



SUSTAINABLE ENVIRONMENT for QUALITY of LIFE



TAX-FREE COMMUTER BENEFITS

What is it?

Tax-free commuting employee benefit programs give public and private sector employers the opportunity to provide their employees up to \$100 per month (\$1,200 per year) to cover the cost of commuting by vanpool, bus or rail. Unlike ordinary wage payments, employers do not have to pay their share of federal payroll taxes on tax-free transit benefits, and the cost of providing tax-free transit benefits can be deducted as a normal business expense. A tax-free commuting benefits program can be employer-sponsored or set up through pre-tax payroll deduction. This benefit encourages transit ridership and van- or car-pooling, both of which reduce vehicle miles traveled (VMTs) and thus reduce emissions that form ozone.

Costs

For employers, the payroll tax savings is often more than enough to cover any cost of administering the program.



This Action Item can be implemented as a

- POLICY
- ORDINANCE
- PROGRAM

Shared Impact and Benefits

- Tax-free commuting benefit programs encourage transit or van- and carpool usage, thus decreasing the overall amount of automobile traffic and reducing exhaust emissions--so air quality is improved.
- By improving air quality, this action has significant impacts on public health. Poor air quality not only worsens existing respiratory problems, but also may contribute to heart disease, lung cancer, and premature death.
- Getting more people out of single-passenger cars reduces parking needs, making more downtown land available for development that yields higher economic and environmental returns.
- This action allows employers to help the environment with minimal cost and maximum tax benefits.
- Some of the secondary and tertiary benefits from the increased transit ridership or vanpooling stimulated by this action include reduction of urban heat islands (less energy use and lower cost to cool downtown buildings), and decreased runoff from parking lots into streams or storm sewers.

How long does this take to implement?

Employers can begin their programs in about the same time it takes to start a 401K plan.

The Bottom Line

- Employers and employees save on the bottom line, and with fewer commuter cars on the road and in downtown parking lots, the community benefits with improved traffic conditions, better air quality, improved public health and a cooler, potentially "greener" downtown.
- A transit commuter benefit program is affordable, simple to administer and does not require extensive record keeping. It is a win-win fringe benefit.

Interested? Read on!



Who needs to be involved in implementation?

-  Public and private employers interested in saving tax dollars and providing their employees with incentives to use alternative transportation
-  Transportation authorities seeking additional riders through incentive programs with employers
-  Tax consultant or human resource professional



Action Steps

1. Identify employers already participating in this program or a similar program.
2. Contact local employers, transit authorities, and ride-share operations. Meet with these groups to discuss the benefits of the program and coordination. Be sure to have a financial advisor present equipped to answer tax-related questions.
3. Draft instructional start-up guidelines that address the concerns and needs of employers, employees and transit parties. Incorporate pertinent information from the SEQL document.
4. Distribute the guidelines to all interested parties. Useful employer guidelines can be found at: <http://www.fta.dot.gov/library/policy/cc/gs.htm>.
5. Employers should file the Transportation Fringe Benefits Claim Form available at: http://www.flex-plan.com/pdf/132_claim_form.pdf.
6. Follow up with participants to trouble shoot and provide further information as required.
7. Offer additional incentive programs as needed to get more participants on board.

Resources

- There is some cost to establishing the program; however, this is often covered by payroll tax savings. This program can be administered using the same mechanisms by which employers manage medical benefits or 401K plans, either in-house or by utilizing human resource consultants. Employers should note that transit commuter benefits represent a less costly employee benefit than parking benefits.
- Private consulting firms can assist as third party administrators. <https://www.wageworks.com/WhatWeDo/PublicTransportation.asp>
- For grant information, visit: <http://www.charlestoncounty.org/pages/departments/Budget/BudgetFiles/Departments/GrantsComplete.PDF>



Basic Information

Since taxable year 2003, the monthly limitation under IRS Section 132(f)(2)(A) regarding the aggregate fringe benefit exclusion amount has risen to \$100 for transportation in a commuter highway vehicle and for any transit pass. The monthly limitation under Section 132(f)(2)(B) regarding the fringe benefit exclusion amount for qualified parking is now \$190. Transit and vanpool benefits are considered qualified transportation fringe benefits under 26 USC 132(f).

Prior to passage of TEA-21, the IRS allowed employers to provide transit or vanpool benefits *in addition to*, and not *in lieu of* compensation. Under the changes made by TEA-21 and the Taxpayer Relief Act of 1997, employers may continue to provide these benefits in addition to current compensation paid to their workers or, for the first time, *in lieu of* their existing compensation. Transit and vanpool qualified transportation fringe benefits can now be used as follows:

1. **Benefits in Addition to Compensation** - Employers may give their employees up to \$100 per month in benefits to commute to work by transit or by eligible vanpools. The employer pays for the benefit and receives an equivalent deduction from his business income taxes. Employees receive the benefit completely free of all payroll and income taxes, *in addition to* their current compensation.
2. **Benefits in Lieu of Compensation** - Employers may permit their employees to set aside some of their pre-tax income to pay for transit or eligible vanpools. Employers do not pay for the benefit, but permit employees to use some of their gross income to pay for commuting expenses before taxes are computed, up to \$100 per month. Employees save on payroll and income taxes on the amount of the benefit they purchase, since that amount is no longer treated or reported as taxable salary. Employers' payroll costs are reduced since payroll taxes do not apply to the set-aside amount; rather it is treated as a benefit.
3. **Combination** - Employers may share the cost of commuting with their employees. Employers can give their employees part of the commuting expense tax-free *in addition to* their compensa-

tion and allow the employees to set aside part of their gross income, *in lieu of* compensation, to pay the remaining amount, up to the total monthly limit of \$100. For example, the employer could provide the employee a transit pass worth \$65 in addition to salary and the employee could use pre-tax income that is set aside to purchase a pass for \$35, for a total monthly benefit of \$100. The employer receives an equivalent deduction from its business income taxes, while the employee saves on payroll and income taxes on the set-aside amount for the balance of the benefit.

4. **Parking Cash-Out** - Employers may establish a parking cash-out program whereby employees may choose to cash out the value of employer-provided parking, forego parking, and receive the taxable cash value of the parking, or receive a tax-free transit or eligible vanpool benefit up to \$100 per month. The employer transfers its expenditure for the parking space, assuming it is leased, to a direct payment to the employee. If the employee accepts the cash value rather than a tax-free transit or vanpool benefit, then the employee also incurs payroll and income taxes on the amount. The employer only incurs payroll taxes on the cash value provided. This additional compensation will allow the employee to finance other commuting modes that are not considered qualified transportation fringe benefits, such as walking, bicycling, carpooling, roller blading or other means of commuting to work. <http://www.fhwa.dot.gov/tea21/factsheets/trbenefi.htm>

Employers can provide commuter benefits in several ways:

1. The employer can purchase vouchers or passes under a public transportation program and distribute the vouchers to employees. Employees can exclude up to \$100 worth per month.
2. The employer can reimburse employees for transit passes or vanpooling over and above regular wages. An employee is not taxed on the reimbursement up to \$100 per month. Cash reimbursement for a transit pass is an option



Basic Information (cont.)

only if a voucher for the pass is not readily available for the employer to directly distribute to the employee.

3. The employer can provide free parking valued at up to \$190 per month. Free parking means access to parking provided to an employee on or near the employer's business premises or parking at a location from which the employee commutes to work by car pool, train, or other mass transit. The employer can provide the free parking on premises it owns or leases, can pay a parking lot operator directly or can reimburse the employee for parking costs.
4. Employers may offer employees a choice of qualified transportation benefits or cash compensation. The employer can offer the qualified transportation benefits through the existing salary base, rather than spending more dollars on employees who take transportation benefits over and above existing salary.

These pretax deductions from an employee's pay are comparable to those often used to pay for medical benefits under a cafeteria plan, or retirement benefits under a 401(k) plan. Although transit commuter benefits cannot be offered as part of a cafeteria plan or flexible spending accounts, employers may use the same forms and administrative procedures for a transit commuter benefit program that they use for their cafeteria plan.

Employers making cash reimbursements must establish a bona fide reimbursement arrangement to ensure that employees have, in fact, incurred the expenses claimed. For example, employees may present a new transit pass to the employer, and may certify that they purchased it or will use the pass during the month, or the employee can present used parking receipts for verification.

Who's doing this?

Corporations such as General Mills, PricewaterhouseCoopers, Pitney Bowes, and Bank of America have initiated tax-free commuting benefits. Many transportation groups like the Charleston Regional Transportation Authority (CARTA) have such programs already in place.

Contact: Christine Nelson - Charleston Regional Transportation Authority
36 John St., Charleston, SC 29403 (843) 724-7420 cnelson@ridecarta.com

Tracking Progress

- **Let Centralina Council of Governments know when you've implemented this action by contacting Carol Lewis at 704-348-2730 or clewis@centralina.org.**
- Calculate savings to your company. Use the Employer Savings Calculator at: https://www.wageworks.com/whatWeDo/publicTransportation_er_calculator0.asp

FAQ's

Q: Are tax-free commuting benefits very important to employees?

A: Offering \$100 in tax-free transit benefits each month lets employees know that their employer wants them to have easier, cheaper and less stressful commutes to work. It helps make businesses more competitive in recruiting and re-

taining employees. It also makes employees aware that their employer is concerned about the "triple bottom line": profitable operations, employee health and welfare, and a sustainable environment.

Q: If employer contribution is not a viable option for our company, what can we do?



FAQ'S (cont.)

A: Employer contribution is the most favorable to employees, but if that is not an option for your company, a pre-tax payroll deduction is still beneficial to both employer and employees. Employers will save approximately \$164 a year in payroll taxes per participating employee, and employees will save 15% to 42% of their monthly commuting costs, depending upon their individual tax brackets.

Q: Will these benefits also be exempt from state taxes?

A: Most states, including North and South Carolina, allow federally-exempted qualified transportation fringe benefits to be exempt from state income taxes as well.

For additional FAQ's, see the IRS regulations section 1.132-9 at:
<http://www.fta.dot.gov/library/policy/cc/fr12700.htm>

Also see:
http://www.flex-plan.com/trans_reimburse_acct.asp
 and <http://www.fta.dot.gov/library/policy/cc/erqa.htm>

Intersecting Interests



AIR AWARENESS

As a direct incentive to vanpool and mass transit modes, tax-free commuting benefits do their part to reduce the number of commuting automobiles on the road, thereby reducing emissions. Smart employers are beginning to recognize tax-free transit commuter benefits as a responsible way to help their employees reduce congestion and cut pollution in the community.



TRANSIT CONNECTIVITY

Money saved through commuter tax benefits is directly applied to alternative transportation modes. Employees who use alternative transportation tend to arrive at work more relaxed because they have avoided congested rush hour drives.



CLEAN AIR POLICY

In conjunction with other smart transit strategies, tax-free commuting benefits are a key player in an overall clean air policy.



**CARPOOLING/
VANPOOLING**

Tax benefits constitute a direct monetary incentive for employees to participate in a vanpool.



**ENHANCED OZONE
AWARENESS**

Commuter tax benefit programs mean fewer cars on the road, and this means less ozone and other pollutants in the air.



EFFICIENT PARKING

As an incentive to employees to utilize alternative transportation modes, commuter tax benefits do their part to diminish the number of costly parking spaces required for businesses, providing another potential source for savings.



For More Information

- # Arlington Transportation Partners - <http://www.commuterpage.com/atp/ben-mck.cfm>
Code of Federal Regulations, Title 26, Volume 2 [Revised as of April 1, 2002]
From the U.S. Government Printing Office via GPO Access [CITE: 26CFR1.132-9]
Sec. 1.132-9 Qualified transportation fringe benefits http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/cfr_2002/aprqrtr/26cfr1.132-9.htm
- # Internal Revenue Service (IRS) Publication 15-B, Jan. 2003 *Employer's Tax Guide to Fringe Benefits* - <http://www.irs.gov/pub/irs-pdf/p15b.pdf> (p. 14f)
- # Transportation Fringe Benefit Accounts – *Avoid Taxes on Transportation and Parking* -http://www.flex-plan.com/transportation_fba.asp
- # InfoAdvantage - http://articles.businesscity.com/doc/art_grantthornton_transport.htm
- # Charleston Regional Transportation Authority - <http://www.ridecarta.com/homeframe.shtml>