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Qualified Transportation Fringe Benefits

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Qualified Transportation Fringes

In the early 1990s, The Code contained an unlimited exclusion for employer-provided parking, but only a limited exclusion for the provision of transit passes. Accordingly, as part of the 1992 Energy Act, Congress added the qualified transportation fringe as the fifth general category of excludible fringe benefits under §132(a), and the IRS provided comprehensive guidance under §132(f) in Notice 94-3 . Congress amended some of these provisions in the Transportation Equity Act for the 21st Century.

Qualified Transportation Fringes are:

- ◆ transportation in a "commuter highway vehicle" in connection with travel between the employee's residence and place of employment
- ◆ transit passes
- ◆ qualified parking
- ◆ qualified bicycle commuting reimbursement(2009)

Commuter Highway Vehicles

- ◆ Commuter highway vehicle means any highway vehicle with a seating capacity of at least six adults (not including the driver), and at least 80% of the mileage use of which can reasonable be expected to be—
- ◆ for purposes of 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 such purposes is at least one-half of the adult seating capacity of such vehicle (not including the driver).

Transit Passes

- ◆ The term transit pass means any pass, token, farecard, voucher, or similar item entitling a person to transportation (or transportation at a reduced price) if such transportation is—
 - (1) on mass transit facilities (whether or not publicly owned); or
 - (2) provided by any person in the business of transporting persons for compensation or hire, if such transportation is provided in a highway vehicle with a seating capacity of at least six adults, not including the driver.

Qualified Parking

- ◆ Qualified parking means parking provided to an employee on or near the business premises of the employer or on or near a location from which the employee commutes to work by mass transit, in a commuter highway vehicle, or by carpool. Qualified parking does not include any parking on or near property used by the employee for residential purposes.

Qualified Parking Continued)

- ◆ Parking is considered to be provided by the employer if—
- ◆ the employer pays for the parking;
- ◆ the employer reimburses the employee for parking expense; or
- ◆ the parking is on property that the employer owns or leases.

Qualified bicycle commuting reimbursement(2009

- ◆ For taxable years beginning after 2008 (Sec. 211(e)DivB, PL 110-343, 10/3/2008), "qualified bicycle commuting reimbursement" means, for any calendar year, any employer reimbursement during the 15-month period beginning with the first day of that calendar year for reasonable expenses incurred by the employee during that calendar year for the purchase of a bicycle and bicycle improvements, repair, and storage if the bicycle is regularly used for travel between the employee's residence and place of employment.

How do Qualified Transportation Fringe Benefits work?

- ◆ Employers elect to provide benefits through:
 - ◆ *Employer-paid program:* A tax-free benefit of transit and vanpool fares
 - ◆ *Employee pre-tax program:* Employees reserve income on a pre-tax basis to pay for transit or vanpool costs or
 - ◆ *Combination of the above*

Parking Cash Out

- ◆ Qualified parking can be “cashed out” without penalty for
 - ◆ Taxable cash,
 - ◆ Tax-free transit/vanpool benefits, or
 - ◆ A combination of the above.
- ◆ A parking cash out program provides an incentive for employees NOT to drive alone to work

Tax Free Limits (2009)

- ◆ Transit/Vanpool – Not to exceed \$120 per month, individually or combined
- ◆ Qualified Parking – Not to exceed \$230 per month
- ◆ Both limits can rise with inflation, as measured by the Consumer Price Index (CPI)
- ◆ Employees can receive tax benefits of up to \$350 per month if they use both transit/vanpool and qualified parking to commute to work (in 2009)

Slides 1⁹ – 2⁰

- ◆ From Linda Urada's Presentation,
October 3, 2006

Types of Federal Taxes

- ◆ Corporate income taxes
 - EMPLOYERS pay taxes on their net income
- ◆ Personal income taxes
 - EMPLOYEES pay taxes on their taxable income
- ◆ Payroll taxes (Social Security and Medicare)
 - BOTH employers and employees pay taxes on EMPLOYEE salaries
 - Rate is 7.65 percent of salary
 - ◆ 6.2 percent for Social Security (up to a specified salary limit)
 - ◆ 1.45 percent for Medicare (on all salary)

How Commuter Benefits Work

Example 1: Employer-paid benefit

Assumptions

Employee

- ◆ \$36,000 annual salary puts her in 28% federal tax bracket
- ◆ State income tax is 6%, and anything exempt from federal tax is also exempt from state tax
- ◆ Pays \$100 for monthly rail pass

Employer

- ◆ For-profit company
- ◆ Net corporate income puts company in 34% corporate income tax bracket

Case Study: Employer-paid benefit

The employer decides to give the employee a \$100 monthly transit benefit. With the tax-free commuter benefit, the employee receives more value and it costs the employer less than providing taxable salary.

<i>Employee Perspective</i>	<i>Base Case</i>	<i>Salary Increase</i>	<i>Employer-Paid Benefit</i>
Monthly Gross Pay	\$3,000	\$3,100	\$3,000
Federal Income Tax 28%	(\$840)	(\$868)	(\$840)
State Tax 6%	(\$180)	(\$186)	(\$180)
FICA 7.65%	(\$229)	(\$237)	(\$229)
Employee Take-Home Pay	\$1,751	\$1,809	\$1,751
Employer-Paid Benefit	\$0	\$0	\$100
Employee's Transit Cost	(\$100)	(\$100)	(\$100)
Spendable Income after Transit	\$1,651	\$1,709	\$1,751
Increase in Spendable Income		\$58	\$100

<i>Employer Perspective</i>		<i>Base Case</i>	<i>Salary Increase</i>	<i>Employer-Paid Benefit</i>
Cost to Provide Salary		\$3,000	\$3,100	\$3,000
FICA Taxes	7.65%	\$229	\$237	\$229
Salary and Payroll Cost		\$3,229	\$3,337	\$3,229
Corp Tax Deduction	34%	(\$1,098)	(\$1,135)	(\$1,098)
Total Cost to Provide Salary		\$2,131	\$2,202	\$2,131
Employer-Paid Benefit		\$0	\$0	\$100
Tax Deduction	34%	(\$0)	(\$0)	(\$34)
Total Cost to Provide Benefit/Increase			\$71	\$66

Value to Businesses

- ◆ Improves recruitment and retention
- ◆ Can reduce employer taxes
- ◆ Can reduce parking costs
- ◆ Increases employee productivity
- ◆ Introduces new employee benefit
- ◆ Makes employee transit free or lower cost
- ◆ Improves community image

Value to Users / Employees

- ◆ Reduces taxes
- ◆ Saves transit/vanpool costs
- ◆ Saves gas and vehicle operating costs
- ◆ Relieves stress associated with traffic
- ◆ Can make commute more predictable and productive
- ◆ Provides alternatives or options to commuters

Value to Communities

- ◆ Reduces traffic congestion
- ◆ Improves air quality
- ◆ Conserves energy
- ◆ Contributes to broader environmental and economic goals through more accessible and convenient transit

Thank you.

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