6 for credit amount utilized versus credit amount claimed by dataset years from 2012-2020. For more information on credit claims versus utilization under the corporate franchise tax, see Appendix A.

[28] A non-refundable credit allows a taxpayer to decrease their tax liability by some amount but not below zero. Any portion of the credit claimed that decreases tax liability below zero dollars is null.

Figure 5. Corporate Legal Entities Claiming Employer Transit Pass Credit

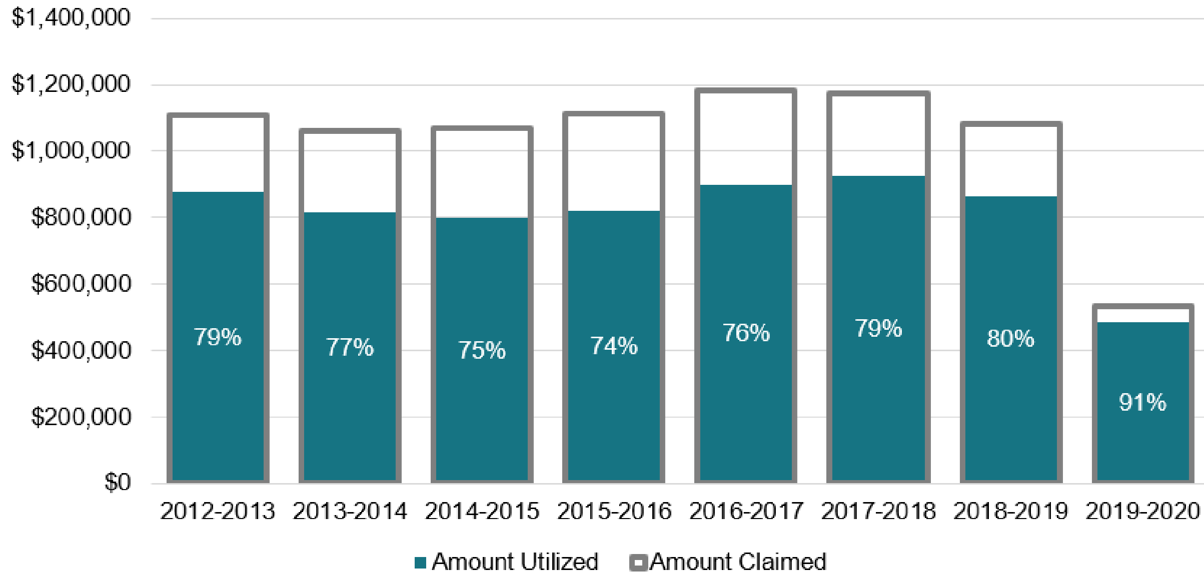
Dataset Year*	Number of Claimants	Credit Amount Claimed	Average Claim Per Legal Entity
2014	46	$1,106,552	$24,055
2015	42	$1,058,358	$25,199
2016	46	$1,068,735	$23,233
2017	48	$1,111,389	$23,154
2018	44	$1,182,520	$26,875
2019	44	$1,172,431	$26,646
2020	39	$1,081,522	$27,731
2021	51	$532,742	$10,446
2022	119	$1,263,090	$10,614
2023	36	$372,086	$10,336

Data Source: Minnesota Department of Revenue Tax Research

*Note: Dataset years are not equivalent to tax years. Dataset years would include mostly claims from the corresponding tax year. However, because corporations are granted an automatic filing extension for corporate franchise returns, there are returns that conform with the extension due date that would fall into the next tax year.

Note: Number of claimants includes the number of legal entities claiming the credit. This number is higher than the total number of tax returns as tax returns may contain multiple legal entities.

Figure 6. Corporate Employer Transit Credit Claim Amounts vs Utilization Amounts



Data Source: Minnesota Department of Revenue Tax Research, Calculations by the LBO

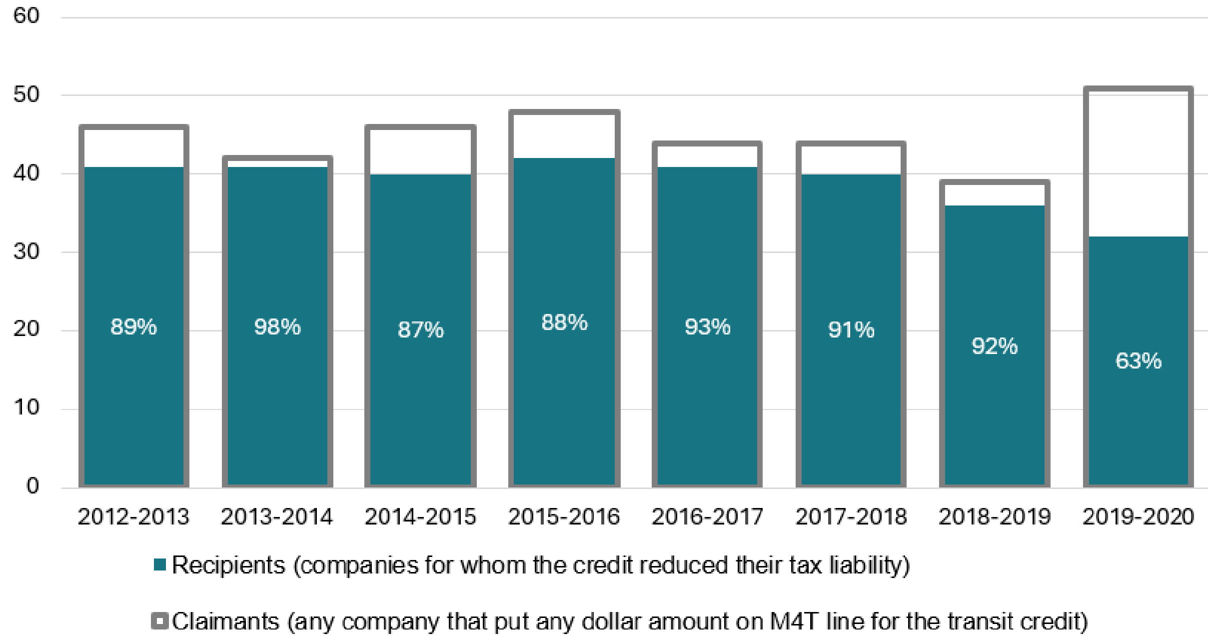
Note: Filing data is organized into datasets spanning two-year periods to account for corporate tax filing extensions. Each dataset shows the overall amount of credit claimed by corporations with the "Amount Claimed" value representing any amount claimed on the M4T tax form. The "Amount Utilized" value refers to the credit amount applied to legal entities' tax returns that reduced tax liability to or above zero. All corporate tax return data is provided in terms of legal entities, rather than the number of tax returns. A further explanation and analysis of corporate tax filing data can be found in Appendix A.

Legal Entities Claiming the Corporate Transit Pass Credit vs Credit Recipients

From 2012-2020, the average number of corporate transit pass credit claimants was 44. Claimants refers to any legal entity that claimed any amount of the corporate transit pass credit on their tax form. The average number of recipients was 39 for the same time period. Recipients refers to legal entities for which their claimed tax credit was applied and reduced their overall tax liability, meaning they were able to utilize the incentive.

Figure 7 includes data on the number of legal entities claiming the corporate transit pass credit from 2012-2020. The number of corporate employers that claim the Employer Transit Pass Credit was relatively consistent throughout the time period provided, notwithstanding the drop in the 2019-2020 timeframe, likely impacted by the COVID-19 pandemic.

Figure 7. Legal Entities Claiming the Corporate Transit Pass Vs Credit Recipients



Data Source: Minnesota Department of Revenue Tax Research, Calculations by the LBO
Note: On average, 88% of legal entities that claim the corporate transit pass credit receive a portion of the credit

Limitations

Transit providers in Greater Minnesota do not track the sales of qualifying employer transit passes, which limited the scope of this analysis to understanding ridership trends in the Twin Cities region. The small size of the corporate dataset population also presents a limitation, as data on the exact number of legal entities qualifying for the credit in certain subpopulations is not available due to data privacy concerns. Additionally, corporate filing patterns do not allow for data to be aggregated solely based on tax year. Extensions cause corporate filing dates to stretch across tax years making it necessary to aggregate data in two-year time periods that include all returns whose extension due date falls into the calendar year indicated in each data grouping. This can make data analysis more challenging to follow and succinctly identify corporate credit claim patterns. Lastly, a significant challenge is attributing any growth in public transit ridership solely to the Employer Transit Pass Credits, as other external factors, such as changes in work from home arrangement, transit routes, accessibility, and pricing, may also influence usage.

Conclusion

A clear finding of this evaluation is that employer participation has dropped substantially with respect to credit claims. Further employee participation has also decreased substantially, as noted by a reduction in demand for Metropasses and a reduction in associated rides taken since the COVID-19 pandemic. It remains unclear to what extent these two tax expenditures have achieved their shared objective of incentivizing Minnesota employers to subsidize transit passes for their employees and to encourage the use of public transit, given the lack of comprehensive data on employer subsidy levels, ridership trends in greater Minnesota, and work from home arrangements adopted by participating and non-participating employer, as well as commuting behaviors of employees of both respective groups.

Additionally, the credits claimed by these employers are not fully utilized, highlighted by the fact that, on average, 88% of legal entities that claim the corporate transit pass credit receive a portion of the credit; and of those that receive a portion of the credit, they receive 79% of the claimed amount, on average. Again, this is attributed to the fact that legal entities can reduce their tax liability to zero and the nonrefundable nature of these credits means the full value of the credits may not be realized.

Future evaluations would benefit from surveying participating employers to understand motivations, tracking the sales of transit passes and public transit usage in greater Minnesota; a multi-year analysis of public transit and credit utilization post COVID-19 pandemic; a comparison of commuter public transit ridership in states with and without transit incentives; as well as a deeper understanding of the impacts of other factors such as changes in telework, transit routes, accessibility, or pricing of fares.

Appendix A: Corporate Employer Transit Pass Claims

Explanation of Aggregate Corporate Tax Return Data

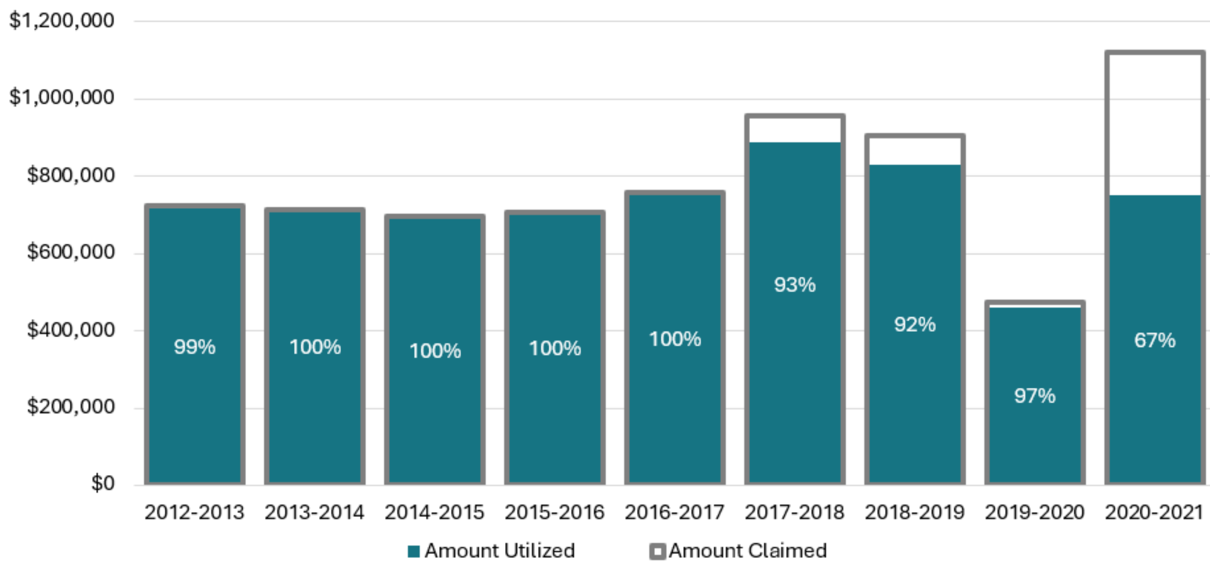
All corporate tax return data is provided in terms of legal entities, rather than the number of tax returns. This is because corporate tax returns can include multiple legal entities, each claiming Employer Transit Pass Credits. For example, if Company A has $100 in tax liability and claims $300, the claimed amount will be $300, and the amount utilized will be $100. Further, if Company A splits the claims between two legal entities on their tax return, this would be reported as two recipients and claimants.

The aggregated data provided to the LBO was organized in datasets spanning two-year time periods that include all returns whose extension due date falls into the calendar year indicated in their respective titles. For example, ‘2015-2016’ includes all returns whose extension due date falls in the 2017 calendar year, which includes tax years 2015 and 2016. Corporate filing patterns typically correspond to the extension due date and not the typical April 15th due date because corporations are automatically granted a seven-month filing extension to accommodate businesses that operate on a June to July fiscal year. As a result, each dataset includes returns from two tax years. For example, ‘2015-2016’ includes tax years 2015 and 2016. Using the ‘2015-2016’ example, the DOR Tax Research Division assumes that a tax year composition breakdown is 30% the prior corresponding fiscal year (2015) and 70% the following fiscal year (2016). In graphical representations of the datasets, they are displayed as the two-year tax year period, for example, (2012-2013).

Positive Taxable Net Income Amounts Claimed versus Amounts Utilized

Positive taxable net income claimants and recipients are legal entities with positive taxable net income who pay some amount of the 9.8% corporate franchise tax. The “Amount Claimed” value is any amount claimed on the M4T tax form. Figure 8 provides total recipients and claimants by dataset years from 2012-2021. On average, $784,000 is claimed per tax year. The “Amount Utilized” value refers to the credit amount applied to legal entities' tax returns that reduces tax liability to at or above zero. The average amount of tax credit utilized is $724,000. For example, in the 2017-2018 dataset, corporate Employer Transit Pass Credit claims equal $723,195 while the transit pass credit value utilized is $715,348. The $7,847 difference represents the amount of credit not utilized. This difference amount would decrease claimants tax liability below zero which is not allowed for a non-refundable tax credit. Overall, for each dataset, there is an average of $60,000 in foregone credit. This represents the amount of Employer Transit Pass Credit that legal entities are unable to utilize due to the non-refundable nature of the Employer Transit Pass Credit.

Figure 8. Positive Taxable Net Income Amounts Claimed Vs Amounts Utilized



Data Source: Minnesota Department of Revenue Tax Research, Calculations by the LBO

Note: On average, 92% of available credits claimed were utilized for corporations with positive taxable net income

Positive Taxable Net Income Corporate Claimants versus Recipients by Year

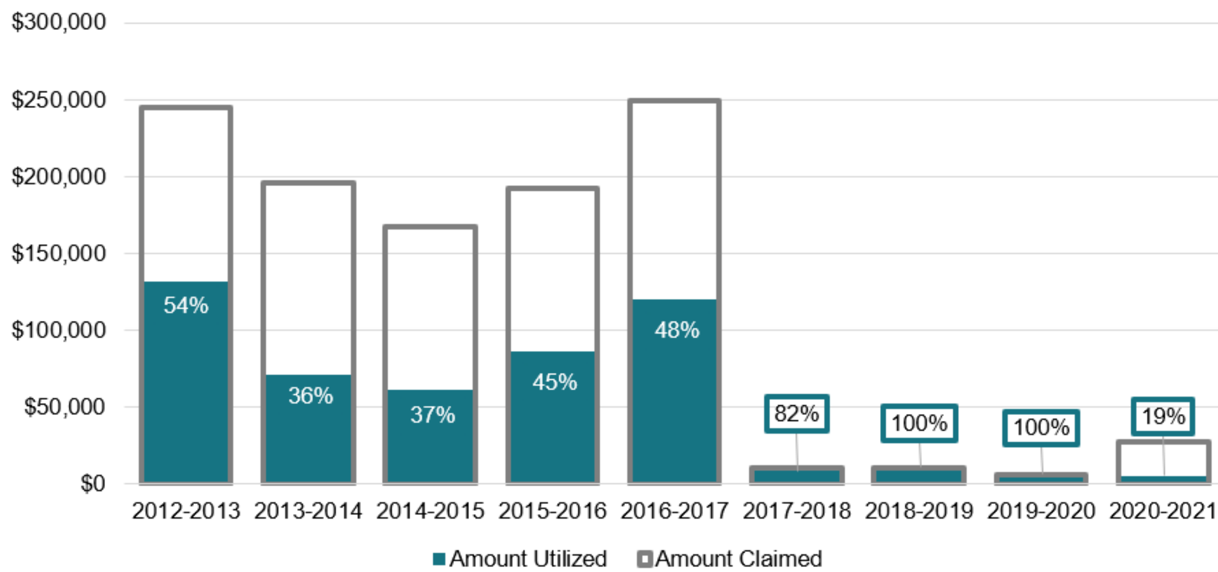
All data on the number of legal corporate entities claiming the Employer Transit Pass Credit was also provided by dataset grouping. Claimants refers to any legal entity that claimed any amount of the credit on their tax form. Recipients refers to legal entities for which their claimed tax credit was applied and reduced their overall tax liability. The difference between the number of claimants and recipients represents legal entities that are unable to claim the Employer Transit Pass Credit because their tax liability is already at zero dollars. For claimants and recipients with positive taxable net income who paid some amount of the 9.8% corporate franchise tax, there is no difference in the number of recipients vs claimants. On average, 25 legal entities claimed and utilized the Employer Transit Pass Credit during the 2012-2021 timeframe.

Positive-Taxable-Net-Income-Zero-Tax Claimants Versus Recipients by Year

Positive-taxable-net income-zero-tax refers to companies with positive taxable net income whose tax liability is reduced to zero as a result of deductions. This pay class is different from positive taxable net income claimants and recipients as those are entities with positive taxable net income who paid some amount of the 9.8% corporate franchise tax. Due to the small size of the dataset population, data on the exact number of legal entities qualifying in this subpopulation is not available per DOR data practices. The

“Amount Claimed” value is any amount claimed on the M4T tax form. Figure 9 shows the amount utilized, and the amount claimed by dataset years from 2012-2021. The average amount claimed was $123,000. The “Amount Utilized” value refers to the credit amount applied to legal entities' tax returns that reduced tax liability to above or at zero. The average amount utilized by this pay class was $56,000. Overall, for each dataset, there is an average of $66,874 in foregone credit.

Figure 9. Positive Taxable Net Income Zero Tax Claimants Vs Recipients by Year

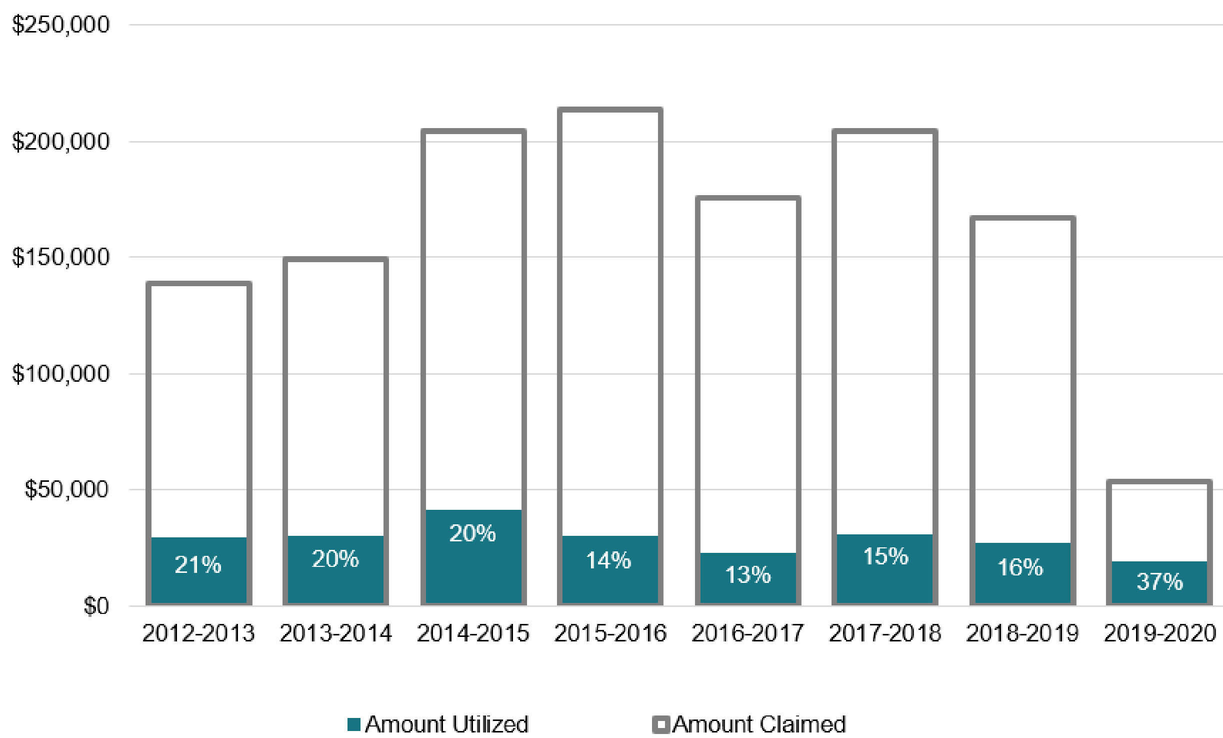


Data Source: Minnesota Department of Revenue Tax Research, Calculations by the LBO
Note: On average, 45% of available credit was utilized for corporations with positive taxable net income zero tax

Zero or Negative Taxable Income: Corporate Transit Credit Claims and Utilization Data

Zero or Negative Taxable Income refers to companies with zero or negative taxable net income who did not pay regular corporate tax. This analysis still includes these companies as claimants with zero/negative taxable income because they are allowed to pass through remaining credit to partners and shareholders. Due to the small size of the dataset population, data about the exact number of legal entities qualifying in this subpopulation is not available per DOR data practices. The “Amount Claimed” value is any amount claimed on the M4T tax form. See Figure 10 for total amount claimed and utilized by dataset years from 2012-2020. Tax year 2020-2021 is excluded from this analysis as the claimed amount value was determined to be a dataset error. The average amount claimed was $163,000. The “Amount Utilized” value refers to the credit amount applied to legal entities’ tax returns that reduced tax liability to above or at zero. The average amount utilized was $29,000. Overall, for each dataset, there is an average of $134,000 in foregone credit. This difference represents the amount of transit credit that legal entities could benefit from but are unable to utilize in that tax filing year due to the non-refundable nature of the transit pass credit. These entities are unable to roll over any credit amount due to the non-refundable nature and can only be applied to the current year's tax liability.

Figure 10. Zero or Negative Taxable Income: Corporate Transit Credit Claims and Utilization Data



Data Source: Minnesota Department of Revenue Tax Research, Calculations by the LBO

Note: On average, 18% of available credit was utilized for corporations with zero or negative taxable income

Appendix B. Other Statutory Components of Review

Minnesota Statutes 2025, section 3.8855, subdivision 5 outline components of review required when conducting a tax expenditure evaluation. Though the following components did not impact the overall findings of this evaluation, they are presented below for completeness.

Comparing the effectiveness of the tax expenditure and a direct expenditure

Comparison to a direct payment program is challenging, as the beneficiaries are facilitating the use of a service, but the best comparison in this case could include a subsidized transit pass program directly to consumers.

While no direct expenditure comparison in Minnesota or neighboring states was found to definitively compare effectiveness, the city of Philadelphia implemented the Key Advantage program in 2022 as an example of an employer-based benefit program. Employers enter into an agreement directly with the Southeastern Pennsylvania Transportation Authority (SEPTA) to purchase 80% discounted passes for employees.[29] As of April 2025, 60 employers participate in the program and approximately 50% of eligible employees utilized the benefit.[30] A formal program evaluation funded by the William Penn Foundation was expected in the spring of 2026.[31] The evaluation could not be located, so this may be a point to follow-up on as this program may serve as a good comparison in a future evaluation.

Cumulative Fiscal Impacts of Other State and Federal Programs

Apart from the federal qualified transportation fringe benefit, no other relevant state and federal programs were identified that provide a benefit for similar activities relevant to the proposed tax expenditure objective statement for Minnesotans. Estimates of total claims at the federal level for the state of Minnesota were not found.

Tax Incidence

In accordance with Minnesota Statutes 2025, section 3.8855, only significant tax expenditures require incidence reporting and analysis.[32] Significant tax expenditures are defined in section 270C.11, subdivision 6, as income or sales tax provisions that reduce revenue by at least $10 million per biennium, excluding federal provisions and business

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[29] "SEPTA Key Partner Programs." SEPTA. Accessed May 8, 2025. https://wwww.septa.org/fares/partner-programs/
[30] "Let's Expand, Not Cut, Free SEPTA for Workers", The Philadelphia Citizen. April 8, 2025. Online article webpage. https://thephiladelphiacitizen.org/lets-expand-not-cut-free-septa-for-workers/
[31] "Program providing free SEPTA rides for Philadelphia employees to continue." CBS News. April 9, 2025, https://www.cbsnews.com/philadelphia/news/free-septa-rides-philadelphia-workers-program-extended/
32 Minnesota Statutes 2024, Section 270C.11, Subdivision 6.

tax credits.[33] Neither the individual nor corporate Employer Transit Pass Credit meet this criteria and as such no incidence analysis was performed or referenced in this analysis.

33 State of Minnesota Tax Expenditure Budget Fiscal Years 2024-2027. Minnesota Department of Revenue Tax Research Division. November 1, 2024. chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.revenue.state.mn.us/sites/default/files/2025-01/2024-tax-expenditure-budget-162024-revision.pdf