

Tax Incentives for Businesses: A Direct Dividend of Commuter Benefit Programs

In addition to benefiting your employees, offering commuter benefits has fiscal advantages. Tax incentives offered by federal, state, and local governments make it easier than ever for businesses to pursue transportation-related perks.

Federal Qualified Transportation Fringe Benefit

The Qualified Transportation Fringe Benefit program (governed under Section 132[f] of the IRS Code) provides a tax incentive to employers for employees who commute to work by any eligible means. The benefit program also applies to parking and bicycling costs. (Refer to the Taxable Fringe Benefit Guide cited below for in-depth information, including rules for offering a commuter benefit program.)

Commuter benefits offered by an employer are exempt from withholding and employment taxes and are not reported as taxable wages on the employee's W-2 form. They are also deductible as an employer-provided benefit from the employer's gross profit. For example, in 2009, private employers offering commuter tax benefits for public transportation or vanpooling could save more than \$1,000 per month per employee. See Resource #1 to calculate the savings for your company.

1. Qualified Transit Benefit

Employers can provide commuter tax benefits in several ways, as long as they apply to work-related trips taken on a publicly or privately owned or operated transit vehicle, including bus, rail, subway, ferry, subscription bus, shuttle, or a contracted commuter highway vehicle. This also includes a vanpool that seats at least 7 people, including the driver, if the vanpool meets the definition of a commuter highway vehicle as defined by the Internal Revenue Code. (Refer to the Taxable Fringe Benefit Guide cited below for in-depth information.)

Employers can structure their commuter benefit program in one of three ways:

- **Benefits in addition to salary:** Employers can provide each employee with a transit pass or any similar item entitling them to transportation on a qualified vehicle or, in limited cases, cash reimbursement when no pass or similar item is available and when use is strictly

substantiated. As of March 2009, your business can claim up to \$230 per month per employee as a normal business expense, which is exempt from federal payroll taxes.

- **Employee pre-tax set-aside:** Employers may set aside an employee's pre-tax income amount, up to a maximum of \$230 per month, for commuting expenses on a qualified vehicle. Employers pay employment taxes only on the reduced amount of the employee's salary.
- **Combination of reimbursed benefits and pre-tax set-aside:** Employers can choose to pay part of an employee's commuting costs, deducting that amount as an employee benefit, and then deduct the remaining cost up to \$230 per month per employee from an employee's salaries before calculating taxes.

2. Qualified Parking Benefit

Employers can also choose to help cover employees' cost of parking at a lot from which they commute to work by a qualified vanpool or public transit vehicle in one of three ways:

- Paying for their parking directly,
- Deducting the cost of the parking pre-tax from the employees' salary, or

The "Transportation Toolkit for the Business Community" gives businesses the information they need now to assist their employees in achieving a timely, cost-efficient commute that promotes their productivity and job satisfaction. View other fact sheets and resources at www.ctaa.org/transportation_to_work for information on how to access transportation-related tax benefits, partner with local providers to find answers to employees' and customers' transportation needs, become part of a transportation management association, and more.

This toolkit was created by the Community Transportation Association of America's Joblinks Employment Transportation Initiative—serving communities since 1993 in solving employment transportation issues.



- A combination of both, up to a maximum of \$230 per month per employee in 2009.

Employers who provide parking on or near the business work premises can deduct the cost of that parking, again up to a maximum of \$230 per month per employee in 2009, as a normal business expense. Combined, the commuter tax benefit and the qualified parking benefit can result in deductions of up to \$460 per month per eligible employee. (Refer to the Taxable Fringe Benefit Guide cited below for in-depth information.)

3. Qualified Bicycle Benefit

New in January 2009, employers may also provide reimbursements of up to \$240 per year (\$20 a month) for reasonable expenses incurred by an employee 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 work. However, reimbursement for bicycle commuting is not available for employees who already accept a parking or transit subsidy. Unlike the other qualified transportation fringe benefits, a qualified bicycle commuting reimbursement benefit cannot be funded through employee pre-tax income.

State Tax Credits and Local Tax Incentives

Maryland and Minnesota allow businesses to claim a tax credit for amounts they pay toward employee commuting costs. In Maryland, businesses can claim a tax credit for 50 percent of the eligible costs of providing eligible commuter benefits up to a maximum of \$50 per employee per month. In Minnesota, employers that purchase transit passes to resell or give their employees may be eligible for a 30 percent state tax credit. Some counties or cities may also provide incentives

for businesses to help employees cover their commuting costs. Montgomery County, Maryland's Fare Share program matches employers' contributions for employees' commute by public transportation on a sliding scale (50/50 the first year, 60/40 the second, and 70/30 the third year) up to \$20,000 over three years.

Before implementing any type of commuter benefit program, consult your tax advisor.

Resources

2007 Commuter Transit Impact Survey. TransitCenter, New York, NY. [transitcenter.com/uploadedFiles/Transit_Resources/IndustryInformation/2007_Commuter_Impact_Survey.pdf]

Taxable Fringe Benefit Guide, 2009. Internal Revenue Service, Washington, DC. [http://www.irs.gov/pub/irs-tege/fringe_benefit_fslg.pdf]

The Joblinks "Transportation Toolkit for the Business Community" was created with funding from the Office of Disability Employment Policy, U.S. Department of Labor, through a cooperative agreement between the Community Transportation Association of America and the Federal Transit Administration. The opinions and conclusions expressed herein are solely those of the authors and should not be construed as representing the opinions or policy of any agency of the federal government. May 2009.

