SB 105

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 105 (Senator Ruben)
Budget and Taxation

Tax Credit for Cost of Providing Commuter Benefits to Employees

---

This bill allows specified business entities a credit against the State income tax for 50% of the transit costs incurred by employers that provide a guaranteed ride home program or licensed taxi service commuter benefits for employees.

This bill takes effect July 1, 2000, and applies to all taxable years beginning after December 1, 1999.

Fiscal Summary

State Effect: The extent of any general fund revenue loss depends on a number of unknown factors which include the number of participating employers, the number of credits claimed, and transportation costs. For illustrative purposes only, if credits were claimed for 450 guaranteed rides home (at an average credit of $20) on individual income tax returns, the general fund loss would be approximately $108,000. Potential Transportation Trust Fund (TTF) revenue decrease. No effect on expenditures.

Local Effect: Potential minimal revenue loss. To the extent that credits are taken by corporations, local revenues would decline as a portion of the corporate income tax is distributed to the TTF to which a distribution to local governments is made.

Small Business Effect: Potential meaningful. To the extent that the bill increases demand for taxi service, small taxi cab companies could benefit due to increased fare revenues.

Analysis

Current Law: A tax credit exists for employers that provide certain commuting benefits to their employees. The credit is equal to 50% of the cost of ride-share commuting expenses provided by the employer, subject to a maximum credit of $30 per employee per month. Eligible employer-provided commuter expenses are those that cover multiple-seating vehicle transportation costs and mass-transit transportation costs.

Background: The federal Energy Policy Act of 1992 authorized a deduction for employer paid transit and ridesharing expenses of $60 per employee per month. For the employee, this subsidy was not taxable. Prior to 1992, the only employer deduction was for employee parking. The federal Transportation Equity Act for the 21st Century of 1998 (TEA-21) further expanded the 1992 Act by permitting the employee to use pre-tax income for transit and ridesharing expenses. The limit is currently $65 per month for such expenses and up to $175 per month for parking.

The Montgomery County Fair Share Program ($400,000 budgeted for fiscal 2000, plus an additional $175,000 for a targeted effort in Bethesda) allows a dollar-for-dollar match of up to $65 per employee per month for transit and ridesharing expenses. Currently, approximately 43 companies (2,300 employees) are participating, of which half are nonprofit organizations. A similar program existed in Montgomery County from 1987 to 1991.

In November 1999, The Johns Hopkins University instituted a Pre-Tax Commuting to Work Program. The program covers qualified parking and transit expenses incurred by faculty and staff in commuting to and from work. The maximum amount of parking expenses eligible for pre-tax treatment is $175 per month. The maximum amount of transportation expenses eligible for pre-tax treatment is $65 per month.

Washington State and New Jersey have implemented programs similar to the program that exists under current law. Connecticut has also authorized a similar program, although regulations have yet to be promulgated.

State Fiscal Effect: The Metropolitan Washington Council of Governments (MWCG) is a nonprofit organization that operates a guaranteed ride home program. It is funded by the Maryland and Virginia Departments of Transportation and the District of Columbia Department of Public Transportation. The MWCG's program provides up to four free rides per year to employees whose employers are enrolled in the program and who work in the Washington, DC metropolitan area. The program is free to employers. The program provides a ride home only in the event of an unexpected personal emergency or for unscheduled overtime. Most employees do not require more than four rides home per year.

As a result, most employers do not add additional rides to their programs, since the first four rides are free. Because the program is free to employers, it is assumed that few, if any credits would be claimed by Maryland employers in the Washington metropolitan area because it would cost more to pay for rides home and then claim a credit for them.

The program has been in effect for three years and provides an average of 100-150 rides per month at an average cost of $40 per ride. Rides are provided by either taxi (80%) or rental car (20%).

The Baltimore Metropolitan Council does not have a guaranteed ride home program.

Assuming that 150 rides were given per month in the Baltimore metropolitan area and an additional 300 were given in other parts of the State, the cost would be approximately $216,000 per year (@ $40 per ride). The credit allowed is 50% of the cost of providing commuter benefits with a maximum credit of $30 per individual employee per month. Based on the example above, the maximum credit claimed would be $20 per employee ride home with an annual cost of $108,000.

The bill would also allow employers to take the credit for the cost of paying employees to commute to and from work via taxi. However, it is assumed that very few employers would take the credit for providing this service, due to cost concerns, and would do so only in rare instances, such as for a disabled employee who is unable to utilize other means of mass transit.

Although the tax credit applies to tax year 2000, it is assumed that for most taxpayers withholdings and estimated taxes will not be adjusted to reflect the tax credit until tax year 2001 because of the mid-year effective date. Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates), Montgomery County, Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2000
nncsjr

Analysis by: Mike Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510