

Commuter Tax Benefits: Qualified Transportation Fringe Benefits

Under Section 132(f) of the Internal Revenue Code – known as Qualified Transportation Fringe Benefits – employers can offer “Commuter Tax Benefits.” This program saves the employer payroll-related taxes, as well as saving the employee money on federal income taxes.

Commuter Tax Benefit Programs

- **Employer Covers the Cost**

Employers can offer their employees up to \$255* a month to pay for a transit pass or vanpool expenses. There is also an option to reimburse employees up to \$20 a month for qualified bicycling commute expenses.

If you were to provide this amount to your employees as additional income, your company would be taxed on it. By providing the money as a Commuter Tax Benefit, your company is able to take a tax deduction.

- **Allow Employees to Set Aside Money Pre-Tax**

This option is similar to setting money aside to pay for health expenses. The employer allows employees to use pre-tax income (up to \$255 a month*) to pay for a transit pass or to cover vanpool expenses.

Allowing your employees to designate part of their income as “pre-tax” lowers the amount your company pays on payroll taxes.

- **Work Together**

Offering both options is a great way to make Commuter Tax Benefits a reality at your workplace.

If your company is not ready to foot the whole bill – even with the tax deduction! – the employer can provide a small subsidy and allow employees to set aside the difference through the pre-tax option.

- **Parking Cash-Out Program**

If your company is paying for your employees to park their cars during the day, consider offering that money directly to your employees instead.

You can offer employees up to \$255* a month in place of their free parking space to use on alternative transportation to work. Your business receives a tax deduction and saves over offering an increase of the same amount in gross income.

**These benefit limits reflect updates and changes that went into effect January 1, 2016.*

You will need to work with your tax professional to work out the tax details of the program and how they will affect your company.

2016 – Commuter Tax Benefits Overview

	Transit	Vanpool	Qualified Parking	Qualified bicycle commuting reimbursement
Incentive Levels	Up to \$255/month for transit expenses	Up to \$255/month for vanpool expenses	Up to \$255/month for parking at or near an employer's worksite, or at a facility from which employee commutes via transit, vanpool, or carpool	Up to \$20 per qualified bicycle commuting month. This exclusion for qualified bicycle commuting reimbursement includes any employer reimbursement during the 15-month period beginning with the first day of the calendar year for reasonable expenses incurred by the employee during the calendar year.
Employer Tax Benefit	Employers give their employees up to \$255/month to commute via transit; gets a tax deduction and saves over providing same value in gross income or Employers allow employees to use pre-tax income to pay for transit and employers save on payroll tax (at least 7.65% savings) or A combination of both up to statutory limits	Employers give their employees up to \$255/month to commute via vanpool; gets a tax deduction and saves over providing same value in gross income or Employers allow employees to use pre-tax income to pay for vanpooling and employers save on payroll tax (at least 7.65% savings) or A combination of both up to statutory limits	Employers give their employees up to \$255/month for qualified parking; gets a tax deduction and saves over providing same value in gross income or Employers allow employees to use pre-tax income to pay for qualified parking and employers save on payroll tax (at least 7.65% savings) or A combination of both up to statutory limits	Employers reimburse their employees up to \$20/month for qualified bicycle commuting; gets a tax deduction and saves over providing same value in gross income. According to the IRS, "Generally, you can exclude qualified transportation fringe benefits from an employee's wages even if you provide them in place of pay. However, qualified bicycle commuting reimbursements do not qualify for this exclusion."
Employee Tax Benefit	Employee receives up to \$255/month tax free (not on their W-2 form) or Employee pays for commute benefit with the pre-tax income and saves on income tax or A combination of both	Employee receives up to \$255/month tax free (not on their W-2 form) or Employee pays for commute benefit with the pre-tax income and saves on income tax or A combination of both	Employee receives up to \$255/month tax free (not on their W-2 form) for qualified parking or Employee pays for commute benefit with the pre-tax income and saves on income tax or A combination of both	Employee reimbursed up to \$20/month for reasonable expenses related to commuting by bicycle