STATE OF MINNESOTA
Legislative Budget Office

Employer Transit Pass Credit

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

AUGUST 19, 2026

Agenda

- Background
- Tax Expenditure Objective
- Conclusion
- Evaluation & Findings
- Limitations

Background

- Enacted in 2000
- Non-refundable credit available to individuals and to corporate tax filers
- Credit equals 30% of employer costs to provide employee transit passes
- 26 claims in tax year 2023 totaling $6,477 under individual income tax filing status
- 52 claims per year on average between 2014-2023 under corporate franchise tax filings, averaging nearly $994,000 per year.

Background – Estimates of Forgone Revenue

Fiscal Year	2024	2025	2026	2027
Individual Income Tax	$100,000	$100,000	$100,000	$100,000
Corporate Franchise Tax	$900,000	$900,000	$900,000	$1,000,000

Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Tax Expenditure Objective

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.

This objective was approved and adopted by the Tax Expenditure Review Commission on March 15, 2024.

Conclusion

Credit claims have decreased substantially post COVID-19 under individual income tax.

Employee utilization of Metropass has decreased substantially post COVID-19.

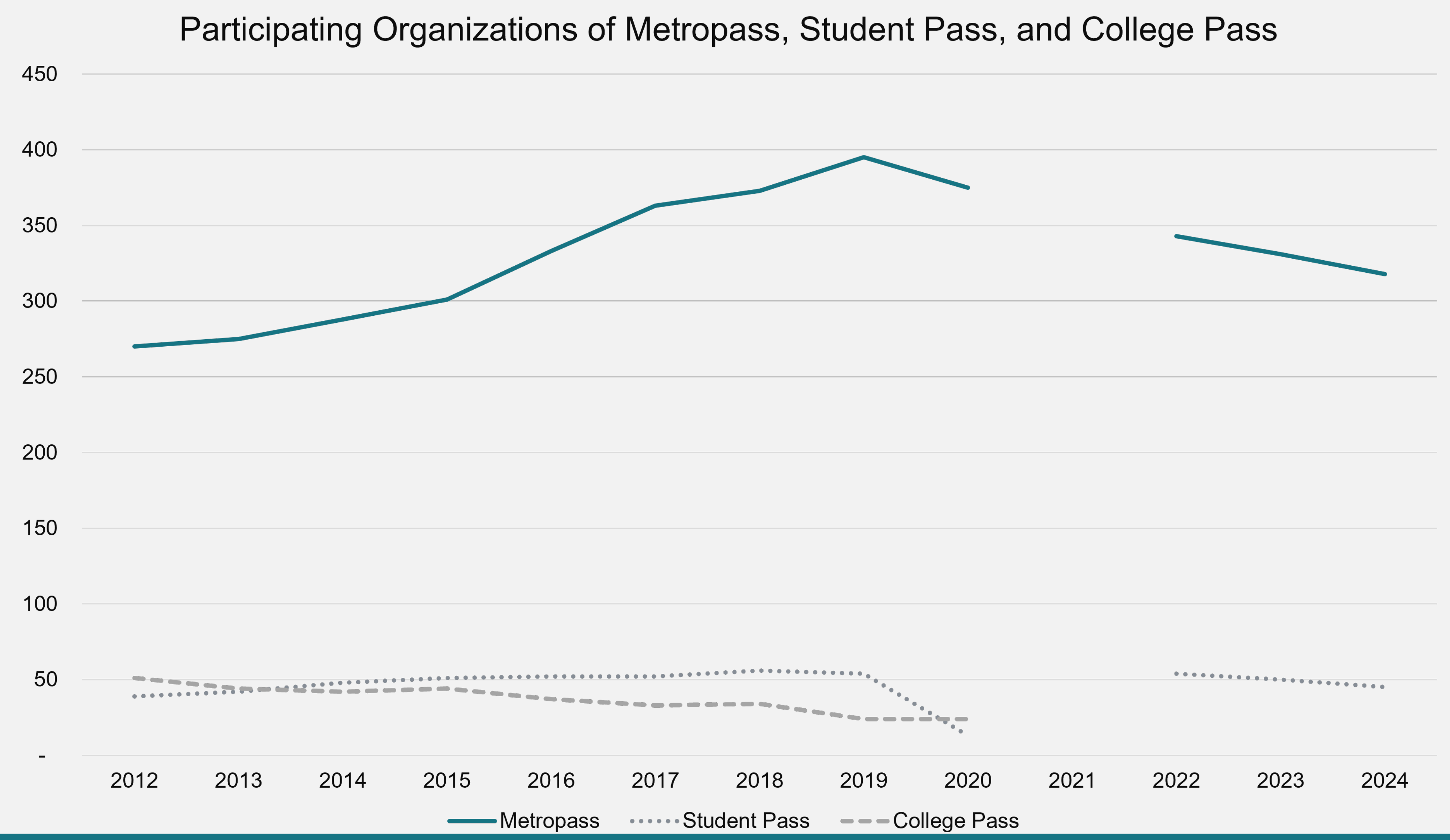
It remains unclear to what extent this tax expenditure achieved its proposed objective of incentivizing Minnesota employers to subsidize transit passes for their employees and to encourage the use of public transit even when utilization of the program was high.

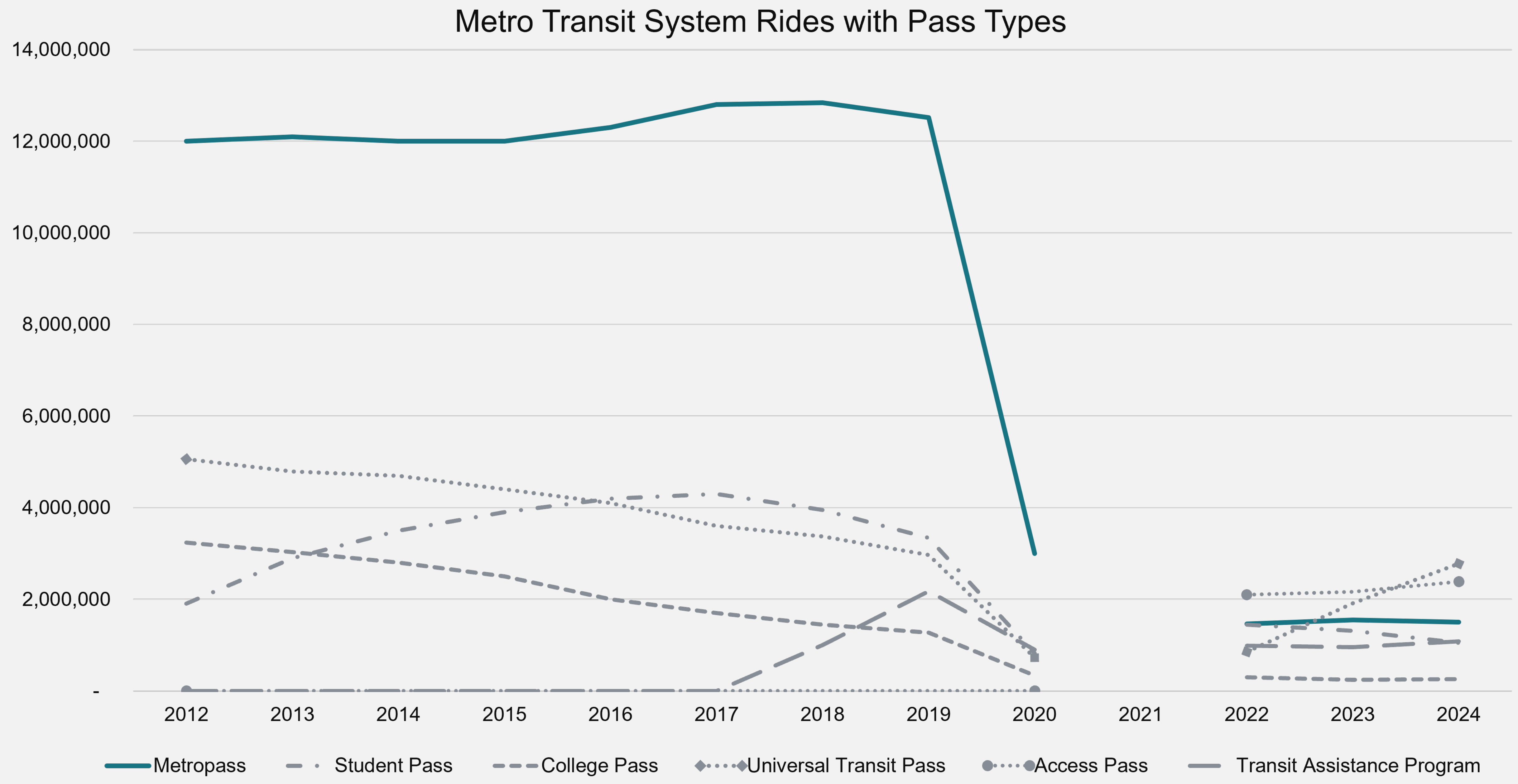
Evaluation

- Metro Transit System utilization by Metropass users and Metropass purchases
- Aggregated tax credit claims data
  - Individual income tax
  - Corporate income tax
- Review of Other States

Evaluation Findings – Metropass Utilization

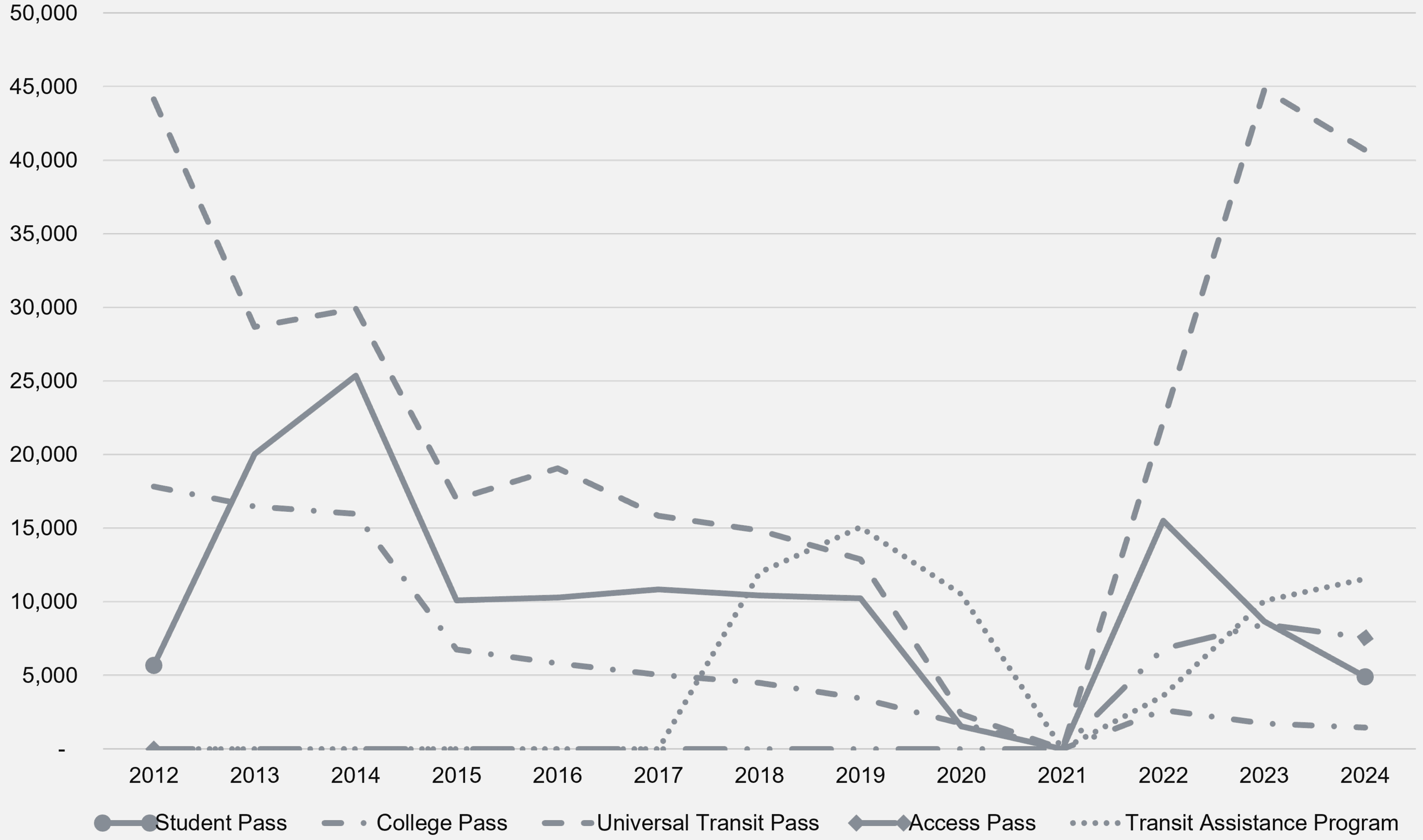
- Number of employer participants has decreased post COVID-19, but still over 300 participants
- Number of Metropass purchases have decreased significantly since COVID-19
- Metropass rides have decreased significantly since the COVID-19 pandemic
  - 12.5 million Metropass rides in 2019
  - 1.5 million Metropass rides in 2024
- Metropass rides accounted for 3% of all rides in the Metro Transit system in 2024
  - Compared to 16% in 2019

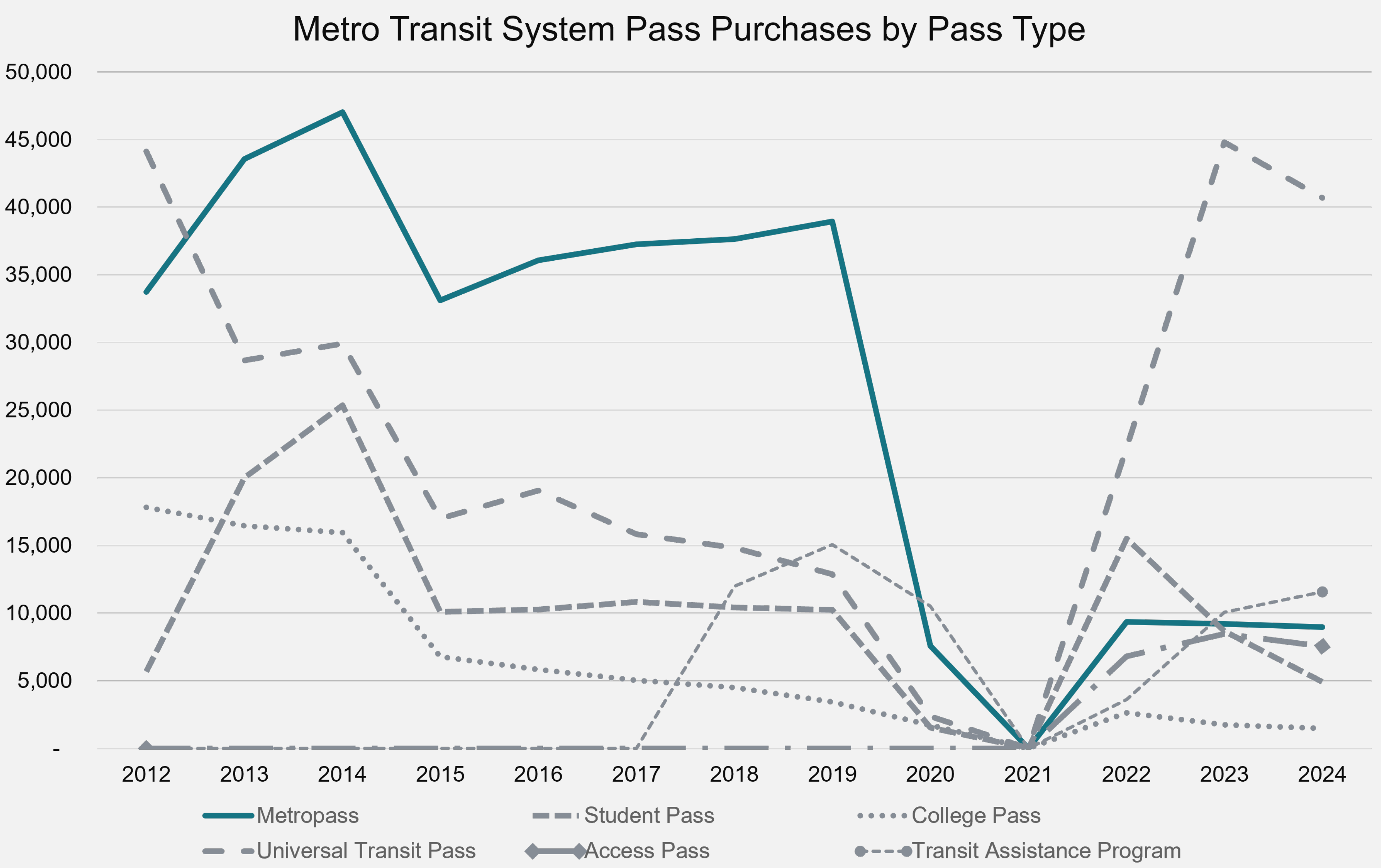

Participating Organizations of Metropass, Student Pass, and College Pass
450
400
350
300
250
200
150
100
50
-
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Metropass
Student Pass
College Pass



Metro Transit System Rides with Pass Types
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Metropass
Student Pass
College Pass
Universal Transit Pass
Access Pass
Transit Assistance Program

Metro Transit System Pass Purchases by Pass Type




Metro Transit System Pass Purchases by Pass Type
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Metropass
Student Pass
College Pass
Universal Transit Pass
Access Pass
Transit Assistance Program

Reported Metropass Participation

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

Evaluation Findings – Individual Income Credit Claims

Tax Year	Number of Claimants	Credit Amount Claimed	Average Claim 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

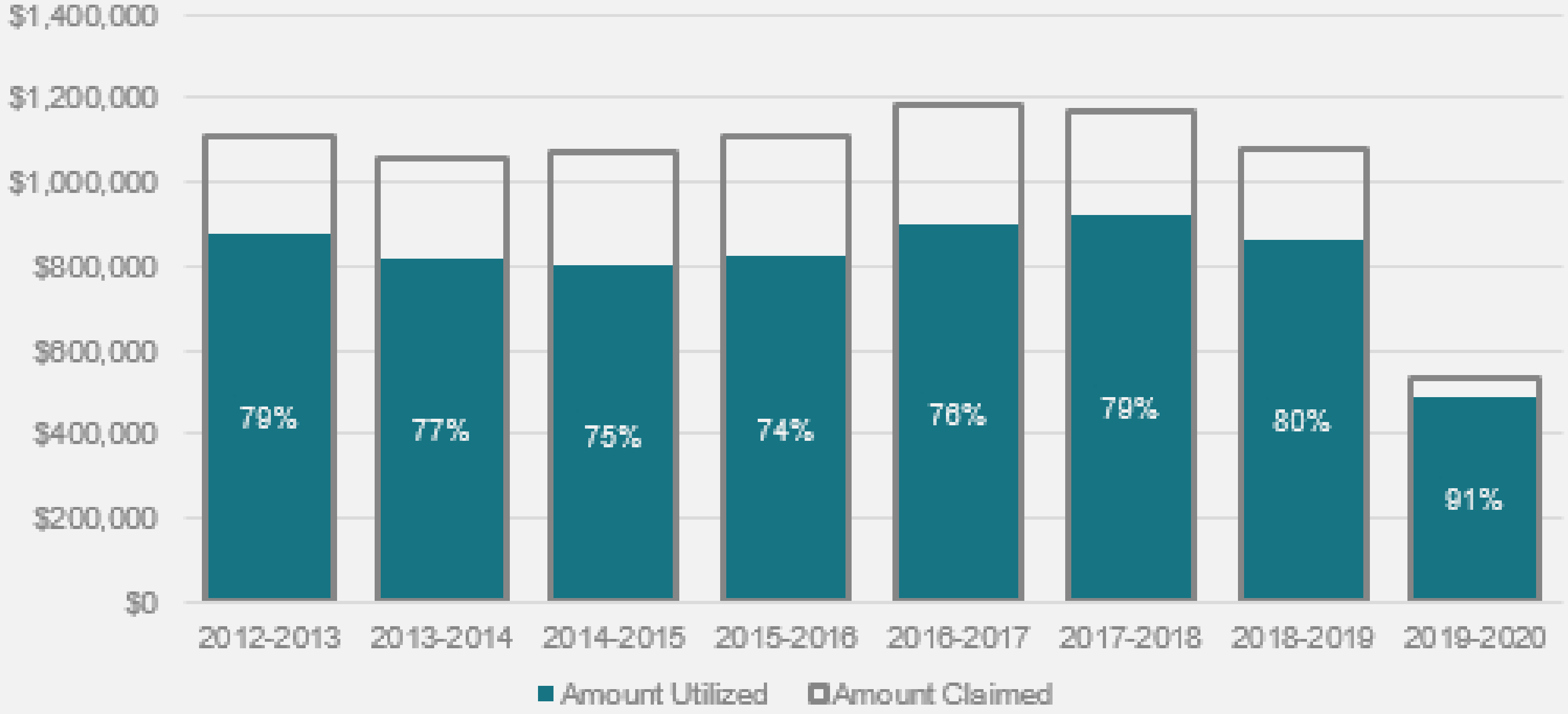
Evaluation Findings – Corporate Income Credit Claims

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

*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.

Evaluation Findings – Corporate Income Credit Utilization

On average, 79% of the available credits claimed were utilized



Review of Other States

- Five other states were reviewed (Colorado, Connecticut, Illinois, Maryland, Washington)
- Neighboring states do not offer statewide commuter tax expenditure
- Generally other states are more expansive in terms of qualifying transit benefits (biking programs, ride-share programs, guaranteed ride programs, etc.)
- State of Washington found the objectives of the credit were met, reducing traffic congestion and pollution, but with limited influence by the credits themselves

Limitations

- Transit providers in Greater Minnesota do not track the sales of qualifying employer transit passes – scope is limited to Twin Cities metro
- We do not know how much each employer subsidizes each pass by, nor the number of passes per participating employer
- Other external factors, such as changes in work from home arrangements, transit routes, accessibility, and pricing, may also influence transit usage

Thank you

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Appendix

Appendix: Best Practices to Evaluate Tax Expenditures

At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Best Practices… Other Criteria to Consider

- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

Appendix: Minnesota Statutes, section 3.8855, subdivision 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minnesota Statutes, section 3.8855, subdivision 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if the tax expenditure is significant)

   - A significant tax expenditure, as defined in Minnesota Statutes, section 270C.11, subdivision 6, excludes any tax expenditure that:

     a) is incorporated into state law by reference to a federal definition of income;

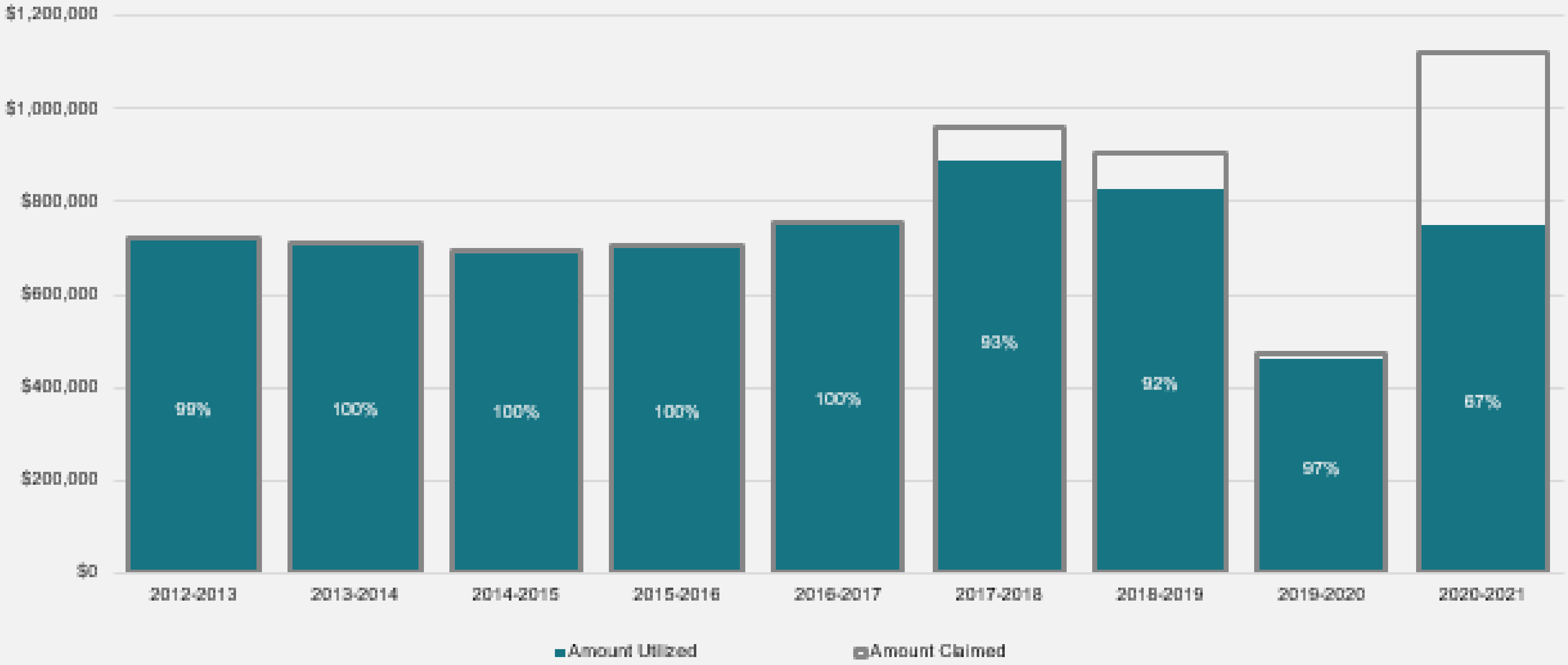
     b) results in a revenue reduction of less than $10,000,000 per biennium; or

     c) is a business tax credit

8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities

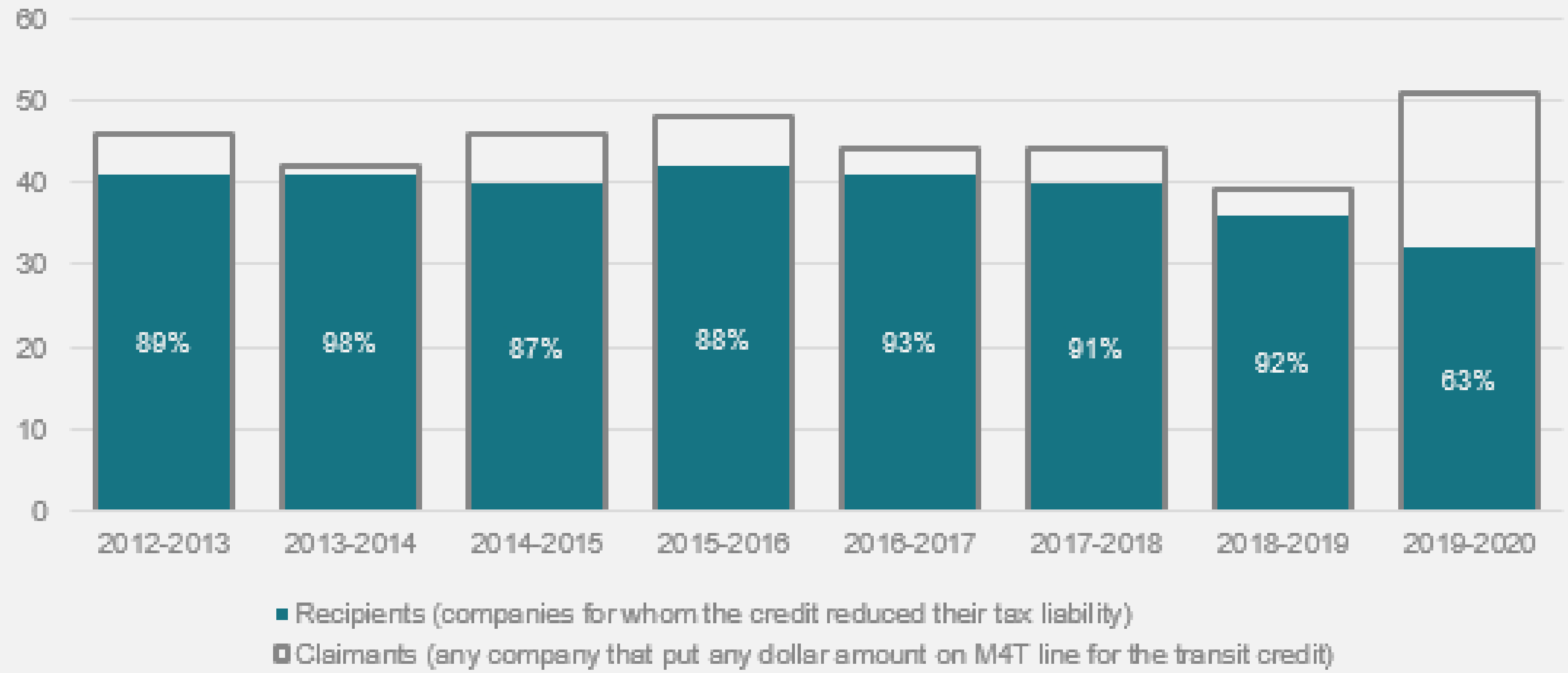
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

Positive Taxable Net Income Amount Claims vs. Utilization

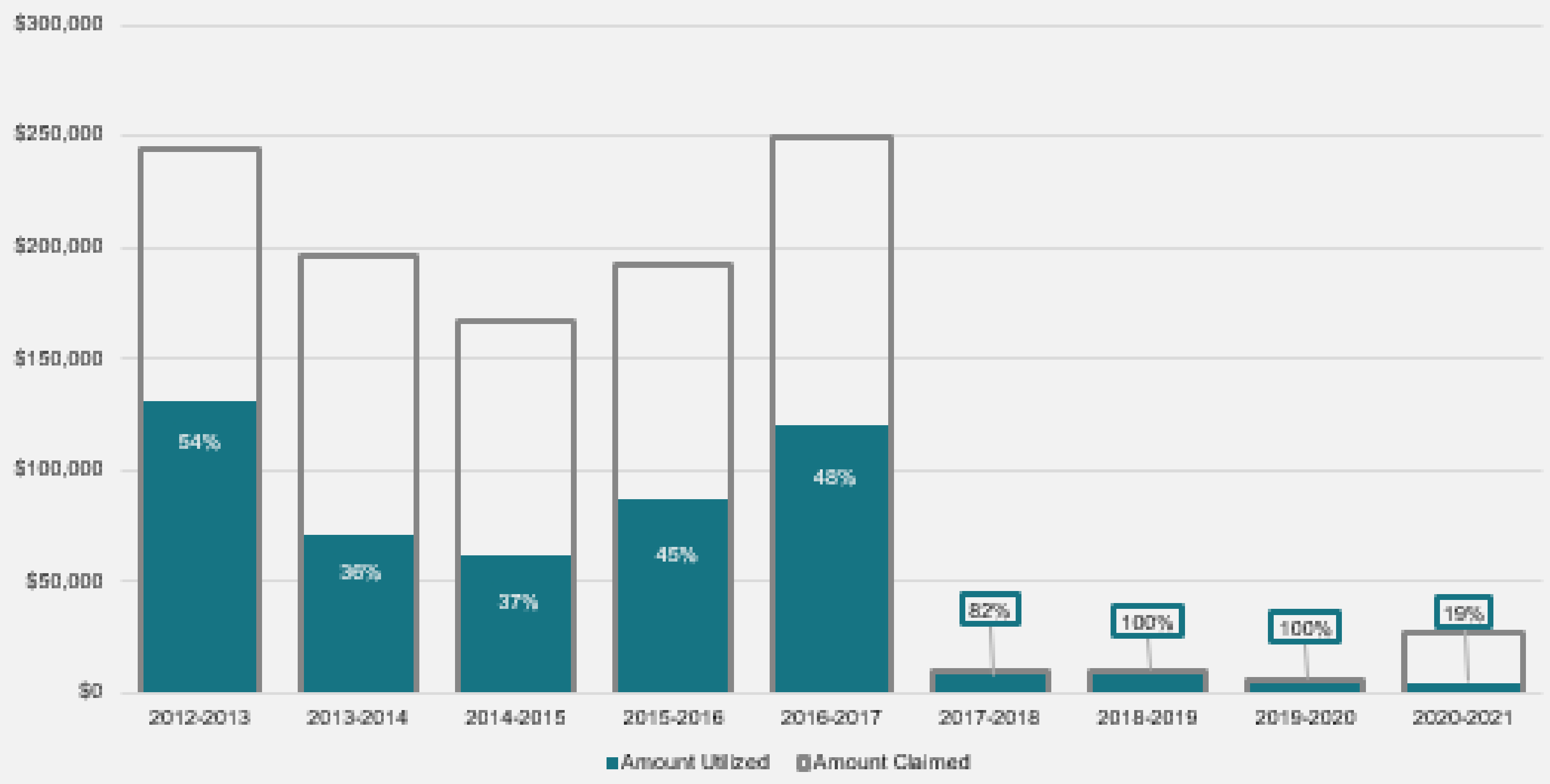


Evaluation Findings – Corporate Income Credit Claimants

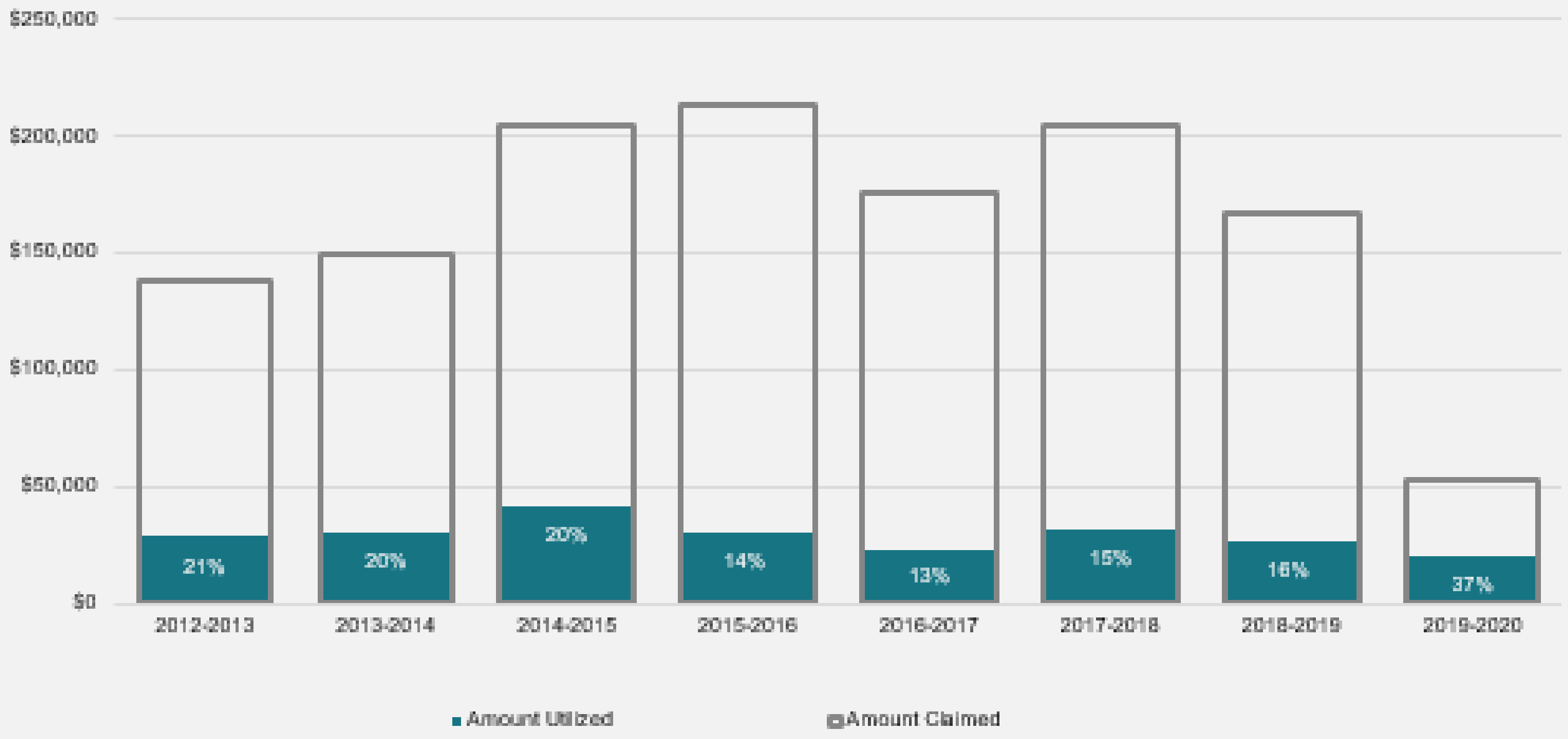
On average, 88% of legal entities that claim the corporate transit pass credit receive a portion of the credit.



Positive Taxable Net Income Zero Tax Claimants vs Recipients



Zero or Negative Taxable Income: Claims vs. Utilization



Component of Review #4: Compare to Direct Expenditure with the Same Objective

- 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.
- 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.
- As of April 2025, 60 employers participate in the program and approximately 50% of eligible employees utilized the benefit.

Component of Review #6: Revenue Neutral Rate

- If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Component of Review #8: 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.