

# Commuter Tax Benefits: Making the Commute Better, Cheaper, Greener for Employees + Employers



## HOW CAN YOUR EMPLOYEES GET A RAISE WITHOUT DAMAGING THE BOTTOM LINE?

Employers can give their employees as much as a \$380 monthly raise with almost no cost to the company through an IRS provision<sup>1</sup> – little known outside a few big cities – that provides fringe benefits or pre-tax benefits of varying amounts for different types of commuting: transit, parking, ferries, van pools (not carpools), and even biking. Employees can save on commuting costs, while employers can save 7.65% in payroll taxes.<sup>2</sup> The federal commuter tax benefit is similar to pre-tax payment of employee health benefits and also is handled through payroll deductions, but also can be a direct employer benefit, depending on employer policy. Employees and employers save on taxes.

## WHAT'S COVERED?

Tax-free and/or pre-tax limits for employer-provided commuter (fringe) benefits for the 2014 tax year:

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**\$130 per employee per month for vanpool, bus, rail, ferry (all public transportation)**

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**\$250 per employee per month for qualified parking**

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**\$380 per employee per month for a combination of public transportation and parking, but caps for transit still apply**

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**\$20 per employee per month for expenses related to bicycle commuting<sup>3</sup>**

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If a company adopts a policy to offer one or more commuter tax benefits, it is up to the employer to decide the amount of tax benefits for each within the IRS monthly limits for employees. The employer also decides whether the benefit will be provided in whole or part by the company, or if some or all of it can be taken by the employee as a pre-tax benefit or a combination of both. (In some cases employers have provided benefits over the limits and in those cases, amounts in excess of the IRS cap should be treated as taxable income.) Unlike many other pre-tax credits, any credits not used by the end of the year rollover to the next year.

## GETTING STARTED

It's easy:

- The employer, often in consultation with employees, decides on which commuter transit/benefit options are best for the company and how they will be implemented
- The employer establishes the benefits program or contracts it out
- The employer can buy monthly transit passes from the transit agency or reimburse employees for monthly transit pass purchases, or can provide vouchers or cash (the latter two are more applicable to vanpools)
- If the employer provides monthly benefits vanpools, the employer can decide if and how to provide a guaranteed ride home
- Employees sign up and enjoy the benefit!

1. Qualified Transportation Fringe Benefits codified as Section 132(f) of the Internal Revenue Code provides for commuter tax benefits.

2. Commuter Benefits Solutions at: [commuterbenefits.com/the-basics](http://commuterbenefits.com/the-basics)

3. Unlike the other qualified transportation fringe benefits, a qualified bicycle commuting reimbursement benefit cannot be funded through employee pre-tax income and cannot be combined with other commuter benefits. The expenditures must be substantiated. Additionally, the employer can provide bicycle parking, office showers and other facilities to encourage bicycling, but these are considered business expenses and in some jurisdictions may be required under zoning. See: [kingcounty.gov/transportation/CommuteSolutions/EmployerTaxBenefits/IRSCommuteBenefits.aspx](http://kingcounty.gov/transportation/CommuteSolutions/EmployerTaxBenefits/IRSCommuteBenefits.aspx)

## HOW DOES IT WORK?

### EXAMPLE 1:

A worker drives to a park-and-ride location and then catches the bus to work. Both the parking fee and the transit fare are eligible for benefits up to \$380 per month (limit \$130 on transit portion). The employer can provide the transit pass and the parking as a business expense or reimburse the employee for the pass purchase, thereby reducing the employee's out-of-pocket commute expense. The company also can provide the benefits as a pre-tax payroll deduction that reduces the employee's taxable income.

### EXAMPLE 2:

A worker joins a vanpool serving the employment area. The worker can use an employer-provided transit benefit to pay vanpool costs, if certain conditions are met.<sup>4</sup> The van can be operated by the employer, employee, or a third party. Any parking cost also can be defrayed.

Let's say XYZ Company leases/purchases an 8-person van for \$X per month and provides it to the employees for commutation. The employees are charged a fee for transport to work. Up to \$130 of that fee can be reimbursed by the commuter tax benefit. If the monthly lease/purchase cost of the van is \$300 per month and monthly operating costs, including maintenance, is \$300 a month, the monthly cost is \$600. If 6 people are using the van, then they are each charged \$100 per month, which is below the \$130 per month reimbursement limit. The result is that the commutation costs for 6 people are fully covered.

Photo Credit: Washington State Dept of Transportation/  
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## WHERE CAN I LEARN MORE?

Internal Revenue Service: [irs.gov/pub/irs-pdf/p15b.pdf](https://www.irs.gov/pub/irs-pdf/p15b.pdf)

Overall Guide:

<http://www.bestworkplaces.org/wp-content/uploads/2014/01/BWC-2014-Commuter-Benefits.pdf>

<http://www.ctaa.org/webmodules/webarticles/articlefiles/SuccessStoriesEmpTranspPrograms.pdf>

Examples of Commuter Benefits Administrators:

[commuterbenefits.com/wpcontent/uploads/2014/02/Employers\\_FAQ\\_CBS\\_01\\_29\\_20141.pdf](http://commuterbenefits.com/wpcontent/uploads/2014/02/Employers_FAQ_CBS_01_29_20141.pdf)

[wageworks.com/employers/benefits/commuter.aspx](http://wageworks.com/employers/benefits/commuter.aspx)

## About CNT

CNT is a nonprofit innovations hub for urban sustainability. CNT's research, strategies, and solutions are implemented across America and around the world to create more equitable and resilient communities. Our 35-plus years of work in transportation and community development, water, energy, and climate have inspired a generation of new approaches and earned the highest of honors.

4. 80% of the vehicle mileage must be for the transport of employees to and from the place of work; seating capacity must be for six employees, plus the driver, in which at least half of the seats, plus driver are used.