

Federal Railroad Track Maintenance Credit - IRC 45G

Description:

A business tax credit is allowed for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer. Qualified railroad track maintenance expenditures are gross expenditures for maintaining railroad track (including roadbed, bridges, and related track structures).

Who:

Credit is available to a class II or class III railroad that owns, leases or is assigned railroad track. Credit also available to any person who transports property using rail of class II or class III railroad in certain circumstances.

Credit Amount:

Credit is lesser of:

- 50% of the qualified railroad track maintenance expenditures paid or incurred during tax year
- \$3,500 multiplied by number of miles of track owned/leased by eligible taxpayer at close of tax year.

Effective Date and Federal Legislation:

Credit was available for tax years 2005 through 2017. Pending federal legislation (H.R. 510 & S. 203) would retroactively make credit available beginning with tax year 2018, no sunset date on credit going forward.

Transferability

Credit transferability can be a desirable policy option in instances when recipients of a credit may have no tax liability (e.g. nonprofit organizations or government entities). Transferability is relevant for HB 2978 as five short lines are owned by government entities. A credit is generally transferred through a process where the initial entity that qualifies for the credit subsequently sells the credit to a taxpayer for a discounted value. For example, a port district may qualify for a 10,000 tax credit. Since the port district is not subject to tax, the port sells the \$10,000 credit for \$8,500. The port has then received \$8,500 and the taxpayer that purchased the credit now has the ability to use a tax credit worth \$10,000. As the taxpayer purchased the credit for \$8,500, the net gain to the purchaser is \$1,500.¹

Direct Appropriation Comparison

Tax Credit	Direct Appropriation
<ul style="list-style-type: none">• Administration/Oversight• Timing of applicability (multi-year)• Timing of payment (return filing, estimated payments)• Ability to claim (refundability, carry forward, transferability)• Credit review process, Tax Expenditure Report• Credit limits	<ul style="list-style-type: none">• Administration/Oversight• Timing of applicability, ways & means process• Disbursement timing• Appropriation limits

Examples of direct appropriation:

- Federal grants
- Oregon State Rail Plan | Connect Oregon
- Direct general fund expenditures.

¹ There are capital gains income implications that are ignored for simplification purposes in this example.
HB 2978 | House Committee on Revenue | LRO - 4/1/2019