QUALIFIED TRANSPORTATION FRINGE BENEFITS

Commuter Benefits GUIDE

FOR EMPLOYERS

Get on board!

BEST Workplaces for Commuters℠

bestworkplaces.org

Disclaimer

Best Workplaces for Commuters℠ developed this guide as a service to employers participating in the Best Workplaces for Commuters program. Information about private service providers is intended for informational purposes and does not imply endorsement by Best Workplaces for Commuters or the University of South Florida. The information presented here does not constitute official tax guidance or a ruling by the U.S. government. Taxpayers are urged to consult with the Internal Revenue Service of the U.S. Department of Treasury or a tax professional for specific guidance related to federal tax law.

Table of Contents

Best Workplaces for Commuters™

bestworkplaces.org

P: 813.974.9799

info@bestworkplaces.org

c/o Center for Urban Transportation Research
University of South Florida
4202 E. Fowler Ave., ENG030
Tampa, FL 33620

BEST Workplaces for Commuters℠

Introduction

The U.S. federal tax code (Internal Revenue Code Section 132(f) – Qualified Transportation Fringe Benefits) allows employers to provide employees up to $280 per month for transit and commuter highway vehicle (e.g., vanpool) expenses and up to $280 per month for parking. An employer can pay for (subsidize) commuting expenses related to transit, vanpool, and parking or can allow employees to set aside income on a pre-tax basis to cover transit, vanpool or parking costs. Employers and employees also can share the cost, with the employer providing a predetermined subsidy and the employee electing a pre-tax deduction up to the monthly maximum. Since the value of the benefit paid to employees is considered to be a tax-free transportation fringe benefit and not wage or salary compensation, payroll taxes do not apply. Allowing employees to reserve income on a pre-tax basis also saves employers payroll taxes. Several states also provide employers with tax credits for offering commuter benefit programs. Providing transit and/or vanpool benefits is among the primary benefits that employers that participate in Best Workplaces for Commuters℠ can offer their employees. Employers must offer at least one of eight primary benefits to their employees to be recognized as one of the Best Workplaces for Commuters℠.

National Standard of Excellence for Commuter Benefits

Overview

This document is one in a series of briefing papers designed to help employers who participate in Best Workplaces for Commuters℠ (BWC) to implement effective commuter benefits. Best Workplaces for Commuters℠ is managed by the National Institute for Congestion Reduction (NICR) at the Center for Urban Transportation Research at the University of South Florida.

In 1999, the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Transportation (DOT) established a voluntary National Standard of Excellence for employer-provided commuter benefits that form the basis of BWC. NICR has enhanced these standards to reflect additional ways in which workplaces may be designated as Best Workplaces for Commuters℠.

Achieving the National Standard of Excellence

Employers that meet the National Standard of Excellence earn the BWC designation by agreeing to provide one or more of the following primary commuter benefits:

- At least $30 per month towards a transit pass or vanpool pass (or the full cost of a pass if less than $30) to each employee who commutes using transit or a vanpool.
- A pre-tax purchase of a monthly transit pass or vanpool pass of at least $30 per month (or the full cost of a pass if less than $30) by at least 30% of employees.
- A significant telework program that reduces the number of commuting trips employees make by at least 6%.
- A significant compressed work week program that reduces the number of commuting trips employees make by at least 6%.

BWC designated primary benefits

Commuter benefits encourage American workers to get to and from work in ways that reduce air pollution, improve public health, increase worker productivity, and reduce expenses and taxes for employers and employees.

At least $30 per month to each employee that does not drive to work and commutes another way (in lieu of providing a parking spot).

Offers an employee shuttle by fully or partially funding one or more employee shuttles from rail stations and/or park and ride lots.

Provides significant bicycle commuting program with at least 6% reduction in the number of vehicle trips made by employees and/or offers to reimburse at least $20 per month for employees regularly commuting by bicycle.

Offers to pay at least $30 per month to employees that carpool to work, reducing the number of vehicle trips taken per week by at least 6%.

An equivalent benefit that provides similar value to employees, reduces traffic and air pollution, as agreed to by BWC.

BEST Workplaces for Commuters℠

National Standard of Excellence for Commuter Benefits

continued...

Employers must also:

- Centralize commute options information so it is easy for employees to access and use.
- Promote the availability of commuter benefits.
- Provide access to an emergency ride home (ERH) program.
- Commit to ensuring that at least 14% of its employees are not driving alone to work within 12 months of applying.
- Offer at least three supporting benefits from the list at right. If the employer has fewer than 20 employees, it needs to provide only one supporting benefit from the list to the right:

Supporting Benefits:

Pre-tax vanpool subsidy deducted from employee paycheck that is used by less than 30% of employees.

Vanpool benefits of less than $30 per month (or less than the full cost if less than $30).

Carpool or vanpool matching, either in-house or through an outside organization.

Employer-supported vanpools, provided by an outside organization.

Preferred parking for vanpools or carpools.

Employer-supported vanpools, provided in-house.

Secure bicycle parking, showers, and lockers.

Electric bicycle recharging stations.

Active promotion and participation in healthy initiatives to encourage and increase employee walking and bicycling.

Discounts and coupons for bicycles for bicyclists or shoes for walkers.

Bikesharing program.

Transportation information kiosk.

Concierge services.

Provision of real-time commuting information.

Employee commuting awards programs.

Telework program that reduces commute trips by less than 6%.

Compressed work schedules that reduces commute trips by less than 6%.

Lunchtime shuttle to reduce employee trips after they arrive at work or to encourage use of alternative transportation to work.

Active membership in Transportation Management Association or Organization (TMA or TMO).

Voluntary participation in regional air quality program or local ozone awareness program in which the employer agrees to notify employees of expected poor air quality and suggest ways to minimize polluting behaviors.

Credits for alternative transportation under LEED-certified development.

Other supporting benefits.

Cash in lieu of employer-provided parking spot in an amount less than $30 per month (or less than 75% of the actual parking benefit).

Reduced workplace parking costs for carpools and vanpools.

Employer-provided membership in a carsharing program.

Bike buddy/matching program.

Incentives to encourage employees to use alternative transportation (e.g., additional vacation time).

Incentives to encourage employees to live closer to work.

Proximate commuting systematically matching new and existing employees to same-employer work sites closer to their homes.

On-site amenities (e.g., convenience mart, dry cleaning, etc.).

Pre-tax transit subsidy deducted from employee paycheck that is used by less than 30% of employees.

Transit benefits of less than $30 per month (or less than the full cost if less than $30).

Shuttles from transit stations, either employer-provided or through a local TMA or similar service provider.

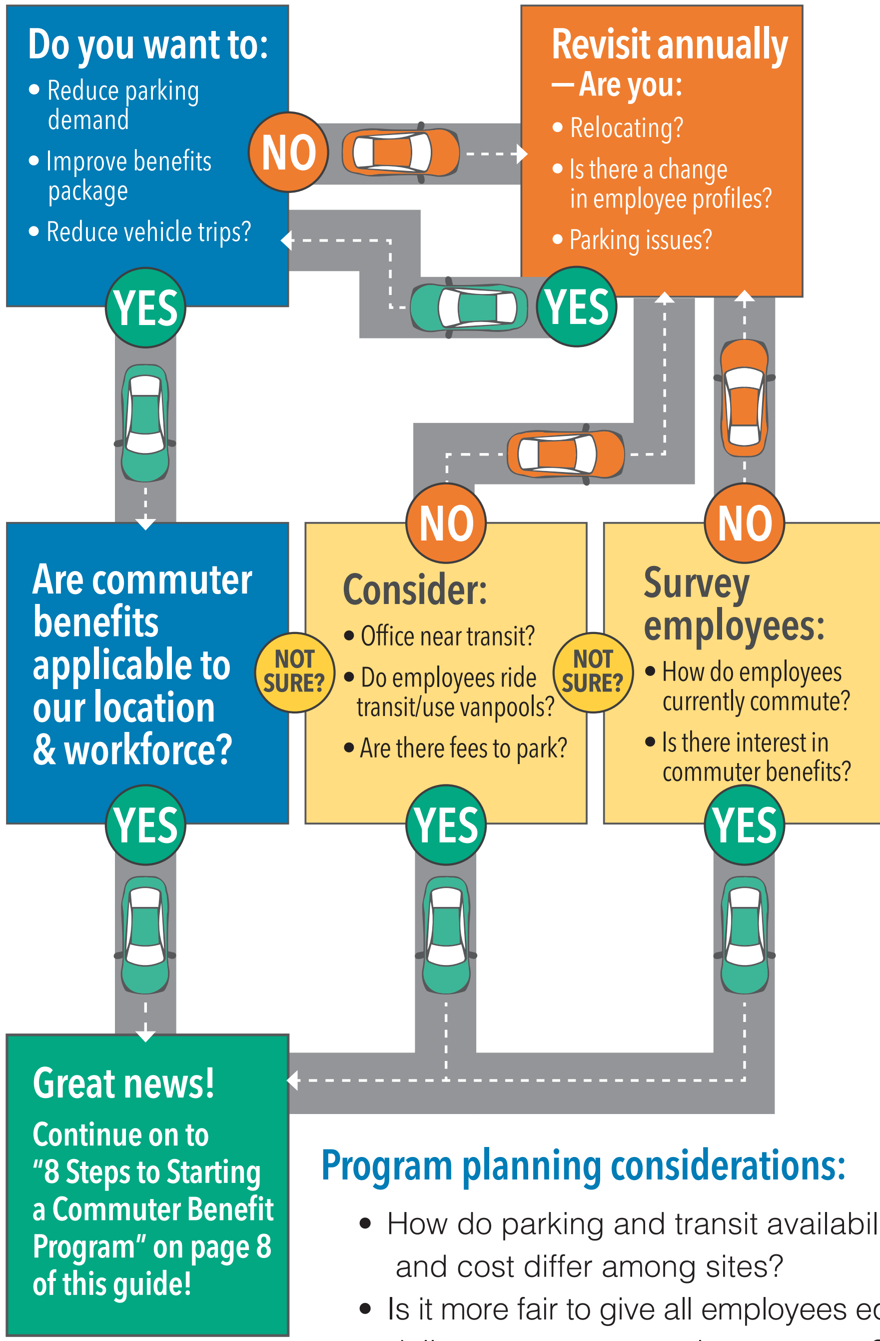

Ready
or
Not

Is a Commuter Benefit Program a Good Fit for My Organization?

One advantage of qualified transportation fringe benefit is its ability to be customized to the needs of the employer. However, this broad flexibility also creates the need for employers to make a wide range of decisions that are strategic, financial, administrative and marketing-related.

The journey map at right represents some of the major decisions that an employer must make. The hope is this diagram will help employers develop and implement a qualified transportation fringe benefit program that matches their specific needs. The flowchart can also serve to improve the understanding of transit agencies and commuter assistance programs as to the factors to be considered as part of the employer's decision-making process.

Employer Decision-Making Process:



Program planning considerations:

- How do parking and transit availability and cost differ among sites?
- Is it more fair to give all employees equal dollar amount, or equal percentage?
- Will program be centrally run, or will branch locations run their own programs?

8 Steps to Starting a Commuter Benefit Program

START HERE!

STEP 2

Identify key departments and appropriate managers to be involved (human resources, accounting, etc.).

STEP 3

Determine what commuter benefits will be provided by the employer and to whom.

STEP 4

If employees are using pre-tax income, establish a deduction code for the benefit; consult with your accounting department and/or payroll services.

STEP 5

If a bulk purchasing option is used, create and distribute a program information and application form.

Employers can take the following steps to start a commuter benefit program with pre-tax payroll deductions:

STEP 1

Determine if the commuter benefit program will be staffed completely internally or contracted to an external provider.

STEP 6

If using an online ordering platform, send employees instructions on how to set up an account and sign up for services.

STEP 7

Update the company personnel policy handbook to include a description of the program and the company's participation in it.

STEP 8

Market the commuter benefit program through new employee orientations, intranet, benefits fairs, special events such as BWC's Race to Excellence, periodic communications via newsletters/ emails, and mailings to employee homes.

Detailed information on each step may be found on page 30 of this Guide.


TAX

Under the tax code, employers may offer these Qualified Transportation Fringe Benefits in one of five tax free ways:

The Big Picture

Section 132(f) of the Internal Revenue Code allows employers to provide tax-free benefits to employees related to transit, vanpools, and parking; these Qualified Transportation Fringe Benefits are commonly referred to as commuter benefits. Both the employer and employee save on taxes since they do not pay federal income or payroll taxes on these benefits.

1. Subsidize an employee up to $280 per month for transit and commuter highway vehicles (e.g., vanpool).
2. Subsidize an employee up to $280 per month for parking.
3. Allow an employee to reduce his or her income on a pre-tax basis to cover the costs of transit and vanpools up to $280 per month.
4. Allow an employee to reduce his or her income on a pre-tax basis to cover the costs of parking up to $280 per month.
5. Share the costs of the benefit with the employee; under current law, transit and vanpool expenses up to $280 per month and/or qualified parking expenses up to $280 per month are tax-free.

What are Qualified Transportation Fringe Benefits?

According to the Internal Revenue Code Section 132(f), employer-paid reimbursements or payments for qualified commuter benefits are excludable from income for purposes of taxation. Types of qualified commuter benefits include reimbursement or payment for the following.

Transit Passes

Transit passes include any vouchers, passes, farecards, tokens, or related items that employees can use to pay for transportation on mass transit facilities or transportation provided by a person in the business of transporting persons for compensation or hire if such transportation has a seating capacity of at least six adults (not including the driver). Transit agency "smart cards" are also included.

Commuter Highway Vehicle Expenses

IRS Code Section 132(f) defines transportation in a commuter highway vehicle as: "Transportation provided by an employer to an employee in connection with travel between the employee's residence and place of employment. A commuter highway vehicle is a highway vehicle with a seating capacity of at least six adults (excluding the driver) and with respect to which at least 80 percent of the vehicle's mileage for a year is reasonably expected to be—

(a) For transporting employees in connection with travel between their residences and their place of employment; and

(b) On trips during which the number of employees transported for commuting is at least one-half of the adult seating capacity of the vehicle (excluding the driver).

Section 132(f) is generally viewed as applying to vanpools, but large carpools could be eligible as well. Based on the definition above, any 7-passenger vehicle (e.g., large SUV) with 4 riders and meeting the 80% mileage requirement would qualify.

Qualified Transportation Fringe Benefits Summary

Transit

up to $280/month
for transit expenses

Qualified Parking

up to $280/month
for parking at or near an employer's worksite, or at a facility from which employee commutes via transit, vanpool, or carpool

Commuter Highway Vehicle

(e.g., vanpool)

Up to $280/month
for commute trip in a vehicle with a seating capacity of at least six adults (excluding driver), with at least 80% of the vehicle's mileage for a year is reasonably expected to be for transporting employees in connection with travel between their residence and their place of employment and on trips during which the number of employees transported for commuting is at least one-half of the seating capacity of the vehicle (excluding the driver)

Qualified Parking Expenses

The IRS defines qualified parking as parking provided to an employee by an employer on or near the employer's business premises or at a location from which the employee commutes to work (such as a park-and-ride lot) by commuter highway vehicle or carpool. Qualified parking does not include the value of parking provided to an employee that is excludable from gross income as a working condition fringe benefit. It also does not include reimbursement paid to an employee for parking costs that are excludable from gross income as an amount treated as paid under an accountable plan, such as if the employer provides parking on property that the employer owns or leases; the employer pays for the parking; or the employer reimburses the employee for parking expenses. Parking on or near property used by the employee for residential purposes is not qualified parking.

Tax-Free Limits and Adjustments

Under current tax law, parking, transit and vanpool expenses up to $280 per month, are tax-free.

Tax Savings for Employers & Employees

By offering tax-free Qualified Transportation Fringe Benefits, both employers and employees can save on taxes. The tax savings depends on the way the benefits are provided to employees—employer-paid, paid by employees through a pre-tax salary deduction, or a combination of both. This section describes how employers and employees save under each of these options. Sample calculations of tax savings are included.

Employers may also deduct the cost of administering the benefit as a business expense for purposes of calculating corporate income taxes, in the same manner that salary payments to employees can be deducted.

Tax Benefits of Employer-Paid Benefits

If an employer pays for the commuter benefit, the value of the benefit is tax-free to the employee and exempt from employer payroll (FICA, FUTA, and withholding) taxes. As a result, employer-paid commuter benefits provide more purchasing power for employees for buying transit fares, vanpools fares, and/or parking than providing an equivalent increase in salary where the employee pays for the fare media with after-tax income.

For example, an employer that provides $280 per month ($3,360 per year) to an employee earning $53,383 per year in the form of a transit, vanpool, or parking benefit rather than an increase in salary results in the employee having an additional $660 per year to spend on commuter benefits. The employer also saves $257 per year in payroll taxes. Both the commuter benefit and the salary increase may be deducted by the employer as a business expense for purposes of calculating corporate income taxes.

Some transit-voucher providers charge an administrative fee for the vouchers, resulting in a slight increase in cost to the employer; however, some transit agencies offer discounts for purchasing transit passes in bulk, which would lower the cost. Some states and localities also offer employer tax credits, further lowering the cost to the employer.

Under IRS Code, an employer may provide an employee who pays to park at a qualified parking area (such as a transit station) and then takes transit or a vanpool to work up to a combined benefit of $560 per month ($280 for the transit/vanpool benefit and $280 per month for parking).

Qualified Transportation Fringe Benefits Summary

Continued...

EMPLOYER TAX BENEFIT

- Employers may give their employees up to $280/month for transit vouchers, commuter highway vehicle fares and/or commuter parking fees.
- Private sector employers may be able to deduct the qualified transportation fringe benefit payments to employees as a business expense.
- Employers may allow employees to use up to $280 per month in pre-tax income to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.
- Employers may reduce their payroll tax contribution of the pre-tax income used by employees to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.

&

EMPLOYEE TAX BENEFIT

- Most employees may receive up to $280/month for purchase of transit vouchers, commuter highway vehicle fares and/or parking fees from an employer. This subsidy value will not appear on their W-2 form as income.
- Employee pays for commute benefit with the pre-tax income up to the $280/ month statutory limit and receives more after-tax spendable income.
- Employee may combine the pre-tax benefit with employer subsidies up to $280/month for each to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.

Tax Benefits of Employee Pre-Tax Deductions

While an employer must be involved in the provision of commuter benefits, the employer is not obligated to subsidize employee commute trips. If an employer chooses not to pay for commuter benefits, it can allow employees to deduct the cost of a transit pass, vanpool fare, and/or parking cost from their pre-tax income.

The chart at right compares the bottom-line impact on employee take-home pay by purchasing a qualified transportation fringe benefit with pre-tax dollars instead of using after-tax dollars. The results show that an employee participating in a pre-tax plan will see an increase in annual spendable income of $353.

Take-Home Pay Increase with & without Pre-Tax Benefit Plan

EMPLOYEE PERSPECTIVE	Without Pre-Tax Qualified Transportation Fringe Benefit	With Pre-Tax Qualified Transportation Fringe Benefit
Savings to Employee		
Average Annual Earnings	$53,383.00	$53,383.00
Pre-Tax Transit/Parking Deduction	–	(3,360.00)
Earnings Subject to Taxes	$53,383.00	$50,023.00
Estimated Taxes	(6,971.00)	(6,311)
Post-Tax Transit/Parking Expense	(3,360.00)	–
Annual Take-Home Earnings	$43,052.00	$43,712.00
Annual Savings to Employee (difference between pretax and after tax purchase of commuter benefits)		**$660.00**

Note: Individual savings may vary based on pre-tax deduction amount, adjusted gross income, marital status, state and local residence, and other factors.

Savings to Employer with Pre-Tax Benefit Plan

EMPLOYER PERSPECTIVE	With Pre-Tax Qualified Transportation Fringe Benefit
Savings Per Employee Provided Pre-Tax Benefits	
Employee Pre-tax Transit/Parking Deduction	$3,360.00
FICA Tax Rate	7.65%
Employer Payroll Tax Savings per Year* (Per Employee)	**$257.00**

*Calculations assume annual earnings of each participating employee are below the Social Security wage base of $147,000

This brings the effective transit cost to the employee down from $280 per month to $226 per month, a savings of about 12%.

While employees can take home more pay by using pre-tax income to purchase their transit pass, vanpool fare, or parking, employers can reduce their payroll taxes.

The use of pre-tax income by employees means the employer does not have to match the payroll tax portion of that income. For example, an employer can reduce its payroll expenditure, on average, about $257 per participating employee per year for each employee who elects to use pre-tax income to pay for a $280 per month transit pass.

Who Receives Tax Benefits?

Profiles of Organizations Providing Subsidized Commuting Benefits by Sector

The following tables provide insight into the kinds of commuter benefits employers are providing their employees across different U.S. industries. The tables are divided by broad sector and report data from both the employee and employer perspective.

Source: U.S. Bureau of Labor Statistics. National Compensation Survey: Employee Benefits in the United States, March 2021. Table 41. https://www.bls.gov/ncs/ebs/benefits/2021/employee-benefits-in-the-united-states-march-2021.pdf

Note: Dashes indicate there were no workers in the marked category or that data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the “Glossary of Employee Benefit Terms” at www.bls.gov/ncs/ebs/national-compensation-survey-glossary-of-employee-benefit-terms.htm.

Private Industry

% of Private-Sector Workers with Access to Subsidized Commuting Benefits

WORKER CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
All workers combined	8%	14%	8%
Management, professional, and related	18%	27%	15%
Management, business, and financial	25%	33%	17%
Professional and related	14%	23%	14%
Service	1%	10%	6%
Protective service	–	6%	4%
Sales and office	8%	14%	7%
Sales and related	7%	12%	4%
Office and administrative support	8%	14%	8%
Natural resources, construction, and maintenance	2%	4%	4%
Construction, extraction, farming, fishing, and forestry	1%	3%	3%
Installation, maintenance, and repair	3%	5%	5%
Production, transportation, and material moving	2%	5%	3%
Production	3%	5%	4%
Transportation and material moving	1%	4%	2%
Full-time	10%	16%	9%
Part-time	2%	11%	4%
Union	2%	5%	9%
Nonunion	8%	15%	8%
Average wage within the following categories[1]			
Lowest 25 percent	1%	8%	3%
Lowest 10 percent	1%	8%	3%
Second 25 percent	4%	10%	6%
Third 25 percent	9%	14%	9%
Highest 25 percent	19%	27%	16%
Highest 10 percent	25%	33%	21%

[1]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using wage data for March 2021.

Private Industry *continued*

% of Private-Sector Workplaces Providing Subsidized Commuting Benefits

WORKPLACE CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
Goods-producing industries	6%	9%	4%
Construction	2%	4%	3%
Manufacturing	8%	11%	5%
Service-providing industries	8%	16%	9%
Trade, transportation, and utilities	3%	7%	4%
Wholesale trade	11%	13%	6%
Retail trade	1%	5%	2%
Transportation and warehousing	–	4%	4%
Utilities	3%	–	21%
Information	20%	34%	23%
Financial activities	19%	30%	18%
Finance and insurance	23%	35%	21%
Credit intermediation and related activities	14%	25%	15%
Insurance carriers and related activities	33%	48%	26%
Real estate and rental and leasing	7%	–	–
Professional and business services	20%	25%	10%
Professional and technical services	33%	41%	13%
Administrative and waste services	4%	8%	4%
Education and health services	4%	14%	10%
Educational services	9%	11%	13%
Junior colleges, colleges, and universities	11%	16%	26%
Health care and social assistance	4%	14%	10%
Leisure and hospitality	–	9%	8%
Accommodation and food services	–	10%	8%
Other services	6%	15%	6%
1 to 99 workers	6%	12%	5%
1 to 49 workers	6%	11%	5%
50 to 99 workers	6%	14%	5%
100 workers or more	10%	18%	12%
100 to 499 workers	8%	16%	8%
500 workers or more	12%	21%	17%


control
option
command

Civilian Industry

% of Civilian Workers[1] with Access to Subsidized Commuting Benefits

WORKER CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
All workers combined	7%	13%	9%
Management, professional, and related	15%	22%	14%
Management, business, and financial	23%	31%	17%
Professional and related	11%	18%	13%
Teachers	3%	8%	7%
Primary/secondary/special ed school teachers	2%	5%	3%
Registered nurses	5%	13%	16%
Service	2%	10%	7%
Protective service	3%	6%	10%
Sales and office	7%	13%	7%
Sales and related	7%	12%	5%
Office and administrative support	8%	14%	9%
Natural resources, construction, and maintenance	2%	4%	5%
Construction, extraction, farming, fishing, and forestry	1%	3%	4%
Installation, maintenance, and repair	3%	6%	6%
Production, transportation, and material moving	2%	5%	4%
Production	3%	5%	4%
Transportation and material moving	1%	5%	3%
Full-time	9%	14%	10%
Part-time	2%	11%	5%
Union	3%	6%	13%
Nonunion	8%	15%	8%
Average wage within the following categories[2]			
Lowest 25 percent	1%	8%	3%
Lowest 10 percent	1%	8%	3%
Second 25 percent	4%	10%	7%
Third 25 percent	9%	14%	10%
Highest 25 percent	16%	23%	16%
Highest 10 percent	21%	28%	20%

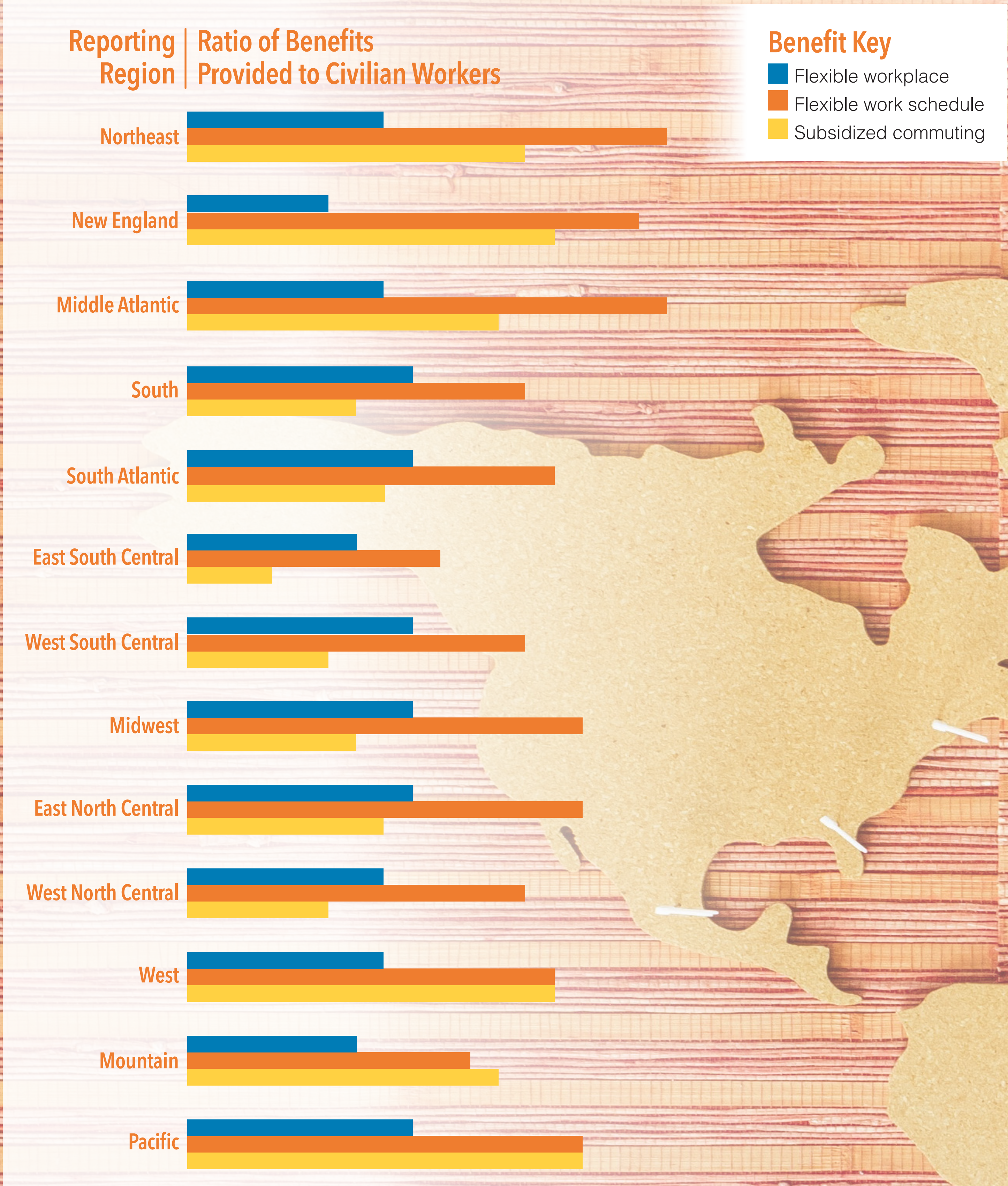
% of Civilian Workplaces[1] Providing Subsidized Commuting Benefits

WORKPLACE CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
Goods-producing industries	6%	9%	4%
Service-providing industries	8%	14%	9%
Education and health services	4%	11%	9%
Educational services	5%	7%	8%
Elementary and secondary schools	2%	1%	4%
Junior colleges, colleges, and universities	9%	17%	19%
Health care and social assistance	4%	14%	10%
Hospitals	3%	10%	17%
Public administration	6%	12%	17%
1 to 99 workers	6%	11%	5%
1 to 49 workers	6%	11%	6%
50 to 99 workers	6%	13%	5%
100 workers or more	9%	16%	12%
100 to 499 workers	8%	14%	8%
500 workers or more	10%	17%	16%

[1]Includes workers in private industry and state and local government.

[2]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using wage data for March 2021.

Benefits Provided by Civilian Employers by Region



State/Local Government

% of State/Local Government Workers with Access to Subsidized Commuting Benefits

WORKER CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
All workers combined	5%	8%	12%
Management, professional, and related	5%	8%	12%
Professional and related	5%	7%	10%
Teachers	3%	6%	6%
Primary/secondary/special ed school teachers	2%	2%	4%
Service	3%	5%	10%
Protective service	3%	6%	13%
Sales and office	5%	12%	13%
Office and administrative support	5%	12%	13%
Natural resources, construction, and maintenance	8%	8%	16%
Production, transportation, and material moving	–	7%	20%
Full-time	5%	8%	13%
Part-time	2%	8%	6%
Union	4%	7%	16%
Nonunion	6%	9%	8%
Average wage within the following categories[1]			
Lowest 25 percent	4%	7%	6%
Lowest 10 percent	4%	6%	2%
Second 25 percent	5%	9%	15%
Third 25 percent	4%	7%	14%
Highest 25 percent	6%	9%	13%
Highest 10 percent	5%	10%	14%

[1]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using wage data for March 2021.

State/Local Government

% of State/Local Government Workplaces Providing Subsidized Commuting Benefits

WORKPLACE CHARACTERISTICS	FLEXIBLE WORKPLACE	FLEXIBLE WORK SCHEDULE	SUBSIDIZED COMMUTING
Service-providing industries	5%	8%	12%
Education and health services	4%	6%	8%
Educational services	4%	6%	7%
Elementary and secondary schools	2%	2%	3%
Junior colleges, colleges, and universities	8%	17%	16%
Health care and social assistance	7%	9%	14%
Hospitals	6%	–	–
Public administration	6%	12%	17%
1 to 99 workers	4%	7%	10%
1 to 49 workers	4%	9%	14%
50 to 99 workers	4%	6%	7%
100 workers or more	5%	8%	12%
100 to 499 workers	5%	8%	10%
500 workers or more	5%	8%	14%

Glossary of Terms

Flexible work schedule. This benefit permits employees to set their own schedules within a general set of parameters. Employees generally are required to work a minimum number of core hours each day. Source: U.S. Bureau of Labor Statistics. National Compensation Survey: Employee Benefits in the United States, March 2021. Table 41. https://www.bls.gov/ncs/ebs/benefits/2021/employee-benefits-in-the-united-states-march-2021.pdf

Flexible workplace. Like telework, this benefit permits workers to work an agreed-upon portion of their work schedule at home or at some other approved location, such as a regional work center. Such arrangements are especially compatible with work requiring the use of computers linking the home or work center to the central office. https://www.bls.gov/ncs/ebs/glossary20162017.pdf

The National Compensation Survey definition of flexible workplace is quite restrictive, requiring a formal program; informal plans are not included. In 2007, 5% of workers in private industry had access to flexible workplace benefits. By contrast, the Office of Personnel Management reports that approximately 70% of Federal workers were eligible to telework during 2005, and 6.6% of the Federal workforce (9.5% of those eligible) participated in teleworking. Of those who participated, 60% teleworked at least one day per week. https://www.bls.gov/opub/mlr/cwc/employer-provided-quality-of-life-benefits-for-workers-in-private-industry-2007.pdf

Subsidized commuting. The American public made 9.8 billion trips on public transit in 2005. By this measure, public transit use has increased steadily over the past decade. Approximately half of these trips were for commuting to and from work. With current concerns about the global impact of modern living, gasoline price uncertainty, and increasing traffic congestion, commuting by public transit may offer some solutions. In 2007, only 5% of private industry workers had access to commuter subsidies. https://www.bls.gov/opub/mlr/cwc/employer-provided-quality-of-life-benefits-for-workers-in-private-industry-2007.pdf

Effects of Commuter Benefits on Travel Behavior

According to Analyzing the Effectiveness of Commuter Benefits Programs (Report 107) from the Transit Cooperative Research Program (TCRP), the overall findings are that commuter benefits programs do the following:

Commuter benefits generally increase transit ridership, but not in all cases. Based on a review of surveys by transit agencies, the study found increases in transit use due to employer-provided transit benefits. However, the range of increases varied from little to no increases to more than double. Individual workplaces also experienced a wide range of effects.

The report summarized the finding in this manner: "In general, the surveys conducted by transit agencies and other organizations found notable increases in transit use, whereas the worksites in mandatory commute trip reduction areas found that effects ranged from decreases in transit use to increases in transit use and that the effects were very small, on average, across all worksites in these areas. These differences may reflect different characteristics of the worksites and programs being examined, as the worksites in the mandatory commute trip reduction areas were much more likely to be in suburban areas with low starting transit mode shares, tended to provide a low level of financial support, and may have offered a wider range of other employee commute programs (e.g., rideshare matching and telecommuting). It is also possible that many of those worksites continue to offer free parking, which outweighs transit benefits for many commuters."

Continued on next page...

Commuter benefits help convince commuters who drive alone to ride transit. The good news, from the perspective of encouraging use of non-single occupant vehicles (nonSOV) to reduce congestion and pollution, is that most new transit riders switched from SOV travel. The majority of the new transit riders reported that they previously commuted to work alone, and, the figure was more than 90% in more than half the surveys.

Commuter benefits induce changes in commute and non-commute behavior. Surveys in Philadelphia and New York City imply that transit benefits recipients tend to foster use in transit for all types of trips. An employer-provided transit benefit makes it convenient to ride transit, particularly if the benefit is without time or trip purpose restrictions. The researchers were unable to determine if there was a similar impact on off-peak-period transit services for smaller transit markets.

The effectiveness in changing travel behavior differs among programs, based on factors including transit availability, level of employer payment, and supporting programs. Transit availability at the workplace appears to correlate positively with the level of increase in transit ridership. High starting transit mode shares at the worksite tend to see larger increases in the number of transit users than suburban areas with lower initial transit mode shares. However, suburban locations often show higher percentage gains in ridership. Little to no change in transit use are most likely to be found in areas that have under 5% of employees using transit before initiating the transit benefit program. This lack of change in transit use may be due to worksite characteristics that are not very conducive to transit. These worksite characteristics can be limited/infrequent transit services, plentiful free parking, or automobile-oriented land use patterns. Employer-subsidized transit benefit programs are more likely to increase employee use of transit than employee-paid pre-tax transit benefits programs. Finally, combining the roll-out of a new transit benefits program with marketing and supporting services, such as a guaranteed or emergency ride home program, seems to produce a greater increase in ridership than implementing the transit benefit program alone.

Tax Information

The Internal Revenue Code that governs employer provided commuter benefits is found at 26 USC Section 132(f). For more information relating to qualified transportation fringes in Section 132(f), visit the Internal Revenue Service (IRS) website at www.irs.gov. This site contains useful information for employers regarding the tax treatment of Qualified Transportation Fringe Benefits.

Ready to Start Planning Your Plan?

Plan Implementation Details

1 Staff commuter benefit program completely in-house or contract to a commuter benefit provider or third-party benefit administrator?

- In-house staffing may make the most sense for small employers, employers with a single location, employers serviced by one transit provider, and/or when very low employee participation in the program is expected. Reach out to the local transit agency for assistance on acquiring the transit passes.

- If you are administering the program in-house, determine how to handle a wide range of tasks, from how to enroll employees to how to acquire fare media to how these passes/tokens/vouchers will be distributed.

A benefit provider is likely to provide more options and economies of scale. There are two general types of benefit providers:

– Commuter benefit provider that provides these benefits only; and
– Third-party benefits administrators that provide flexible spending accounts and other benefits as well as commuter benefits.

- There are benefit provider companies that offer bulk purchasing of debit cards or vouchers, or there are companies that offer online ordering platforms where employees manage their own accounts and employers receive a monthly payroll file of their activity. Some providers require an agreement, while others do not. Most vendors with an online ordering platform require that employers set up an Automated Clearinghouse (ACH) transfer for payment, while bulk providers allow for check payment. Online programs generally offer options including debit cards (personalized and anonymous) fare media such as monthly passes, vouchers, smart card-loading, and direct payment to vanpools. Employer savings in payroll taxes may offset the benefit providers' costs.

2 Identify key departments and appropriate managers to be involved.

- Usually this includes human resources/benefits, payroll/accounting, tax/legal, and commute alternatives program representation. Hold a group meeting with them to discuss the program and work out program logistics.

- Request that the transit agency (if staffing effort internally) or the benefit provider give a presentation on the process.

3 Determine what commuter benefits will be provided by the employer and to whom.

An employer may:

– Subsidize parking costs
– Subsidize transit fares
– Subsidize commuter highway vehicle (e.g., vanpool) fares

With employer approval, an employee may choose to:

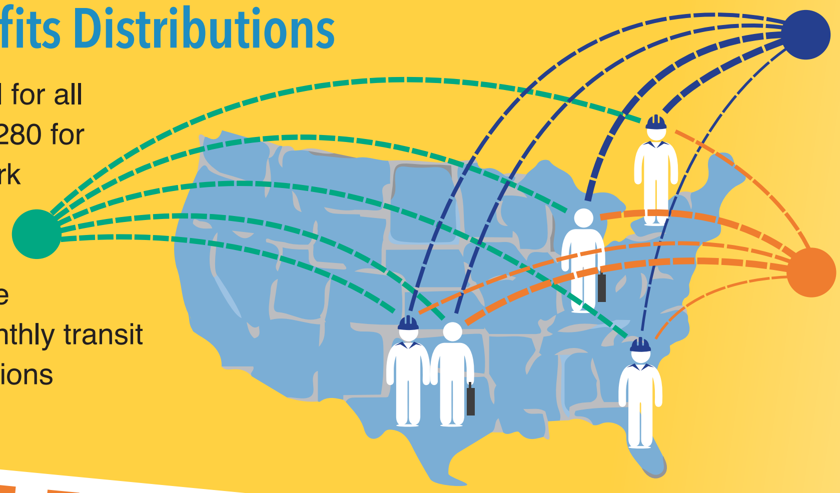
– Use pre-tax income for parking costs
– Use pre-tax income for transit fares
– Use pre-tax income for vanpool fares

- The employer and employee may choose to combine the parking, transit, and commuter highway vehicle benefits up to the tax-free limit.

- The commuter benefit as provided by an employer subsidy can apply to employees in a single location or at several locations and at varying amounts based on location. *See graph on next page for examples.*

Typical Benefits Distributions

- Same dollar level for all locations (e.g., $280 for transit in New York and in Chicago)
- Same percentage (e.g., 50% of monthly transit pass) for all locations



- Different dollar levels for each location (e.g., $280 for transit in New York but $80 for transit in Tampa)
- The commuter benefit may apply to all employees or subsets of employees (e.g., only employees with specific job functions, hard to recruit positions, etc.)

4 If employees are using pre-tax income, Establish a deduction code for the benefit.

- Consult with your accounting department and/or payroll services. If a program with an online ordering platform is used, the service will also likely generate a payroll file. Ask the transit benefit provider representative for a sample to give the payroll department an idea of what to expect.

5 If a bulk purchasing option is used:

- Create and distribute a program information and application form that explains the program, gives the employee the instructions to sign up, allows them to choose how much they want to deduct from their salary, and indicates which option your bulk benefit provider offers (usually debit cards or vouchers).

- Distribute the benefit to the employees. An assigned staff person can distribute the debit cards or vouchers or the fare media can be attached to employees' paychecks. Because vouchers and debit cards are like cash, it is best not to distribute them through open in-house mailboxes.

6 If a company that offers an online ordering platform is selected, send out an email or other notification instructing employees how to set up an account and place their order.

- Most programs have an option to make orders recurring so employees have to visit the site again only if they want to make changes to their participation.

7 Update the company personnel policy handbook to include a description of the program and the company's participation in it.

- Be sure to include information related to how to enroll and participate and any other guidelines particular to your company.

8 Market the commuter benefit program to employees

Common ways employers promote commuter benefits programs include:

– New employee orientations
– Company intranet
– Benefits fairs
– Special events
– Newsletters, emails, and mailings to employee homes

Adapted from material provided by Stuart Baker, Commuter Check.

What kinds of programs should we implement?

Cash Instead of Parking

- Helps reduce parking demand

AND / OR

Transit/Vanpool Benefits

- Location near transit
- Existing regional transit agency
- Good potential for vanpool

AND / OR

Parking Benefits

- Have paid parking
- Combine with transit/vanpool benefits if employees use park-and-ride

Who should pay?

Employer Pays

- Highest cost to employer but also highest potential participation

Best for Employers Who Want to:

- Reduce parking demand
- Expand benefits package
- Reward employees already using transit

OR Shared

What Portion Employer Should Pay?

CONSIDER:

- Average cost of transit
- Can a transportation allowance be equally beneficial to walkers, carpoolers, and bicyclists?
- Cost of parking
- Trip reduction goals

Employee Pays

- Lowest cost to employer (may even save money on payroll taxes) but lowest potential participation

How do we Provide Benefits to Our Employees?

START HERE

What options apply to your organization?

Passes
Best when region is served by a single transit provider or regional pass

Vouchers
Best when employees use several different transit/vanpool providers

Cash Reimbursement
Best when there is no regional pass or voucher available or there are multiple worksites; Tax law may restrict applicability

How to distribute passes/vouchers?
Most passes and vouchers are digital, making distribution easy!

Here is guidance for when passes/vouchers must be distributed physically:

- At single worksite: central point
- At multiple worksites: Distribute with paychecks, inter-office mail, mail to employees homes

Determining Denominations to Purchase
What is the monthly fare?
What is the highest transit/vanpool cost to any employee?

How to Monitor?
Common ways to track benefit usage:

- Honor system: employees sign statements
- Collect receipts: only works where transit system issues receipts

Preparing to Roll Out Programs to Your Employees

Administrative Decisions

1 How will employees enroll?

Most employers adapt other benefits enrollment programs to include commuter benefits

Online

- Easier for office with widespread computer access
- Develop online registration system
- Consider users who may rely on mobile devices to enroll

Paper Forms

- May be better option for employees who do not work in an office environment and/or may have limited access to internet service
- Develop and distribute forms

2 How often can employees enroll?

Less Frequently

- Easier to administer but less flexible for employees
- May limit employee participation

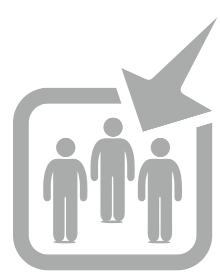
More Frequently

- Employee can change commuter mode (with seasons, for example) but harder to administer

3 Who will administer the program?

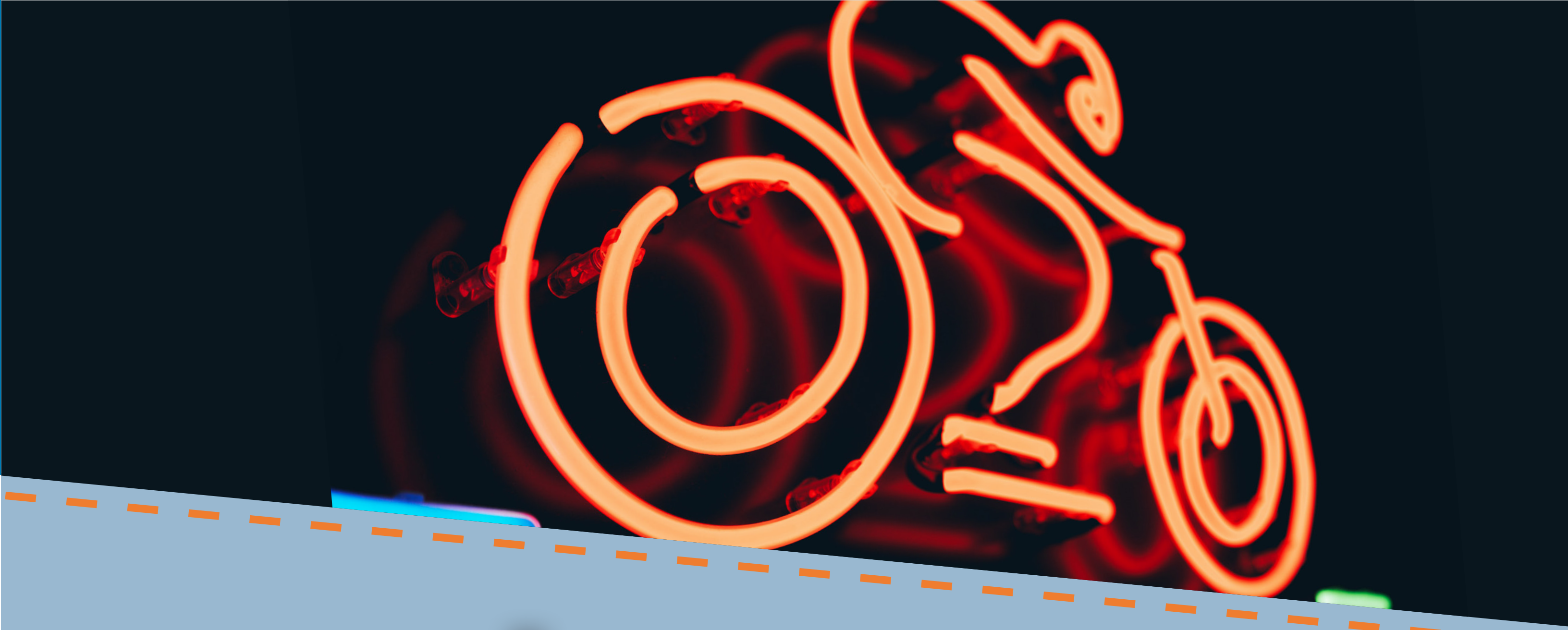
External

- A third-party benefits administrator makes sense for large and multi-site employers, but entails additional costs



Internal

- Makes sense for smaller, single-site employers; will probably involve cooperation between HR, payroll, and IT staff



Promoting Programs to Employees

How should we market the program internally?

Program Launch

SOME IDEAS INCLUDE:

- Flyers
- Posters
- Social media
- Transportation fairs Benefits fairs
- Website/intranet
- Internal collaboration tools/message systems

Ongoing Marketing

SOME IDEAS INCLUDE:

- New employee orientation
- Host annual transportation fairs
- Commuter awards programs
- Annual benefits orientations
- Social media

How can we measure success?

Set Program Goals

SOME IDEAS INCLUDE:

- Reduce parking demand
- Trip reduction
- Recruit & retain talent
- Employee satisfaction
- Align w/environmental goals/green initiatives

How to Measure Success

SOME IDEAS INCLUDE:

- Number of employees parking and/or purchasing permits
- Percentage increase in employees not driving alone
- Change in retention since program was implemented

Compiling the Data

SOME IDEAS INCLUDE:

- Parking counts – track number of vehicles entering parking area
- HR/personnel data
- Employee survey


Walk this way

Frequently Asked Questions

The following frequently asked questions were extracted from IRS documentation and updated to reflect the 2022 statutory limits on qualified transportation fringe benefits of $280 per month.

Q1

Are Qualified Transportation Fringe Benefits treated as federal tax credits for employers?

No. The costs are deductible as ordinary business expense but are not tax credits (i.e., dollar-for-dollar reduction in tax liability).

Q2

May Qualified Transportation Fringe Benefits be provided to individuals who are partners, 2% shareholders of S-corporations, or independent contractors?

Section 132(f)(5)(E) states that self-employed individuals who are employees within the meaning of section 401(c)(1) are not employees for purposes of section 132(f). Therefore, individuals who are partners, sole proprietors, or other independent contractors are not employees for purposes of section 132(f). In addition, under section 132(a), 2% shareholders of S corporations are treated as partners for fringe benefit purposes. Thus, an individual who is both a 2% shareholder of an S corporation and a common law employee of that S corporation is not considered an employee for purposes of section 132(f). However, while section 132(f) does not apply to individuals who are partners, 2% shareholders of S corporations, or independent contractors, other exclusions for working condition and de minimis fringes may be available.

Q3

Must a Qualified Transportation Fringe Benefit plan be in writing?

No. Section 132(f) does not require that a Qualified Transportation Fringe Benefit plan be in writing.

Q4

What are the substantiation requirements if an employer distributes transit passes?

There are no substantiation requirements if the employer distributes transit passes. Thus, an employer may distribute a transit pass for each month with a value not more than the statutory monthly limit without requiring any certification from the employee regarding the use of the transit pass. However, an employer may choose to impose more substantiation requirements.

Frequently Asked Questions continued...

Q5

Are carpools eligible to receive federal commuter benefits?

Generally, carpools are ineligible to receive federal commuter benefits unless the carpool meets the definition of a commuter highway vehicle. That means the vehicle being used must provide transportation in connection with travel between the employee's residence and place of employment. A commuter highway vehicle is a highway vehicle with a seating capacity of at least six adults (excluding the driver) and with respect to which at least 80% of the vehicle's mileage for a year is reasonably expected to be for transporting employees in connection with travel between their residences and their place of employment and on trips during which the number of employees transported for commuting is at least one-half of the adult seating capacity of the vehicle (excluding the driver). In other words, it must be at least a four-person carpool in a large seven-passenger vehicle like a minivan, SUV or crossover.

Q6

May an employee whose qualified transportation fringe costs are less than the employee's compensation reduction carry over this excess amount to subsequent periods?

Yes. Under Section 132(f), Qualified Transportation Fringe Benefits, an employee may carry over unused compensation reduction amounts to subsequent periods under the plan of the employee's employer. The following example illustrates this principle. By an election made before November 1 of a year for which the statutory monthly mass transit limit is $280, Employee E elects to reduce compensation in the amount of $280 for the month of November. Employee E incurs $250 in employee-operated commuter highway vehicle expenses during November, for which Employee E is reimbursed $250 by Employer R, Employee E's employer. By an election made before December, Employee E elects to reduce compensation by $280 for the month of December. Employee E incurs $280 in employee-operated commuter highway vehicle expenses during December for which Employee E is reimbursed $280 by Employer R. Before the following January, Employee E elects to reduce compensation by $250 for the month of January. Employee E incurs $280 in employee-operated commuter highway vehicle expenses during January for which Employee E is reimbursed $280 by Employer R because Employer R allows Employee E to carry over to the next year the $30 amount by which the compensation reductions for November and December exceeded the employee-operated commuter highway vehicle expenses incurred during those months. In this example, because Employee E is reimbursed in an amount not exceeding the applicable statutory monthly limit, and the reimbursement does not exceed the amount of employee-operated commuter highway vehicle expenses incurred during the month of January, the amount reimbursed ($280) is excludable from Employee E's wages for income and employment tax purposes.

Q7

How does section 132(f) apply to expense reimbursements?

IRS rules regarding expense reimbursement for Qualified Transportation Fringe Benefits are as follows: In general, the term Qualified Transportation Fringe includes cash reimbursement by an employer to an employee for expenses incurred or paid by an employee for transportation in a commuter highway vehicle or qualified parking. The term Qualified Transportation Fringe also includes cash reimbursement for transit passes made under a bona fide reimbursement arrangement, but, in accordance with section 132(f)(3), only permitted if it meets the special rule for transit passes below, under paragraph (b) of this Q/A–16. The reimbursement must be made under a bona fide reimbursement arrangement that meets the rules of paragraph (c) of this Q/A–16. A payment made before the date an expense has been incurred or paid is not a reimbursement. In addition, a bona fide reimbursement arrangement does not include an arrangement that is dependent solely upon an employee certifying in advance that the employee will incur expenses at some future date.

Q8

What is the special rule for transit passes as it relates to expense reimbursements?

The term Qualified Transportation Fringe Benefits includes cash reimbursement for transit passes made under a bona fide reimbursement arrangement, but, in accordance with section 132(f)(3), only if no voucher or similar item that may be exchanged only for a transit pass is readily available for direct distribution by the employer to employees or in geographic areas where terminal-restricted debit cards or smart cards are readily available (Rev. Rul. 2014-32). If a voucher is readily available, the requirement that a voucher be distributed in-kind by the employer is satisfied if the voucher is distributed by the employer or by another person on behalf of the employer (for example, if a transit operator credits amounts to the employee's fare card as a result of payments made to the operator by the employer). See IRS' Rev. Rul. 2014-32 about terminal-restricted debit cards or smart cards in the next section.

Q9

What are "voucher or similar item" and "voucher provider"?

For purposes of the special rule above, a transit system voucher is an instrument that may be purchased by employers from a voucher provider that is accepted by one or more mass transit operators (e.g., train, subway, bus) in an area as fare media or in exchange for fare media. Thus, for example, a transit pass that may be purchased by employers directly from a voucher provider is a transit system voucher. The term voucher provider means any person in the trade or business of selling transit system vouchers to employers or any transit system or transit operator that sells vouchers to employers for the purpose of direct distribution to employees. Thus, a transit operator might or might not be a voucher provider. A voucher provider is not, for example, a third-party employee benefits administrator that administers a transit pass benefit program for an employer using vouchers that the employer could obtain directly.

Q10

What is meant by "readily available" with respect to expense reimbursements?

A voucher or similar item is readily available for direct distribution by the employer to employees if and only if an employer can obtain it from a voucher provider that does not impose fare media charges that cause vouchers to not be readily available as described in Q11 below and does not impose other restrictions that cause vouchers to not be readily available as described below.

Q11

What are "fare media charges"?

Fare media charges relate only to fees paid by the employer to voucher providers for vouchers. The determination of whether obtaining a voucher would result in fare media charges that cause vouchers to not be readily available as described above is made with respect to each transit system voucher. If more than one transit system voucher is available for direct distribution to employees, the employer must consider the fees imposed for the lowest cost monthly voucher for purposes of determining whether the fees imposed by the voucher provider satisfy this paragraph. However, if transit system vouchers for multiple transit systems are required in an area to meet the transit needs of the individual employees in that area, the employer has the option of averaging the costs applied to each transit system voucher for purposes of determining whether the fare media charges for transit system vouchers satisfy this paragraph. Fare media charges are described in this paragraph and therefore cause vouchers to not be readily available if and only if the average annual fare media charges that the employer reasonably expects to incur for transit system vouchers purchased from the voucher provider (disregarding reasonable and customary delivery charges imposed by the voucher provider, e.g., not in excess of $15) are more than 1% of the average annual value of the vouchers for a transit system.

Q12

Are there other restrictions that cause vouchers to not be readily available?

Yes. See Q13 through Q15 below for examples.

Q13

Do advance purchase requirements cause vouchers to not be readily available for the purposes of expense reimbursement?

Advance purchase requirements cause vouchers to not be readily available only if the voucher provider does not offer vouchers at regular intervals or fails to provide the voucher within a reasonable period after receiving payment for the voucher. For example, a requirement that vouchers may be purchased only once per year may effectively prevent an employer from obtaining vouchers for distribution to employees. An advance purchase requirement that vouchers be purchased not more frequently than monthly does not effectively prevent the employer from obtaining vouchers for distribution to employees.

Q14

Do minimum purchase quantities cause vouchers to not be readily available for the purposes of expense reimbursement?

Purchase quantity requirements cause vouchers to not be readily available if the voucher provider does not offer vouchers in quantities that are reasonably appropriate to the number of the employer's employees who use mass transportation (for example, the voucher provider requires a $1,000 minimum purchase and the employer seeks to purchase only $200 of vouchers).

Q15

Do limitations in available denominations of vouchers cause vouchers to not be readily available for the purposes of expense reimbursement?

If the voucher provider does not offer vouchers in denominations appropriate for distribution to the employer's employees, vouchers are not readily available. For example, vouchers provided in $5 increments up to the monthly limit are appropriate for distribution to employees, while vouchers available only in a denomination equal to the monthly limit are not appropriate for distribution to employees if the amount of the benefit provided to the employer's employees each month is normally less than the monthly limit.

Q16

If our company determines we can make cash reimbursements for one of the above reasons, what substantiation requirements must we follow?

Employers that make cash reimbursements must establish a bona fide reimbursement arrangement to establish that their employees have, in fact, incurred expenses for transportation in a commuter highway vehicle, transit passes, or qualified parking. For purposes of section 132(f), whether cash reimbursements are made under a bona fide reimbursement arrangement may vary depending on the facts and circumstances, including the method or methods of payment utilized within the mass transit system. The employer must implement reasonable procedures to ensure that an amount equal to the reimbursement was incurred for transportation in a commuter highway vehicle, transit passes, or qualified parking. The expense must be substantiated within a reasonable period of time. An expense substantiated to the payor within 180 days after it has been paid will be treated as having been substantiated within a reasonable period of time. An employee certification at the time of reimbursement in either written or electronic form may be a reasonable reimbursement procedure depending on the facts and circumstances.

Q17

What are examples of reasonable reimbursement procedures?

Following are examples of reasonable reimbursement procedures. In each case, the reimbursement is made at or within a reasonable period after the end of the events described above. (1) An employee presents to the employer a parking expense receipt for parking on or near the employer's business premises, the employee certifies that the parking was used by the employee, and the employer has no reason to doubt the employee's certification. (2) An employee either submits a used time-sensitive transit pass (such as a monthly pass) to the employer and certifies that he or she purchased it or presents an unused or used transit pass to the employer and certifies that he or she purchased it and the employee certifies that he or she has not previously been reimbursed for the transit pass. In both cases, the employer has no reason to doubt the employee's certification. (3) If a receipt is not provided in the ordinary course of business (e.g., if the employee uses metered parking or if used transit passes cannot be returned to the user), the employee certifies to the employer the type and the amount of expenses incurred, and the employer has no reason to doubt the employee's certification.

Q18

We have several facilities. Could we offer qualified commuter benefits to one facility but not the others?

Yes.

Q19

Could we vary the amount between facilities or types of employees?

Yes. An employer may provide benefits of any amount, or provide no assistance, in the purchase of vouchers.

Q20

How are benefits treated if an employee terminates employment and the transit pass covers multiple months?

In general, the value of transit passes provided in advance to an employee for a month in which the individual is not an employee must be included in the employee's wages for income tax purposes. Transit passes distributed in advance to an employee are excludable from wages for income and employment tax withholding purposes if the employer distributes transit passes to the employee in advance for not more than three months. At the time the passes are distributed, there cannot be an established date that the employee's employment will terminate (for example, if the employee has given notice of retirement) occurring before the beginning of the last month of the period for which the transit passes are provided. Assume the employer distributes transit passes quarterly, and the employee elects to have $840 deducted from salary to cover transit vouchers for April, May, and June. If employment terminates on May 31, and there was not an established date of termination at the time the transit passes were distributed, then the value of the transit passes provided for June ($280) is excludable from the employee's wages for employment tax purposes. However, the value of the transit passes distributed for June ($280) is not excludable from wages for income tax purposes. If the employee's termination date was established at the time the transit passes were provided, then the $280 is included in the employee's wages for both income and employment tax purposes.

Q21

What are the typical internal administrative (and other) costs faced by employers who implement commuter benefit programs?

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, distributing transit passes or vouchers, etc. Other internal costs depend on the type of program that the employer chooses to establish. For example, if an employer sets up a vanpool program, then typical costs could include the amount of money spent on purchasing or leasing a commuter highway vehicle, finding and/or training someone to drive the vehicle, and any additional insurance expenses.

Q22

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 of written plan be submitted to the IRS. However, a company may wish to have certain written rules in order to answer employee questions and describe how the commuter benefit program operates. For example, an employer could write a plan that describes:

- Which employees are eligible to receive commuter benefits
- What benefits will be provided by the company
- How the company vanpool and emergency ride home programs operate
- The procedure for enrolling in and discontinuing participation in the benefits program

The company should not submit this plan to the IRS, but should make it available to all employees.

Q23

What are the payroll tax requirements for qualified commuter benefits?

Qualified commuter benefits that do not exceed the statutory monthly limit 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. Qualified commuter benefits exceeding the applicable statutory monthly limit are wages for purposes of FICA, FUTA, and federal income tax withholding and are reported on the employee's Form W-2, Wage and Tax Statement. Also, cash reimbursements to employees (for example, cash reimbursement for qualified parking) in excess of the applicable statutory monthly limit are treated as paid for employment tax purposes when actually or constructively paid. Employers must report and deposit the amounts withheld in addition to reporting and depositing other employment taxes. To receive payroll tax savings, employees do not have any additional paperwork requirements beyond those normally performed when filing taxes.

Q24

Is our company allowed to continue to use cash reimbursement where debit cards restricted to use for fare media are available?

No. With increased availability of electronic fare media on transit systems, the IRS announced that after December 31, 2015, employers will no longer be permitted to provide Qualified Transportation Fringe Benefits in the form of cash reimbursement in geographic areas where terminal-restricted debit cards are readily available (Rev. Rul. 2014-32).

Q25

Under what circumstances can we use smartcards for providing Qualified Transportation Fringe Benefits?

Smartcards are cards that contain a memory chip storing certain information that uniquely identifies the card and value stored on the card, and that can be used either as fare media or to purchase fare media. The amount stored on the smartcard provided by a transit system must be usable only as fare media; it cannot be used for any other purpose or to purchase anything else. Of course, the amount cannot exceed the statutory limit (currently $280 per month). The employer makes payments directly to the transit system and instructs how much should be placed on each employee's smartcard. The employer does not require employees to substantiate their use of the cards. See the following section for more detail.

Q26

What is a terminal-restricted debit card?

Terminal-restricted debit cards are debit cards that are restricted for use only at merchant terminals at points of sale at which only fare media for local transit systems is sold.

Q27

Under what circumstances may we use a terminal-restricted debit card for providing Qualified Transportation Fringe Benefits?

The employer must provide a debit card that is restricted for use only at merchant terminals at points of sale at which only fare media for the transit systems are sold. The other conditions for using a terminal-restricted debit card are similar to those governing the use of a smartcard (see answer to Q25). See the following section for more detail.

Q28

My employer neither provides Qualified Transportation Fringe Benefit subsidies nor allows me to use pre-tax dollars to purchase my transit benefit. Can I report my commuting costs and receive a tax break without my employer's participation?

In most communities, your employer is not required to provide Qualified Transportation Fringe Benefits or offer the opportunity for employees to use pre-tax income to purchase fare media. However, your employer must be involved in either offering subsidies or allowing you to purchase fare media with pre-tax income for you to exclude those benefits from wages for FICA, FUTA, and income tax withholding under section 132(f).

Q29

What changes were made to deduction allowance for qualified transportation fringe benefits like parking by the Tax Cuts and Jobs Act?

The Tax Cuts and Jobs Act required qualified transportation fringe benefits provided by an employer to be treated as a non-deductible expense by the employer effective for amounts paid or incurred after December 31, 2017. If an employer pays a third party to provide qualified parking, for example, then the final regulations generally treat the employer's total annual cost paid to the third party as the amount of the employer's deduction disallowance. The regulations required taxpayers to use the expense paid or incurred in providing a qualified transportation fringe benefit and not its value to an employee, allocate parking expenses to reserved employee spaces, and properly apply the exception for parking made available to the general public. See Qualified Transportation Fringe, Transportation and Commuting Expenses Final Rule posted on Dec 16, 2020 for more information.

A Brief History of Qualified Transportation Fringe Benefits

Pre-1992 Parking is the only Qualified Transportation Fringe Benefit

1992 Energy Policy Act of 1992 expands Qualified Transportation Fringe Benefit

1995 Tax-free limit on transit/vanpool benefits rises to $65 per month

1997 Taxpayer Relief Act of 1997

1998 Transportation Equity Act for the 21st Century (TEA-21)

1999 Commuter Choice Initiative launched

2001 Final Regulation: Qualified Transportation Fringe Benefits

2002 Best Workplaces for Commuters[SM] unveiled

2002–2009 Periodic Inflation adjustments of $5 raised the cap from $65 to $120

2007 University of South Florida begins managing Best Workplaces for Commuters[SM]

2009 Transit and vanpool benefits placed on par with parking; bicycle reimbursement added

2012 Transit and vanpool benefits reduced and parking benefits increased

2013 Parity among transit, vanpool, and parking benefits reinstated

2014 Parking benefits increased and transit/vanpool benefits decrease

2015 Parity among transit, vanpool, and parking benefits reinstated and made permanent

2020 Elimination of the deduction under section 274 for expenses related to certain transportation and commuting benefits (e.g., parking) provided by employers to their employees.

Additional Resources

Publications available from the IRS that may be useful include:

Publication 15B, Employer's Tax Guide to Fringe Benefits: Transportation (Commuting) Benefits—
http://www.irs.gov/publications/p15b/index.html

Fringe Benefits Guide—
https://www.irs.gov/pub/irs-pdf/p5137.pdf

Qualified Transportation Fringe Benefits—
https://www.federalregister.gov/documents/2001/01/11/01-294/qualified-transportation-fringe-benefits

Rev. Rul. 2014-32—
https://www.irs.gov/pub/irs-drop/rr-14-32.pdf

Qualified Transportation Fringe, Transportation and Commuting Expenses (December 16, 2020)—
https://www.regulations.gov/document/IRS-2020-0019-0017

Qualified Transportation Fringe, Transportation and Commuting Expenses Under Section 274: Correction—
https://www.federalregister.gov/documents/2021/04/28/2021-08391/qualified-transportation-fringe-transportation-and-commuting-expenses-under-section-274-correction

Transportation Impacts of Commuter Benefits
The Transit Cooperative Research Program of the Transportation Research Board has published two research studies on commuter benefits:

TCRP Report 87—Strategies for Increasing the Effectiveness of Commuter Benefits Programs—
https://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_87.pdf

TCRP Report 107—Analyzing the Effectiveness of Commuter Benefits Programs—
https://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_107.pdf

BEST Workplaces for Commuters℠

bestworkplaces.org