

It Pays To Ride Public Transportation

Transit Commuter Benefits -- Tax Savings for Transit Riders

“Rarely does an employee benefit save both the employee and employer money. But through a great twist of the tax code,

you may be able to commute with tax free dollars, and save your boss tax dollars, too.”

Kiplinger’s Personal Finance Magazine

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Reduce Your Commuting Costs by Sheltering a Portion of Your Income From Federal Taxes

It really does pay to ride transit! Federal law lets workers receive up to \$105* a month in employer-paid tax-free transit costs, or take up to \$105 a month in tax-sheltered payroll deductions for transit costs.

The law allows employers to give their workers up to \$105 each month for transit or vanpool commuting costs as a tax-free benefit. It also allows employers to give employees the option to use payroll deductions to avoid paying taxes on up to \$105 a month in commuting costs. Alternatively, employers can share these costs with their workers by paying part of their monthly commuting costs and letting workers pay the balance using pre-tax

dollars. Either way, both employers and their employees can save money by participating in this simple plan.

This brochure, created by the American Public Transportation Association, provides information on how organizations and individuals can take advantage of the federal law that provides tax benefits for using public transportation. The law was last revised on August 10, 2005, by the Safe, Accountable, Flexible, Efficient Transportation Equity Act-A Legacy for Users (P.L. 109-59), following modifications in June 1998 by the Transportation Equity Act for the 21st Century (P.L. 105-178).

The Program In Brief

This summary describes federal law relating to transit commuter benefits, also called “transit pass benefits” or “qualified transportation fringe benefits.” Employer-paid transit commuter benefits are passes, vouchers, or similar fare media, or sometimes just cash, provided to employees to cover their transit or qualified vanpool commuting costs.

Employee-paid benefits are the same benefits, paid for by reducing the

employee’s wages or salary before taxes are applied. The law also permits employees and employers to split the costs of the benefits.

Employees do not pay federal income or payroll taxes on transit commuter benefits, except on the amount (if any) in excess of \$105 per month. Generally, state and local taxes do not apply either. Thus, transit commuter benefits are treated much like other commonly available fringe benefits

(e.g., employer-provided health insurance). Employers can deduct their costs for providing such benefits and they avoid

payroll taxes on such benefits, regardless who pays.

Employer–Paid Benefits

Tax savings are available if an employer pays for the cost of the transit commuter benefits. For example, an employer can buy transit passes from local transit agencies and distribute the passes without charge to employees who sign up for the program.

Transit commuter benefits provide significant benefits for employers as well as employees. The employer's cost of providing benefits can be deducted as a normal business expense. Even better, unlike ordinary wage payments, employers do not have to pay their share of federal payroll taxes on transit commuter benefits. This payroll tax savings alone is usually more than enough to cover any cost of administering the program.

Transit commuter benefits provide an attractive alternative to expensive parking benefits. While many companies have offered parking benefits for years, smart employers are recognizing tax-free transit

commuter benefits as an environmentally responsible way to help their employees, while reducing congestion and cutting pollution in the community. As an added benefit, employees arrive at work relaxed because they've avoided congested rush-hour drives. It's a terrific fringe benefit that's affordable.

Finally, because federal law exempts the first \$105 per month in transit benefits from federal income and payroll taxes, and generally state and local taxes as well, the employer in this case effectively provides his or her employees with a tax-free transportation bonus.

Employers can also share the cost of commuting with their employees by paying for part of the transit commuter benefit and allowing employees to pay for the remainder using pre-tax dollars. That can be as much as \$1,260 a year in pre-tax savings!

Employee-Paid Benefits

Employers can allow their employees to purchase transit commuter benefits—in effect, pay for their own transit and vanpool commuting costs—with pre-tax dollars. This is done by deducting the cost of the transit commuter benefits received by an employee from the employee's paycheck each pay period.

The first \$105 per month of commuting costs paid by the employee in this way will be completely exempt from federal income and payroll taxes, and generally state and local taxes as well. This will add up to at

least \$15 per month (\$180 per year), and sometimes larger, tax savings for most employees.

Such pre-tax deductions from an employee's pay are comparable to those often used to pay for medical benefits under a cafeteria plan, or retirement benefits under a 401(k) plan.

The law also permits employees to pay their own transit and qualified vanpool commuting costs with pre-tax dollars.

Benefits for Federal Employees

All federal employees in the Washington, D.C., area--from all three branches of the government--are eligible to receive employer-paid transit benefits up to \$105 per month.

In addition, many federal agency employees across the nation continue to receive either employer-paid transit benefits or the option to use payroll deductions for

How It Works

A transit commuter benefit program is simple to administer. It does not require extensive record keeping. When passes, vouchers, or similar fare media are available, employers need only keep a record of the purchase of the media. In other cases, the employer must maintain records that reasonably demonstrate that any cash it pays to employees is being used to cover their actual transit or vanpool commuting costs. Employers may offer different transportation fringe benefits to

Benefits Overview

Employer-Paid Benefits Employers can pay for their employees to commute by transit or vanpool, up to a limit of \$105/month. With this arrangement, employees get up to \$105 monthly in a tax-free transportation benefit. Employers get a tax deduction for the expense. Employers have found that providing transportation benefits offers significant savings over offering the equivalent dollar value to employees in the form of a salary increase.

transit use under an executive order (#13150) from several years ago. That executive order established a pilot program to provide federal employees of the U.S. Department of Transportation, the U.S. Department of Energy, and the Environmental Protection Agency with employer-paid transit benefits, and all other federal employees with the option to use payroll deductions for transit.

their employees. Nondiscrimination rules do not apply to these benefits.

Although transit commuter benefits cannot be offered as part of a cafeteria plan, employers may use the same forms and administrative procedures for a transit commuter benefit program that they use for their cafeteria plan. Employers may also rely on other parties to administer some or all of their transit commuter benefit program.

Employee-Paid Benefits Employers can allow employees to elect to exchange up to \$105/month in taxable salary for a tax-free transit or vanpool benefit. Employers save money overall since the amount exchanged is not subject to payroll taxes. Employees save money, too, since the amount of an employee's salary exchanged for transportation benefits is not subject to income tax, up to the specified monthly limits.