Commute Trip Reduction Tax Credit Amendments: Draft Technical Committee Proposal
December 11, 2023

Technical Committee members and CTR implementers advised the goal for the tax credit in April 2023. Committee proposed 1) Renewing the tax credit; 2) Amending it so more commuters who traditionally lack access to employer-sponsored transportation incentives may receive them.

Draft TDM Technical Committee recommendation: Modifying the credits "limitations" addresses the 2nd goal above. Current limitations are listed in the Appendix.

- Increase the total credit cap in line with inflation from $2.75M to $4.3M.
- Increase the per employee cap from $60 to $100 per employee.
- Eliminate the "50% of total incentive cost" from the "per employee" cap limitation.
- Reduce the "per employer cap" from $100K to $50K.

Background:

- The credit has been amended several times since 2001. The total credit cap increased in 2003 from $2.5M to $2.75M. Also, the "per employer cap" was $200K.
- Applicants cannot predict their award. When total applications exceed total budget, Department of Revenue "ratably reduces" all awards. Since 2016, this "ratable reduction" could be over 50% of the application request. In 2022 and 2023, the credit was undersubscribed, so applicants received their request up to $100K.
- Small- and medium-sized businesses are considered to have 1-250 employees, which implementers informed are less likely to offer transportation incentives.
- JLARC reports that credit applications have fallen but transportation incentives have continued – suggesting the credit may not factor into the decision to offer benefits.
- JLARC recommends modifying the credit in way that "further reduces single-occupant vehicle travel," else recategorizing the credit "as one that provides tax relief."

Draft Recommendation Benefits:

- Spread budget across more businesses, particularly those of small- to medium-size. By lowering the maximum credit a business may receive, more businesses may apply before total requests exceed total budget – reducing the threat of a the "ratable reduction" described above. Increasing the total budget to $4.3M contributes to this objective as well.
- Distribute the credit across the state. Currently, most credits are awarded to the largest applicants, which are concentrated in Central Puget Sound.
- Make it more lucrative for small- and medium-sized applicants. Increasing the "per employee" cap will more closely reflect costs.

Draft Recommendation Trade-offs

- The larger the "per employee" cap is, the greater the risk of Department of Revenue applying a ratable reduction. Increasing the "per employee" cap drives the size of the applicant's credit request. Accordingly, increasing the "per employee" cap requires a larger total budget and a lower "per employer" cap.
- In 2023, there were 10 applicants above 1,666 employees, so several large organizations still rely on the tax credit to offset costs. That said, applications of this demographic have dropped by over 50% since 2016.

Summary
The draft modifications follow the direction of the CTR Technical Committee to amend the tax so more commuters who lack access to employer-sponsored transportation incentives may receive them. It is deliberate in its approach to target a specific demographic of applicant, and it updates the credits limitations to reflect the current market for transportation incentives.

Appendix 1: Current limitations and implementer feedback

- **Total employer cap:** $100K
    - The credit is maximized at 1,666 employees. ($100K / $60). Few employers outside of Central Puget Sound report this headcount and apply for the credit.
- **Per employee cap:** 50% of total or up to $60 per employee per year.
    - In some jurisdictions, the cost of the transit incentives is quite low, so 50% of the cost results in an award that is too small to illicit an application.
    - $60 per employee per year does not reflect the cost of transportation incentives.
- **Total credit cap:** $2.75 million per year.
    - This number has not been adjusted since 2005 and does not reflect increasing costs of transportation incentives.
- **Ratable reduction:** Method by which Department of Revenue ensures the total credit cap is not exceeded.
    - Once the employer cap and employee cap have been applied to an application, the cumulative credit requests cannot exceed $2.75M. Accordingly, all applications are reduced by a proportional rate of their request.
- **Application period:** January 1 to January 31.
    - Applications are prepared in December in preparation for a January submission. This period is short and at a difficult time for many businesses to apply. For small and/or under-resourced businesses, the application period is difficult.