



## **IT PAYS TO RIDE PUBLIC TRANSPORTATION**

Federal law lets workers receive up to \$130\* a month in employer-paid tax-free transit costs, or take up to \$130 a month in tax-sheltered payroll deductions for transit costs.

The law allows employers to give their workers up to \$130 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 \$130 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.

### **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 \$130 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. And, 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.

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Finally, because federal law exempts the first \$130 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.

## **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 \$130 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. 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.

## **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 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.

## **Who Is Eligible**

Private employers, non-profit organizations, and public agencies can provide transit commuter benefits to employees, tax-free. Federal government employees and members of the military services are also eligible to receive transit commuter benefits.

Self-employed individuals, partners, 2-percent shareholders of corporations, sole proprietors, and other independent contractors are not eligible under IRS rules.

## **Additional Information**

The pertinent law of the Internal Revenue Service ([www.irs.gov](http://www.irs.gov)) can be found in the Internal Revenue Code [(26 USC 132(f)]. Additional information is provided in [Publication 15-B – “Employers Tax Guide to Fringe Benefits”](#).

## **Benefits Overview (Summary)**

Financial incentives have a significant impact on commute decisions. The federal tax code provides a variety of financial incentives related to commuter benefits for employers and employees. The following section outlines these commuter choice tax incentives. In addition, several states now offer tax credits for Commuter Choice programs. Contact an attorney or accountant for specific tax guidance.

**1. Employer-Paid Benefits:** Employers can pay for their employees to commute by transit or vanpool, up to \$130/month. With this arrangement, employees receive up to \$130 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.

**2. Employee-Paid Benefits:** Employers can allow employees to elect to exchange up to \$130/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.

**3. Shared-Cost Benefits:** Employers can provide a portion of the cost of taking transit or vanpooling as a tax-free transit or vanpool benefit.

*\* Maximum benefit effective January 1, 2015. Benefit level subject to change.*

**For additional information and for a survey tool to determine if your employees are interested in Commuter Choice, please contact:**

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