


CUTR

CENTER for URBAN
TRANSPORTATION
RESEARCH

Introduction to Commuter Benefits

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2014
Commuter Benefits
Understanding Commuter Benefits as
Part of a Transportation Demand Management Strategy

BEST
BUSINESS
EFFECTIVE
TRANSPORTATION

*Please consult your tax advisor before carrying out any commuter tax benefit program

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Disclaimer

- 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.

Overview

- What are qualified transportation fringe benefits?
- Who receives the benefits?
- What are the benefits to employers and commuters?



Types of Non-taxable Fringe Benefits

-  No-additional Cost Services
-  Qualified Employee Discount
-  Working Condition Fringe Benefits
-  De Minimis Fringe Benefits
-  Qualified Transportation Fringe Benefits

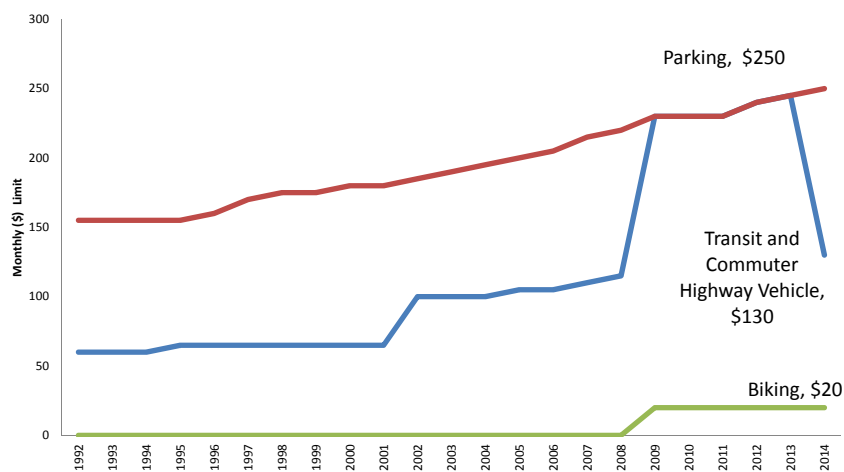


Qualified Transportation Fringe Benefits

- Under 26 U.S. Code Section 132, **most** employers **may** provide one or more tax free transportation benefits to employees:
 - Transit or commuter highway vehicles benefit up to \$130 per month **and/or**
 - Parking benefit up to \$250 per month **OR**
 - Reimbursement up to \$20 per month for qualified bicycle commuting



Qualified Transportation Fringe Benefit Limits (1992-2014)



What is a Commuter Highway Vehicle?

A highway vehicle with a seating capacity of **at least 6 adults** (excluding the driver) AND 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)



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Types of Qualifying Transportation Fringe Benefits

Transit

- Bus
- Rail
- Ferry
- Subway
- Shuttle bus
- Subscription bus

Commuter Highway Vehicle

- Employer-owned vanpool
- Employee-owned vanpool
- Employee-leased vanpool
- Public transit directly operated vanpool



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Qualified bicycle commuting reimbursement

- For any calendar year, the exclusion includes any employer reimbursement during the 15-month period for reasonable expenses incurred.
- Reasonable expenses* include:
 - The purchase of a bicycle and
 - Bicycle improvements, repair, and storage.



**Those expenses are reasonable as long as the bicycle is regularly used for travel between the employee's residence and place of employment*



Ineligible Travel Options

- Walk
- Carpool
- Telework



Qualified Transportation Fringe Benefits

- Requires employer assistance but does not require employer subsidies/co-payments
 - Employers may subsidize employees' parking, transit, and vanpool costs and reimburse bicycling commuting tax free
 - Employers may allow commuters to use pre-tax dollars to pay for parking, transit and vanpool costs (but not bicycle commuting)
- Costs are deductible as ordinary business expense but are not tax credits



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Benefits to Employers and Commuters

Employers

- Leverages corporate investment in benefits
- Helps attract and retain employees
- Enhances employer image
- Reduces need for parking

Commuters

- Offers more travel choices
- Reduces commuting cost
- Reduces taxes
- Improves morale



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Where Do Tax Savings Come From?

- Employees can save potentially on three types of taxes
 - Federal income tax
 - State income tax
 - Federal payroll tax (FICA)
- Employers can save on two types of taxes
 - Federal payroll taxes (FICA)
 - Employee salary write-off on corporate income taxes



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Savings Come From Reductions in Employer and Employee Taxes

- No tax paid on value of benefit up to the tax-free limit
- Employer may offer a benefit that is less than the tax-free limit
- Employers may also offer a benefit greater than the tax-free limit
 - the amount over the tax free level (e.g., \$130 per month for transit) becomes taxable



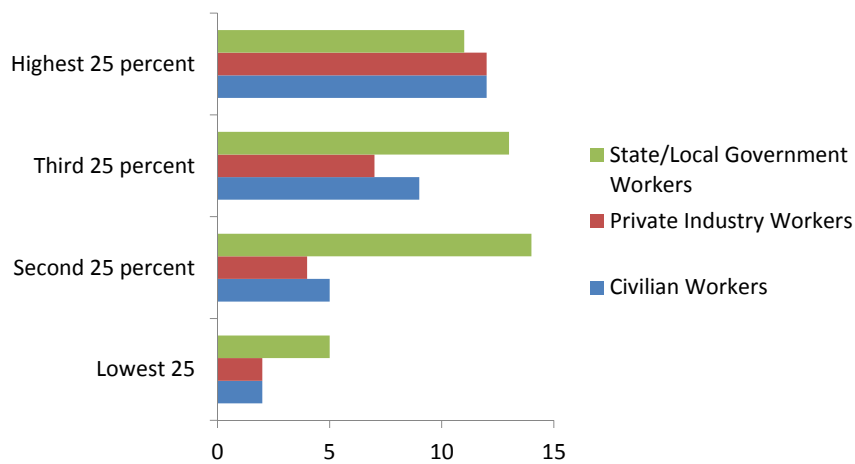
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Costs and Savings - \$130 per month

	Annual Change: Savings (Cost)	
	Employer	Employee
\$130 per month Salary Increase	(\$1,092)	\$1,285
\$130 Employer-Paid Benefit	(\$1,014)	\$1,560
\$130 Employee-Paid Pre-Tax	\$119	\$275

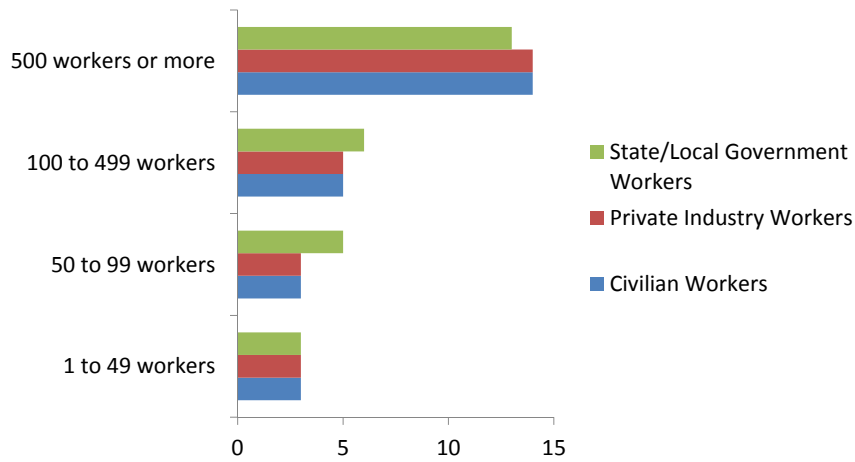
Assume: Married, 2 exemptions at \$35,000 per year in 2014 35% deductibility for employer

Share of Workers with Access to Subsidized Commuting Benefits by Average Wage

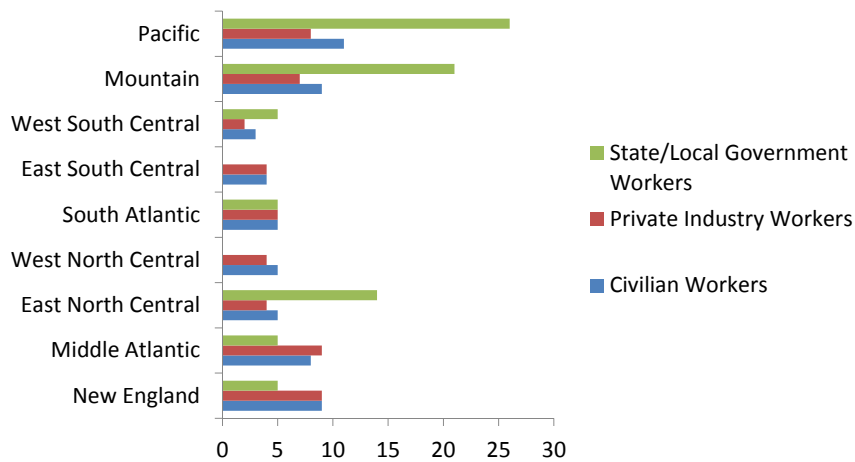


Source: National Compensation Survey, March 2013 - Bureau of Labor Statistics,

Share of Workers with Access to Subsidized Commuting Benefits by Employer Size and Type



Share of Workers with Access to Subsidized Commuting Benefits by Geography



What Should Employers Know?

- Employer not required to provide a transit pass benefit
- Limits change but employer makes the decision IF and WHEN to increase the benefit
- Benefits are exempt from anti-discriminatory requirements
- Can give to any or all employees
- Can vary amount among employees
- Can give any amount tax-free - up to limit
- Can provide monthly or once per year



Variety of Payment Options



Acceptable Methods

- Transit pass
- Voucher
- Cash reimbursement - if pass/voucher unavailable



What Should Employers Know?



- May use similar payroll deduction mechanisms to cafeteria plans
- May require annual election (not required)
- No plan filings required
- No irrevocable elections
- No “use it or lose it” rule

Lots of flexibility in program design



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What Should Transit/TDM Agencies Know?

Not All Employers Eligible

- Partners
- Self-employed individuals
- More than 2% shareholders in S-corporations



Impacts on Transit

- Transit benefits programs can make up a substantial portion of systemwide ridership (5% to 25%) and revenues (5% to 40%)
- Ridership increased by 2 to 17 riders per 100 employees and more than half of new transit riders previously commuted by SOV



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Closing Thoughts for Transit/TDM Agencies

- Don't oversell tax savings to employers
- Subsidy is great but pre-tax is better than nothing
- Design for employer; not for transit agency's convenience
- Providing subsidy helps employer qualify for Best Workplaces for Commuters (www.commuterservices.com)



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Resources

- Best Workplaces for Commuters' Support Center (37 FAQ on Commuter Benefits)
 - www.bestworkplaces.org
- Commuter Choice Certificate Program
 - 2-hour training on qualified transportation fringe benefits
 - www.commuterservices.com
- Commuter Benefits Work for Us
 - <http://www.commuterbenefitsworkforus.com/>



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Resources

- TCRP Report 87 Strategies for Increasing the Effectiveness of Commuter Benefits Programs
 - http://gulliver.trb.org/publications/tcrp/tcrp_rpt_87.pdf
- TCRP Report 107 Analyzing the Effectiveness of Commuter Benefits Programs
 - http://gulliver.trb.org/publications/tcrp/tcrp_rpt_107.pdf



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FOR MORE INFORMATION

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