
COMMUTER TAX BENEFITS

Brief History

Since the early 1990's, federal legislation has enabled and expanded the range of commuter benefits that employers can offer to their employees. In 1998 the Transportation Equity Act for the 21st Century (TEA-21) was enacted, amending the Internal Revenue Code to allow any qualified transportation fringe to be provided in lieu of salary. Just as the Taxpayer Relief Act of 1997 allowed qualified parking benefits to be taken in lieu of income, TEA-21 expanded this to also allow transit pass and commuter highway vehicle benefits to be taken in lieu of other monetary compensation. The Act also raised the tax-free limit on transit pass and commuter highway vehicle benefits from \$65 to \$100 per month, starting in 2002. In January 2001, the Internal Revenue Service issued final regulations, under Section 132(f), concerning qualified transportation fringe benefits and their excludability from employees' gross income. The regulations provide rules to ensure that transportation benefits provided to employees are excludable from gross income and provide clarity on a variety of issues.

How It Works

Private employers, non-profit organizations and public agencies can provide transit commuter benefits to employees, tax free. There are three ways to provide tax-free qualified commuter benefits:

- Company covers full cost of the benefit: Up to \$115 per month for transit and vanpool expenses and \$220 per month for qualified parking expenses.
- Company offers a "pre-tax" benefit: Employees may have up to \$115 per month taken out of their current monthly pay towards the cost of commuting on transit or vanpools and up to \$220 per month taken out for qualified parking expenses, before taxes are applied. Employees save federal income and payroll taxes. Many employers prefer this option because the employee pays the cost, and the employer saves money on Federal Insurance Contributions Act (FICA) payments to Social Security and Medicare. Unemployment taxes do not apply.
- Employer and employee share costs: Under this option, the employer and employee each pay a share. The employer, for example, might offer \$40 per month in transit/vanpool benefits and allow the employee to reserve up to \$65 per month as a pre-tax benefit. The employer could also offer subsidized parking, paying \$40 per month for a \$105 space, and allow the employee to pay for the other \$65 through a pre-tax salary deduction.

Employer Q&A

How do I start a transit commuter benefit program?

The Transit Commuter Benefit program is easy to start, easy to administer, and does not require extensive record keeping. When employees pay all of the cost, employers only need to keep a record of the purchased transit passes and vanpool riders. The most common internal administrative costs faced by employers who implement commuter benefit programs include the cost of managing the program on a day-to-day basis, marketing the program to employees and arranging where the employees would collect their transit passes from.

How can I track employee trips and get data on the reductions of trips, vehicle miles traveled and carbon emissions?

SLO Regional Rideshare has a tool called TripLink that allows employers to view employee trips and the subsequent reduction in vehicle miles traveled and carbon emissions. TripLink is free and also provides online rideshare matching for all users. Employees simply log trips into their online commute calendar, thus providing data to the employer. To set up an employer page and begin tracking your employees commute modes, contact the Rideshare and get started with TripLink.



Does a qualified commuter benefits plan have to be in writing?

No. The Internal Revenue Code does not require that a commuter benefits plan be in writing or that any form or written plan be submitted to the IRS. A company may wish to write a plan for employees indicating what benefits will be provided by the company, how the emergency ride home program operates and the procedure for enrolling in and discontinuing participation in the benefits program. This plan should be made available to all employees.

What are the payroll tax requirements for qualified commuter benefits?

Qualified commuter benefits that do not exceed the statutory monthly limits are not considered wages for purposes of FICA, the Federal Unemployment Tax Act (FUTA), and federal income tax withholding. Any amount by which an employee elects to reduce compensation under the limit is not subject to the FICA, the FUTA and federal income tax withholding.

What types of transit services qualify for the benefit?

Any type of transit service, publicly or privately owned or operated including bus, rail, subway, ferry, shuttle bus etc.

What various vanpool arrangements qualify for the benefit?

Transportation in a commuter highway vehicle (vanpool) which is provided "by and for" (on behalf of) the employer is eligible for the benefit. These types of vanpool

arrangements are: employer-owned; employer-leased; employee-owned; employee-leased etc.

Are bicyclists and/or walkers covered under the benefit?

Yes. Under the Bicycle Commuter Act (October 2008) cyclists may receive up to \$20 per month from their employers for commuting to work by bike. This bill became effective January 1st, 2009 and employees are eligible under the following criteria:

- Regularly uses the bicycle for a substantial portion of the travel between the employee's residence and place of employment
- Does not receive
 - transportation in a commuter highway vehicle
 - any transit pass
 - any qualified parking benefits

Employers may offer this incentive program either as a cash incentive (where bike commuters certify that they will commute to work by bike a substantial portion of the month) and reimburse employees, who provide receipts for expenses i.e. bike maintenance, commuting gear, etc. or by establishing a pre-tax deduction program, similar to the transportation benefits outlined above.

How are adjustments for inflation made?

Since 2002 the maximum for all benefits are subject to annual inflation adjustments as determined by the IRS. Effective January 1st, 2009, there will be an increase in the monthly limitation for transit and vanpool commuters to \$120 per month. The qualified parking amount will increase to \$230 per month.

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