

# A Review of the Georgia Qualified Transportation Tax Credit

Prepared for the Senate Study Committee on Special Tax Exemption

December 2017

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## Summary of Policy

Employers are eligible for a maximum \$25 tax credit per employee for subsidizing a qualified transportation benefit, such as vanpools or public transportation passes (O.C.C.A. 48-7-29.3).

## Findings

Utilization of the credit is low with \$122,074 being claimed over the 2011-2015 tax years.

## Evaluation Criteria

Measure	Score
Justification	+
Effectiveness	-
Efficiency	-
Equity	-/+
Return on Investment	N/A
Credit Structure and Administration	-
Budgetary Risk	-/+
Local Government Impact	+
Opportunity Costs	+

## Suggested Policy Recommendations

- Further research should be done to determine why this credit is not more widely used. At this point it is not known whether there is a lack of information about the credit, administrative and compliance hurdles, or other factors that limits its use.
- The state could consider a refundable tax credit for individuals for the purchase of transportation costs such as MARTA cards or Xpress bus passes.
- The state may wish to consider increasing the amount of the credit and modifying it to represent a percent of the transit pass instead of a fixed dollar value.

## **Introduction**

The purpose of this report is to review the Georgia transportation tax credit as part of the work of the 2017 Senate Study Committee on Special Tax Exemption, chaired by Senator John Albers. The committee met several times during the summer and fall of 2017 to discuss the process of evaluating tax incentives. This is one of five reviews produced by the Fiscal Research Center in support of this committee.

Although not explicitly stated, this review assumes that the purpose of the tax incentive is to stimulate use of shared rides and public transportation options for commuters. The credit reduces the cost of the transportation option by subsidizing the activity in an effort to increase use of such options. Increasing the use of carpooling and public transportation reduces the congestion on the road and improves air quality. Therefore, because the benefits of improved air quality are experienced by more than those participating in the program, left alone the private sector will provide less than the optimal amount of this activity. Providing a subsidy in the form of the credit serves to address this underinvestment.

There are many measures by which a tax incentive may be evaluated, but perhaps the most common is the return on investment. That is, an incentive is deemed successful if it provides a positive net return on investment or, stated differently, if the tax dollars generated from the activity exceed the cost of the tax incentive. While this is an important consideration, it may not be the only measure by which incentives should be judged. For instance, incentives that seek to alter behavior may not result in the generation of additional tax revenues but may still be considered worthwhile. Because administration and concerns of state budgeting are also important factors, the program is measured against several criteria. The criteria used in this evaluation were originally developed by Murray and Bruce (2017) and adapted for use by the committee.

The report continues as follows: Section 1 describes the Georgia transportation credit. Section 2 presents information on the credit utilization. Section 3 provides several examples of employers who offer commuting options. Section 4 discusses several previous analyses of the program, which focus specifically on economic and fiscal impact of the credit program. Section 5 concludes with the set of criteria by which the credit is measured, followed by recommendations for improvement and continuation of the program.

## Section 1. Georgia Transportation Tax Credit

### *Credit Structure*

In Georgia, employers can claim an annual \$25 tax credit<sup>1</sup>, against their state income tax liability, for each employee that uses a federally qualified<sup>2</sup> transportation fringe benefit subsidized by the employer (1981 G.A. § 48-7-29.3; GeorgiaCommuteOptions, n.d.<sup>3</sup>). Qualifying benefits include:

- subsidizing a commuter highway vehicle<sup>3</sup> that transports employees from a place of residence/common site to the place of employment, such as a van pool,
- transit passes,
- and qualified parking at or near the common site from which the employees are transported<sup>4</sup>

The credit can only be utilized if the employee uses the fringe benefit for at least 10 workdays per month. The credit has been in effect since 2001.

### *Other State Incentives*

The state provides a tax credit for purchasing or leasing a vehicle with an exclusive purpose of transporting employees to their place of work.<sup>5</sup> The credit only applies to employers with business enterprises in tier 1 or tier 2 counties. Business enterprises in the following industries qualify: manufacturing, warehousing and distribution, processing, telecommunications, broadcasting, tourism, research and development industries, child care businesses, or retail businesses. The credit equals \$3,000 in tier 1 counties and \$2,000 in tier 2 counties. Qualifying businesses must certify that the vehicles carried an average of at least 4 persons for the full taxable year. In addition to the tax credit for employers, sales of MARTA passes are exempt from state and local sales tax.

### *Credit Administration*

The credit is administered by the Georgia Department of Revenue.

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<sup>1</sup> The cost of providing the transportation benefit to all employees cannot be less than the total tax credit claimed by the employer.

<sup>2</sup> As provided in Section 132(f) of the Internal Revenue Code of 1986.

<sup>3</sup> A commuter highway vehicle should have a seating capacity of at least 6 adults (excluding the driver). At least 80% of the vehicle's mileage for the year should be reasonably connected to transportation of employees to their place of employment, and during such trips the number of transported employees should be at least ½ of the adult seating capacity of the vehicle (excluding the driver).

<sup>4</sup> This does not include parking at or near the employee's place of residence or employment.

<sup>5</sup> See Georgia O.C.C.A. 48-7-40.22

### *Federal Deduction for Commuter Tax Benefits*

This state income tax credit operates in combination with federal transportation tax benefits available to both employer and employee under Section 132(f) of the Internal Revenue Code (IRC). The federal incentive structure, in its current form, has been in effect since December 2015<sup>6</sup> (National Center for Transit Research, 2017b).

These federal benefits allow employers to provide employees with up to \$255 per month for transit and commuter highway vehicle expenses and up to \$255 per month for qualified parking<sup>7</sup> by subsidizing such expenses or allowing employees to deduct such expenses from their pretax income (National Center for Transit Research, 2017a). Employers can deduct the amount of the subsidized benefit from their taxable income. In addition, employers do not pay FICA taxes on the benefits paid in the form of transportation benefits.

As per the Association for Commuter Transportation (2017), the vast majority of private sector employers offer federally qualified commuter benefits as a pretax benefit, but most do not offer a direct subsidy. However, even if the employer does not subsidize any portion of the commuter benefit, they still may incur some administrative cost to offer the pretax option to their employees. Many firms hire third parties to assist with this service (Zenefits, 2017; Edenred Commuter Benefits Solutions, n.d.<sup>a</sup>; GeorgiaCommuteOptions, n.d.<sup>c</sup>; WageWorks, n.d.).

### *Commuter Tax Credits in Other States*

Several states also provide similar subsidies, including Washington, Maryland, Minnesota, Delaware, Connecticut, Oregon, and New Jersey (United States Environmental Protection Agency, 2005).

## **Section 2. Usage of the Credit**

Over the 2011-2015, \$122,074 in state income tax credits were claimed by employers for providing qualified transportation fringe benefits as shown in Table 1. This implies that employer subsidies were provided to approximately 4,883 employees. The data on the number of employers claiming the credit is not available. Based on the available data, we cannot explain the reason for the sudden increase in utilization in 2013.

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<sup>6</sup> Pages 39-41 of (National Center for Transit Research, 2017a) has a brief history of commuter benefits that have existed in some form since the tax reform act of 1984.

<sup>7</sup> This includes parking at or near the employee's place of employment, but not the employee's place of residence. Employers can reimburse employees up to \$20 per month tax-free for eligible bicycle expenses as long as employees do not receive any other federal qualified transportation fringe benefit.

**Table 1. Credit utilization by year**

2011	2012	2013	2014	2015
\$15,058	\$12,650	\$73,391	\$8,129	\$12,846

Source: Department of Revenue, returns processed as of 6-19-2017. 2015 returns are not complete.

### **Section 3. Examples of Commuting Behavior in Georgia**

Table 2 shows the methods of commuting for the Georgia workers based on data from the 2016 American Community Survey data of the U.S. Census.

**Table 2. Georgia Commuting modes, 2016**

Mode of Commute	Percentage of Workers
Drive alone to work	84.08%
Carpool (Car, Van, Truck)	10.21%
Public Transit	2.26%
Walking	1.65%
Taxicab, Motorcycle, Bicycle, and other	1.80%

Source: American Community Survey, US Census Bureau.

Based on data of commuting modes in Georgia from the U.S. Census, the percent of workers commuting via carpools and public transit have decreased between 2000 and 2015, while the percentage of drivers who drive alone have increased.

#### *Commuting Programs in Georgia*

Several transportation management associations (TMA) operate within the metro Atlanta region, such as Cumberland Corridor, Livable Buckhead, Perimeter Connects, ASAP+, Midtown Alliance, Central Atlanta Progress and Aero ATL<sup>8</sup>. These organizations assist employers with establishing payroll deductions programs and make bulk purchases of MARTA passes on behalf of local employers. All MARTA passes purchased by these organizations are subject to a 20 percent discount through its Partnership program, reducing the cost of an unlimited monthly pass to \$76 from \$95.<sup>9</sup>

For example, the Midtown Alliance supports 92-95 employers in their provision of commuting benefits. Most of these employers provide employees with the ability to fund their transportation expenses with pretax dollars<sup>10</sup> rather than directly subsidizing the commuting benefits. Most of

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<sup>8</sup> <http://gacommuteoptions.com/Be-the-Solution/Frequently-Asked-Questions/General-Information>

<sup>9</sup> MARTA passes purchased directly by the employer may also be eligible for the 20% discount if at least 1,500 passes are purchased at a time.

<sup>10</sup> As per CCTMA Administrator at Clifton Corridor, employers must utilize third parties to offer commuting benefits to their employees.

the benefits are in the form of MARTA passes, and Xpress bus service passes<sup>11</sup>. On the other hand, a representative for Perimeter Connects, serving the Perimeter Dunwoody area, states that out of the 50 employers that participate with their program, about 30 percent to 40 percent subsidize commuter benefits to some degree, with most of the benefits in the form of MARTA passes, and Xpress bus service passes. While transit passes are the most popular benefit that is used, it is important to note that both organizations also assist employers in providing other commuting benefits pertaining to car parking<sup>12</sup>, ride-sharing, and bicycling to work. These organizations also offer services directly to commuters. For instance, Georgia Commute Options allows commuters to register with their ride-sharing database to connect them with other riders in their area to assist them in carpooling to work<sup>13</sup>.

IBM and Coca-Cola are the two companies in Atlanta that made it into the 2017 list of Best Workplaces for Commuters (Center for Urban Transportation Research, 2017<sup>a</sup>). To be recognized for this designation, the employer must provide commuting benefits that result in at least 14 percent of their employees no longer driving alone to work within a year (Center for Urban Transportation Research, 2017<sup>b</sup>). According to Central Atlanta Progress (2016) Coca-Cola created a branded shuttle called the “red bus” that transports its employees from nearby transit stops to the main Coca-Cola Atlanta campuses. This decreases midday commutes by about 800 trips a day. It also offers a commuter benefits program through which employees are eligible for MARTA and regional bus services subsidies of up to \$50 per month, as well as a rideshare program. As of January 1, 2017, approximately 250 employees participate in the program. IBM provides commuting benefits by facilitating pretax funding of transportation expenses by the employee (IBM, n.d., Georgia Commute Options, n.d.<sup>e</sup>).

#### **Section 4. Commuter Tax Benefits & Traffic Congestion**

Overall, there is limited research on the effect of subsidies on the use of public transportation options, but our research identified two studies. One study by the National Academies of Sciences, Engineering, and Medicine (2005) analyzed the effect of transit benefit programs on travel behavior and found that there is an indication of increased use of transit as a result of employer subsidies because the subsidy reduces the cost to the employee. Alternatively, de Grange et al. (2012) found no evidence that fare subsidies increased use of transit ridership.

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<sup>11</sup> <http://www.xpressga.com/>

<sup>12</sup> Nonetheless, the goal of Georgia Commute and these other organizations is to reduce the number of lone drivers on the road.

<sup>13</sup> <https://www.mygacommuteoptions.com/rp/service.asp?ReturnURL=https%3a%2f%2fwww.mygacommuteoptions.com%2frp2%2fCarpoolMatch.aspx&Authenticated=False>

## **Section 5. Evaluation of the Georgia Qualified Transportation Credit**

### *Justification*

Because the use of carpooling and public transportation reduces the congestion on the road and improves air quality for all commuters, the benefits are experienced by more than those participating in the transportation program. In such a case, there is likely to be an underinvestment of this activity in the absence of government support.

### *Effectiveness*

Given the minimal use of the credit, it is difficult to argue that this is an effective credit. It is likely that the size of the credit is insufficient to stimulate a change in commuting behavior. For example, a monthly MARTA pass is \$95 or \$1,140 annually. Thus, \$25 represents just 2 percent of this cost. It is therefore likely that a higher subsidy would have a greater effect on credit use but would also represent an increase in the cost to the state.

In addition, there may be a lack of knowledge about the credit. As part of our research, we reached out to representatives from MARTA and a local TMA. Both suggested that employers probably were not aware of the credit. On the other hand, this lack of use may be an indication that the credit is not required. Based on our research, many employers are subsidizing transit benefits. While we do not know if they are claiming the credit, it is likely that many are not based on current utilization levels.

### *Efficiency*

The purpose of the credit is to encourage individuals who would not typically choose to carpool or use public transportation to shift towards the use of public transportation and carpooling. Based on its lack of use, there is little evidence it is resulting in this change in behavior.

### *Equity*

On a geographic basis, this benefit would be most attractive to those living in congested, urban areas such as the Atlanta metro area. In terms of income, because the credit is provided to the employer, all employees regardless of income are equally affected.

### *Return on Investment*

The societal benefit from this incentive is primarily in the form of a reduction in traffic congestion and an improvement in air quality. These benefits will be dispersed over many individuals and are difficult to quantify.

### *Credit Structure and Administration*

The value of the credit is a fixed dollar amount. As such the credit becomes a less valuable incentive as the cost of a MARTA ticket increases. The cost of administration is kept relatively low because the credit only applies to employers and is therefore limited in its scope. Restructuring the credit so that it is available to employees will increase administrative costs but may also encourage more usage of the credit. For instance, the credit is ineffective in incenting nonprofit employers because they do not incur a tax liability. If the credit is provided to both employers and employees, it would be important to allow the unused portion of the credit to be carried forward against future tax liabilities or provided as a refundable tax credit.

### *Budgetary Risk*

Given the current level of usage, the risk to the budget is minimal.

### *Local Government Impact*

Although there are no direct revenue implications to the local government, it is likely that local governments will benefit from the reduction in traffic congestion.

### *Opportunity Costs*

Because such a small amount of state resources is used for this incentive, the opportunity cost is minimal.

## **Suggested Policy Recommendations**

- Further research should be done to determine why this credit is not more widely used. At this point it is not known whether there is a lack of information about the credit, administrative and compliance hurdles, or other factors that limits its use.
- The state could consider a refundable tax credit for individuals for the purchase of transportation costs such as MARTA cards or Xpress bus passes.
- The state may wish to consider increasing the amount of the credit and modifying it to represent a percent of the transit pass instead of a fixed dollar value.

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