

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 \$30 for monthly bus pass

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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 \$30 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	\$3,030	\$3,000
Federal Income Tax 28%	\$840	\$849	\$840
State Tax 6%	\$180	\$182	\$180
FICA 7.65%	\$229	\$232	\$229
Employee Take-Home Pay	\$1,751	\$1,767	\$1,751
Employer-Paid Benefit	\$0	\$0	\$30
Employee's Transit Cost	\$30	\$30	\$30
Spendable Income after Transit	\$1,721	\$1,737	\$1,751
Increase in Spendable Income		\$16	\$30

<i>Employer Perspective</i>	<i>Base Case</i>	<i>Salary Increase</i>	<i>Employer-Paid Benefit</i>
Cost to Provide Salary	\$3,000	\$3,030	\$3,000
FICA Taxes 7.65%	\$229	\$232	\$229
Salary and Payroll Cost	\$3,229	\$3,262	\$3,229
Corp Tax Deduction 34%	\$1,098	\$1,110	\$1,098
Total Cost to Provide Salary	\$2,131	\$2,152	\$2,131
Employer-Paid Benefit	\$0	\$0	\$30
Tax Deduction 34%	\$0	\$0	\$10
Total Cost to Provide Benefit/Increase		\$21	\$20

Providing a \$30 monthly transit benefit instead of a \$30 raise in salary for \$20 outlay is a good value for the employer. The employee receives a \$30 increase in spendable income, without having to pay additional income taxes.

How Commuter Benefits Work

Example 2: Employee-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 \$30 for monthly bus pass

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Employer

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

Case Study: Employee-paid benefit

The employer decides to let employees pay for their own transit benefit with pre-tax salary.

<i>Employee Perspective</i>	<i>Base Case</i>	<i>Pre-tax Payroll Deduction</i>
Monthly Gross Pay	\$3,000	\$3,000
Pre-tax Transit Cost		\$30
Taxable Salary	\$3,000	\$2,970
Federal Income Tax 28%	\$840	\$832
State Tax 6%	\$180	\$178
FICA 7.65%	\$229	\$227
Employee Take-Home Pay	\$1,751	\$1,733
Employee's Transit Cost	\$30	
Spendable Income after Transit	\$1,721	\$1,733
Increase in Spendable Income		\$12

<i>Employer Perspective</i>	<i>Base Case</i>	<i>Pre-Tax Payroll Deduction</i>
Cost to Provide Salary	\$3,000	\$3,000
Pre-Tax Transit Cost		\$30
Taxable Salary	\$3,000	\$2,970
FICA Taxes 7.65%	\$229	\$227
Salary and Payroll Cost	\$3,229	\$3,197
Corp Tax Deduction 34%	\$1,098	\$1,087
Total Cost to Provide Salary	\$2,131	\$2,110
Total Savings		\$21

When you consider adding the cost of processing the reimbursement claim to the employee or purchasing the transit pass, the savings to the employer practically go away. The value of this program is that the employee receives a \$30 transit pass and takes home \$12 more per month. The employer does not pay a salary increase.

How Commuter Benefits Work Example 3: Combination Scenario

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 \$30 for monthly bus pass

Employer

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

Case Study: Combination Scenario

The employer decides to pay the employee \$15 per month to ride transit and to allow employees to pay the other \$15 with pre-tax salary.

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<i>Employee Perspective</i>	<i>Base Case</i>	<i>Pre-tax Payroll Deduction</i>
Monthly Gross Pay	\$3,000	\$3,000
Pre-tax Transit Cost		\$15
Taxable Salary	\$3,000	\$2,985
Federal Income Tax 28%	\$840	\$836
State Tax 6%	\$180	\$179
FICA 7.65%	\$229	\$228
Employee Take-Home Pay	\$1,751	\$1,742
Employee's Transit Cost	\$30	\$15
Employer-Paid Benefit		\$15
Spendable Income after Transit	\$1,721	\$1,742
Increase in Spendable Income		\$21

<i>Employer Perspective</i>	<i>Base Case</i>	<i>Pre-Tax Payroll Deduction</i>
Cost to Provide Salary	\$3,000	\$3,000
Pre-Tax Transit Cost		\$15
Taxable Salary	\$3,000	\$2,985
FICA Taxes 7.65%	\$229	\$228
Salary and Payroll Cost	\$3,229	\$3,228
Corp Tax Deduction 34%	\$1,098	\$1,097
Total Cost to Provide Salary	\$2,131	\$2,131
Employer-Paid Benefit		\$15
Tax Deduction 34%		\$5
Cost to Provide Benefit		\$10
Total Cost to Provide Benefit		\$10

It costs the employer \$10 per month to provide a benefit that is worth about \$21 per month to the employee in increased take-home pay.