

HOUSE RESEARCH

Bill Summary

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Authors: McDonald and others

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Analyst: Nina Manzi (651-296-5204) and Joel Michael (joel.michael@house.mn)

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Provides individual and corporate franchise tax subtractions from federal taxable income. The subtraction for employees is equal to the value of the use of an on-premises fitness facility located in Minnesota and provided by the employer, or fitness facility membership fees paid by the employer. The subtraction for employers equals amounts paid for employee membership at fitness facilities, but cannot exceed \$40 per employee per month for months in which the employee uses the fitness facility for at least eight days. The benefits must be available to all employees or to a group of employees defined under a reasonable classification, which may not be restricted to highly compensated employees as defined under section 414(q) of the Internal Revenue Code. (This is defined as a 5-percent owner or the one-fifth of the taxpayer's employees who are most highly compensated. For tax year 2014, employees making less than \$115,000 do not count as highly compensated employees under this definition. This amount is annually indexed for inflation.) Fitness facilities exclude private clubs, and facilities that offer golf, hunting, sailing, or horseback riding. The amendment limits both the individual and corporate subtractions to amounts otherwise included in federal taxable income. Effective beginning in tax year 2015.

Background: Under federal tax law, employer-paid athletic club membership fees are generally deductible to the employer but are included in the taxable income of the employee, unless the membership is provided for medical reasons and qualifies as a health care expense for the employee (rare). By contrast, on-premises athletic facilities provided for use by employees and family members may be both deductible by the employer and a non-taxable fringe benefit to the employee, if substantially all use of the facilities during the calendar year is by employees, their spouses, and their dependent children, and the facility is operated by the employer on premises owned or leased by the employer.