2017 Commuter Benefits
Implementing Commuter Benefits as Part of Best Workplaces for Commuters

SM
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Disclaimer

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Executive Summary

The U.S. federal tax code (Internal Revenue Code Section 132(f) – Qualified Transportation Fringe Benefits) allows employers to provide employees up to $255 per month for transit and commuter highway vehicle (e.g., vanpool) expenses and up to $255 per month for parking. Employers can reimburse employees up to $20 per month tax-free for eligible bicycle expenses as long as those employees are not receiving any other Qualified Transportation Fringe Benefit. An employer can pay for (subsidize) commuting expenses related to transit, vanpool, parking, and biking or can allow employees to set aside income on a pre-tax basis to cover transit, vanpool or parking costs. Employers and employees also can share the cost, with the employer providing a pre-determined subsidy and the employee electing a pre-tax deduction up to the monthly maximum.

Since the value of the benefit paid to employees is considered to be a tax-free transportation fringe benefit and not wage or salary compensation, payroll taxes do not apply. Allowing employees to reserve income on a pre-tax basis also saves employers payroll taxes. Several states also provide employers with tax credits for offering commuter benefit programs.

Providing transit and/or vanpool benefits is among the primary benefits that employers that participate in Best Workplaces for CommutersSM can offer their employees. Employers must offer at least one of six primary benefits to their employees to be recognized as one of the Best Workplaces for CommutersSM.
This document is one in a series of briefing papers designed to help employers who participate in Best Workplaces for Commuters℠ (BWC) to implement commuter benefits. Best Workplaces for Commuters℠ is managed by the National Center for Transit Research (NCTR) at the Center for Urban Transportation Research at the University of South Florida.

In 1999, the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Transportation (DOT) established a voluntary National Standard of Excellence for employer-provided commuter benefits that form the basis of BWC. The National Center for Transit Research has enhanced these standards to reflect additional ways in which workplaces may be designated as Best Workplaces for Commuters℠.

Commuter benefits encourage American workers to get to and from work in ways that reduce air pollution, improve public health, increase worker productivity, and reduce expenses and taxes for employers and employees. Employers that meet the National Standard of Excellence earn the BWC designation for the year by agreeing to provide one or more of the following primary commuter benefits:

- At least $30 per month towards a transit pass or vanpool pass (or the full cost of a pass if less than $30) to each employee who commutes using transit or a vanpool.
- A pre-tax purchase of a monthly transit pass or vanpool pass of at least $30 per month (or the full cost of a pass if less than $30) by at least 30% of employees.
- A significant telework program that reduces the number of commuting trips employees make by at least 6%.
- A significant compressed work week program that reduces the number of commuting trips employees make by at least 6%.
- At least $30 per month to each employee who leaves his/her car at home and commutes another way (in lieu of providing a parking spot).
- An equivalent benefit that provides similar value to employees, reduces traffic and air pollution, and is agreed to by BWC.

Employers must also:

- Centralize commute options information so it is easy for employees to access and use.
- Promote the availability of commuter benefits.
- Provide access to an emergency ride home (ERH) program.
- Commit to ensuring that at least 14% of its employees are not driving alone to work within 12 months of applying.
- Offer at least three supporting benefits from the list below. If the employer has fewer than 20 employees, it needs to provide only one supporting benefit from the list below:
  - Pre-tax transit subsidy deducted from employee paycheck that is used by less than 30 percent of employees.
  - Pre-tax vanpool subsidy deducted from employee paycheck that is used by less than 30 percent of employees.
  - Transit benefits of less than $30 per month (or less than the full cost if less than $30).
- Vanpool benefits of less than $30 per month (or less than the full cost if less than $30).
- Cash in lieu of an employer-provided parking spot in an amount less than $30 per month (or less than 75% of the actual parking benefit).
- Compressed work schedules that reduces commute trips by less than 6%.
- Telework program that reduces commute trips by less than 6%.
- Active membership in a Transportation Management Association or Organization (TMA or TMO).
- Participation in a voluntary regional air quality program or local ozone awareness program in which the employer agrees to notify employees of expected poor air quality and suggest ways that they might minimize polluting behaviors.
- Carpool or vanpool matching, either in-house or through an outside organization.
- Employer-supported vanpools, provided in-house.
- Employer-supported vanpools, provided by an outside organization.
- Preferred parking for vanpools or carpools.
- Reduced workplace parking costs for carpools and vanpools.
- Shuttles from transit stations, either employer-provided or through a local TMA or similar service provider.
- Lunchtime shuttle to reduce employee trips after they arrive at work or to encourage use of alternative transportation to work.
- Employer-provided membership in a carsharing program.
- Secure bicycle parking, showers, and lockers.
- Bikesharing program.
- Bike buddy/matching program.
- Electric bicycle recharging stations.
- Discounts and coupons for bicycles for bicyclists or shoes for walkers.
- Proximate commuting - systematically matching new and existing employees to same-employer work sites closer to their homes.
- Provision of real-time commuting information.
- Transportation information kiosk.
- Employee commuting awards programs.
- Incentives to encourage employees to live closer to work.
- Incentives to encourage employees to use alternative transportation (e.g., additional vacation time).
- On-site amenities (e.g., convenience mart, dry cleaning, etc.).
- Concierge services.
- Active promotion and participation in healthy initiatives to encourage and increase employee walking and bicycling.
- Credits for alternative transportation under LEED-certified development.
- Other supporting benefits.
Section 132(f) of the Internal Revenue Code allows employers to provide tax-free benefits to employees related to transit, vanpools, parking, and bike-to-work; these Qualified Transportation Fringe Benefits are commonly referred to as commuter benefits. Businesses may deduct the administrative cost of these employer-paid benefits from their gross income for purposes of taxation. Both the employer and employee save on taxes since they do not pay federal income or payroll taxes on these benefits.

Under the tax code, employers may offer these Qualified Transportation Fringe Benefits in one of six ways:

1. Subsidize an employee up to $255 per month for transit and commuter highway vehicles (e.g., vanpool).
2. Subsidize an employee up to $255 per month for parking.
3. Allow an employee to reduce his or her income on a pre-tax basis to cover the costs of transit and vanpools up to $255 per month.
4. Allow an employee to reduce his or her income on a pre-tax basis to cover the costs of parking up to $255 per month.
5. Share the costs of the benefit with the employee; under current law, transit and vanpool expenses up to $255 per month and/or qualified parking expenses up to $255 per month are tax-free.
6. Reimburse an employee up to $20 per month ($240 per year) for eligible expenses incurred for bicycling to work on a regular basis.

Best Workplaces for Commuters does not provide professional tax consultation. You should contact your attorney and tax professional to receive expert tax advice.
Get the Recognition Your Organization Deserves As One of the BEST

Does your organization help employees with their commute? Apply to be recognized as one of the Best Workplaces for Commuters.

If your organization meets the National Standard of Excellence by offering commuter benefits, your organization will exclusively receive:

- National public recognition for being commuter-friendly and socially responsible
- Race to Excellence: Participate and receive recognition at a “Live” National Awards Ceremony
- Web conferences and training to help you implement commuter benefits
- Help desk to answer program questions and provide tips and resources
- Networking opportunities with peers
- Commuter Benefit Briefs that provide detailed information on tax benefits associated with commuting options such as transit, vanpools, carpools, parking cash-out, telework, and emergency ride home programs.
Qualified Transportation Fringe Benefits

According to the Internal Revenue Code Section 132(f), employer-paid reimbursements or payments for qualified commuter benefits are excludable from income for purposes of taxation. Types of qualified commuter benefits include reimbursement or payment for the following.

Transit Passes
Transit passes include any vouchers, passes, farecards, tokens, or related items that employees can use to pay for transportation on mass transit facilities or transportation provided by a person in the business of transporting persons for compensation or hire if such transportation has a seating capacity of at least six adults (not including the driver). Transit agency “smart cards” are also included.

Commuter Highway Vehicle Expenses
IRS Code Section 132(f) defines transportation in a commuter highway vehicle as:

“Transportation provided by an employer to an employee in connection with travel between the employee’s residence and place of employment. A commuter highway vehicle is a highway vehicle with a seating capacity of at least six adults (excluding the driver) and with respect to which at least 80 percent of the vehicle’s mileage for a year is reasonably expected to be—

(a) For transporting employees in connection with travel between their residences and their place of employment; and

(b) On trips during which the number of employees transported for commuting is at least one-half of the adult seating capacity of the vehicle (excluding the driver)."

Section 132(f) is generally viewed as applying to vanpools, but large carpools could be eligible as well. Based on the definition above, any 7-passenger vehicle (e.g., large SUV) with 4 riders and meeting the 80 percent mileage requirement would qualify.

Qualified Parking Expenses
The IRS defines qualified parking as parking provided to an employee by an employer on or near the employer’s business premises or at a location from which the employee commutes to work (such as a park-and-ride lot) by commuter highway vehicle or carpool. Qualified parking does not include the value of parking provided to an employee that is excludable from gross income as a working condition fringe benefit. It also does not include reimbursement paid to an employee for parking costs that are excludable from gross income as an amount treated as paid under an accountable plan, such as if the employer provides parking on property that the employer owns or leases; the employer pays for the parking; or the employer reimburses the employee for parking expenses. Parking on or near property used by the employee for residential purposes is not qualified parking.

Qualified Bicycle Commuting Expenses
For any calendar year, a 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. Reasonable expenses include the purchase of a bicycle and bicycle improvements, repair, and storage. The IRS considers these to be reasonable expenses as long as the bicycle is regularly used for travel between the employee’s residence and place of employment. For any employee, a qualified bicycle commuting
month is any month the employee regularly uses the bicycle for a substantial portion of the travel between the employee’s residence and place of employment and does not receive reimbursement for a transit pass, transportation in a vanpool, or qualified parking benefits. Generally, an employer can exclude commuter benefits from an employee’s wages even if provided in place of pay. However, qualified bicycle commuting reimbursements may not be paid with pre-tax income.

**Tax-Free Limits and Adjustments**
Under current tax law, transit and vanpool expenses up to $255 per month, qualified parking expenses up to $255 per month, and qualified bicycle commuter reimbursements up to $20 per month are tax-free.
Tax Savings for Employers and Employees

By offering tax-free Qualified Transportation Fringe Benefits, both employers and employees can save on taxes. The tax savings depends on the way the benefits are provided to employees—employer-paid, paid by employees through a pre-tax salary deduction, or a combination of both. This section describes how employers and employees save under each of these options. Sample calculations of tax savings are included.

Employers may also deduct the cost of administering the benefit as a business expense for purposes of calculating corporate income taxes, in the same manner that salary payments to employees can be deducted.

Tax Benefits of Employer-Paid Benefits
If an employer pays for the commuter benefit, the value of the benefit is tax-free to the employee and the employer may deduct the cost of providing the benefit as a business expense.

Table 1. Qualified Transportation Fringe Benefits Summary

<table>
<thead>
<tr>
<th>Incentive Levels</th>
<th>Transit</th>
<th>Commuter Highway Vehicle (e.g., vanpool)</th>
<th>Qualified Parking</th>
<th>Qualified Bicycle Commuting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $255/month* for transit expenses</td>
<td>Up to $255/month* for commute trip in a vehicle with a seating capacity of at least six adults (excluding the driver), with at least 80 percent of the vehicle’s mileage for a year is reasonably expected to be for transporting employees in connection with travel between their residence and their place of employment and on trips during which the number of employees transported for commuting is at least one-half of the seating capacity of the vehicle (excluding the driver)</td>
<td>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</td>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>

Employers may give their employees up to $255/month for transit vouchers, commuter highway vehicle fares and/or commuter parking fees. Private sector employers may be able to deduct the qualified transportation fringe benefit payments to employees as a business expense.

Employers may allow employees to use up to $255 per month in pre-tax income to pay for transit vouchers, commuter highway vehicle fares and/or parking fees. Employers may reduce their payroll tax contribution of the pre-tax income used by employees to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.

Most employees may receive up to $255/month for purchase of transit vouchers, commuter highway vehicle fares and/or parking fees from his or her employer. This subsidy value will not appear on their W-2 form as income.

Employee pays for commute benefit with the pre-tax income up to the $255/month statutory limit and receives more after-tax spendable income. Employee may combine the pre-tax benefit with employer subsidies up to $255/month for each to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.

* tax free transit and vanpool benefit limit increased from $130 per month in 2014 to $250 per month beginning January 1, 2015. It was raised to $255 per month for 2016.

** tax free parking benefit limit increased from $250 per month in 2015 to $255 per month beginning January 1, 2016.
employee and exempt from employer payroll (FICA, FUTA, and withholding) taxes. As a result, employer-paid commuter benefits provide more purchasing power for employees for buying transit fares, vanpools fares, and/or parking than providing an equivalent increase in salary where the employee pays for the fare media with after-tax income.

For example, an employer that provides $255 per month ($3,060 per year) to an employee earning $35,000 per year in the form of a transit, vanpool, or parking benefit rather than an increase in salary results in the employee having an additional $690 per year to spend on commuter benefits. The employer also saves $234 per year in payroll taxes. Both the commuter benefit and the salary increase may be deducted by the employer as a business expense for purposes of calculating corporate income taxes.

Some transit-voucher providers charge an administrative fee for the vouchers, resulting in a slight increase in cost to the employer; however, some transit agencies offer discounts for purchasing transit passes in bulk, which would lower the cost. Some states and localities also offer employer tax credits, further lowering the cost to the employer.

Under IRS Code, an employer may provide an employee who pays to park at a qualified parking area (such as a transit station) and then takes transit or a vanpool to work up to a combined benefit of $510 per month ($255 for the transit/vanpool benefit and $255 per month for parking). The bicycle benefit may not be combined with parking, transit or vanpool benefits.

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**Figure 1.**
Pay Raise vs. Commuter Benefit: Employee Perspective

**Figure 2.**
Pay Raise vs. Commuter Benefit: Employer Perspective
Tax Benefits of Employee Pre-Tax Deductions

While an employer must be involved in the provision of commuter benefits, the employer is not obligated to subsidize employee commute trips. If an employer chooses not to pay for commuter benefits, it can allow employees to deduct the cost of a transit pass, vanpool fare, and/or parking cost from their pre-tax income.

Table 2 compares the bottom-line impact on employee take-home pay by purchasing a qualified transportation fringe benefit with pre-tax dollars instead of using after-tax dollars. The results show that an employee participating in a pre-tax plan will see an increase in annual spendable income of $353. This brings the effective transit cost to the employee down from $255 per month to $226 per month, a savings of about 12 percent.

While employees can take home more pay by using pre-tax income to purchase their transit

<table>
<thead>
<tr>
<th>Table 2. Take-Home Pay Increase with/without Pre-Tax Benefit Plan</th>
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</thead>
<tbody>
<tr>
<td><strong>Without Pre-Tax Qualified Transportation Fringe Benefit</strong></td>
</tr>
<tr>
<td>Adjusted Gross Income</td>
</tr>
<tr>
<td>Pre-Tax Commuter Benefits</td>
</tr>
<tr>
<td>Taxable Adjusted Gross Income</td>
</tr>
<tr>
<td>Taxable Adjusted Gross Income</td>
</tr>
<tr>
<td>Standard deduction</td>
</tr>
<tr>
<td>Total exemptions multiplied by withholding allowance ($4,050 for 2016)</td>
</tr>
<tr>
<td>Taxable Income</td>
</tr>
<tr>
<td>Withholding tax on Taxable Income</td>
</tr>
<tr>
<td>FICA (7.65% of Taxable Gross) on Taxable Income</td>
</tr>
<tr>
<td>Total Federal Taxes Paid on Taxable Income</td>
</tr>
<tr>
<td>Taxable Adjusted Gross Income</td>
</tr>
<tr>
<td>Total Federal Taxes</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>Net Income</td>
</tr>
<tr>
<td>After-Tax Purchase of Commuter Benefits</td>
</tr>
<tr>
<td>Spendable Income</td>
</tr>
</tbody>
</table>

**Annual Savings to Employee** (difference between pre-tax and after-tax purchase of commuter benefits) $693.09

Assumes married, 2 exemptions at $35,000 per year
pass, vanpool fare, or parking, employers can reduce their payroll taxes. The use of pre-tax income by employees means the employer does not have to match the payroll tax portion of that income. For example, as shown in the table below, an employer can reduce its payroll expenditure by about $234 per participating employee per year for each employee who elects to use pre-tax income to pay for a $255 per month transit pass.

**Table 3. Take-Home Pay Increase Levels with Pre-Tax Plan**

<table>
<thead>
<tr>
<th>Monthly Commuter Benefit Purchased Using Pre-Tax Income</th>
<th>Annual Increase in Take-Home Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Married with 2 allowances @$35,000/yr</td>
</tr>
<tr>
<td>$30</td>
<td>$63.54</td>
</tr>
<tr>
<td>$50</td>
<td>$105.90</td>
</tr>
<tr>
<td>$75</td>
<td>$158.85</td>
</tr>
<tr>
<td>$100</td>
<td>$211.80</td>
</tr>
<tr>
<td>$130</td>
<td>$275.34</td>
</tr>
<tr>
<td>$200</td>
<td>$423.60</td>
</tr>
<tr>
<td>$250</td>
<td>$540.09</td>
</tr>
</tbody>
</table>

Table 4. Reduction in Employer Payroll Expenses with Pre-Tax Qualified Transportation Fringe Benefit Plan, per Employee

<table>
<thead>
<tr>
<th>Monthly Commuter Benefit Level</th>
<th>Annual Employer Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30</td>
<td>$27.54</td>
</tr>
<tr>
<td>$50</td>
<td>$45.90</td>
</tr>
<tr>
<td>$75</td>
<td>$68.85</td>
</tr>
<tr>
<td>$100</td>
<td>$91.80</td>
</tr>
<tr>
<td>$130</td>
<td>$119.34</td>
</tr>
<tr>
<td>$200</td>
<td>$183.60</td>
</tr>
<tr>
<td>$255</td>
<td>$234.09</td>
</tr>
</tbody>
</table>

**Employer/Employee Cost Sharing**

Both employers and employees benefit when an employer shares the cost of commuting with employees by paying a portion of commute expenses as an additional benefit and allowing employees to deduct the rest of their expenses (up to the monthly limit) from their pre-tax income.
Frequently Asked Questions

The following frequently asked questions were extracted from IRS documentation and updated to reflect the 2016 limits on Qualified Transportation Fringe Benefits and new rules about smartcards and debit cards for fare payment.

Q1. Are Qualified Transportation Fringe Benefits treated as federal tax credits for employers?

No. The costs are deductible as ordinary business expense but are not tax credits (i.e., dollar-for-dollar reduction in tax liability).

Q2. May Qualified Transportation Fringe Benefits be provided to individuals who are partners, 2% shareholders of S-corporations, or independent contractors?

Section 132(f)(5)(E) states that self-employed individuals who are employees within the meaning of section 401(c)(1) are not employees for purposes of section 132(f). Therefore, individuals who are partners, sole proprietors, or other independent contractors are not employees for purposes of section 132(f). In addition, under section 132(a), 2% shareholders of S corporations are treated as partners for fringe benefit purposes. Thus, an individual who is both a 2% shareholder of an S corporation and a common law employee of that S corporation is not considered an employee for purposes of section 132(f). However, while section 132(f) does not apply to individuals who are partners, 2% shareholders of S corporations, or independent contractors, other exclusions for working condition and de minimis fringes may be available.

Q3. Must a Qualified Transportation Fringe Benefit plan be in writing?

No. Section 132(f) does not require that a Qualified Transportation Fringe Benefit plan be in writing.

Q4. What are the substantiation requirements if an employer distributes transit passes?

There are no substantiation requirements if the employer distributes transit passes. Thus, an employer may distribute a transit pass for each month with a value not more than the statutory monthly limit without requiring any certification from the employee regarding the use of the transit pass. However, an employer may choose to impose more substantiation requirements.

Q5. Are carpools eligible to receive federal commuter benefits?

Generally, carpools are ineligible to receive federal commuter benefits unless the carpool meets the definition of a commuter highway vehicle. That means the vehicle being used must provide transportation in connection with travel between the employee’s residence and place of employment. A commuter highway vehicle is a highway vehicle with a seating capacity of at least six adults (excluding the driver) and with respect to which at least 80% of the vehicle’s mileage for a year is reasonably expected to be for transporting employees in connection with travel between their residences and their place of employment and on trips during which the number of employees transported for commuting is at least one-half of the adult seating capacity of the vehicle (excluding the driver). In other words, it must be at least a four-person carpool in a large seven-passenger vehicle like a minivan, SUV or crossover.

Q6. May an employee whose qualified transportation fringe costs are less than the employee’s compensation reduction carry over this excess amount to subsequent periods?

Yes. Under Section 132(f), Qualified Transportation Fringe Benefits, an employee may carry over unused compensation reduction...
amounts to subsequent periods under the plan of the employee’s employer. The following example illustrates this principle. By an election made before November 1 of a year for which the statutory monthly mass transit limit is $255, Employee E elects to reduce compensation in the amount of $255 for the month of November. Employee E incurs $240 in employee-operated commuter highway vehicle expenses during November, for which Employee E is reimbursed $240 by Employer R, Employee E’s employer. By an election made before December, Employee E elects to reduce compensation by $255 for the month of December. Employee E incurs $255 in employee-operated commuter highway vehicle expenses during December for which Employee E is reimbursed $255 by Employer R. Before the following January, Employee E elects to reduce compensation by $240 for the month of January. Employee E incurs $255 in employee-operated commuter highway vehicle expenses during January for which Employee E is reimbursed $255 by Employer R because Employer R allows Employee E to carry over to the next year the $15 amount by which the compensation reductions for November and December exceeded the employee-operated commuter highway vehicle expenses incurred during those months. In this example, because Employee E is reimbursed in an amount not exceeding the applicable statutory monthly limit, and the reimbursement does not exceed the amount of employee-operated commuter highway vehicle expenses incurred during the month of January, the amount reimbursed ($255) is excludable from Employee E’s wages for income and employment tax purposes.

Q7. How does section 132(f) apply to expense reimbursements?

IRS rules regarding expense reimbursement for Qualified Transportation Fringe Benefits are as follows:

In general, the term Qualified Transportation Fringe includes cash reimbursement by an employer to an employee for expenses incurred or paid by an employee for transportation in a commuter highway vehicle or qualified parking. The term Qualified Transportation Fringe also includes cash reimbursement for transit passes made under a bona fide reimbursement arrangement, but, in accordance with section 132(f)(3), only permitted if it meets the special rule for transit passes below, under paragraph (b) of this Q/A–16. The reimbursement must be made under a bona fide reimbursement arrangement that meets the rules of paragraph (c) of this Q/A–16. A payment made before the date an expense has been incurred or paid is not a reimbursement. In addition, a bona fide reimbursement arrangement does not include an arrangement that is dependent solely upon an employee certifying in advance that the employee will incur expenses at some future date.

Q8. What is the special rule for transit passes as it relates to expense reimbursements?

The term Qualified Transportation Fringe Benefits includes cash reimbursement for transit passes made under a bona fide reimbursement arrangement, but, in accordance with section 132(f)(3), only if no voucher or similar item that may be exchanged only for a transit pass is readily available for direct distribution by the employer to employees or in geographic areas where terminal-restricted debit cards or smart cards are readily available (Rev. Rul. 2014-32). If a voucher is readily available, the requirement that a voucher be distributed in-kind by the employer is satisfied if the voucher is distributed by the employer or by another person on behalf of the employer (for example, if a transit operator credits amounts to the employee’s fare card as a result of payments made to the operator by the employer). See IRS’ Rev. Rul. 2014-32 about terminal-restricted debit cards or smart cards in the next section.
Q9. What are “voucher or similar item” and “voucher provider”?
For purposes of the special rule above, a transit system voucher is an instrument that may be purchased by employers from a voucher provider that is accepted by one or more mass transit operators (e.g., train, subway, bus) in an area as fare media or in exchange for fare media. Thus, for example, a transit pass that may be purchased by employers directly from a voucher provider is a transit system voucher. The term voucher provider means any person in the trade or business of selling transit system vouchers to employers or any transit system or transit operator that sells vouchers to employers for the purpose of direct distribution to employees. Thus, a transit operator might or might not be a voucher provider. A voucher provider is not, for example, a third-party employee benefits administrator that administers a transit pass benefit program for an employer using vouchers that the employer could obtain directly.

Q10. What is meant by “readily available” with respect to expense reimbursements?
A voucher or similar item is readily available for direct distribution by the employer to employees if and only if an employer can obtain it from a voucher provider that does not impose fare media charges that cause vouchers to not be readily available as described in Q11 below and does not impose other restrictions that cause vouchers to not be readily available as described below.

Q11. What are “fare media charges”?
Fare media charges relate only to fees paid by the employer to voucher providers for vouchers. The determination of whether obtaining a voucher would result in fare media charges that cause vouchers to not be readily available as described above is made with respect to each transit system voucher. If more than one transit system voucher is available for direct distribution to employees, the employer must consider the fees imposed for the lowest cost monthly voucher for purposes of determining whether the fees imposed by the voucher provider satisfy this paragraph. However, if transit system vouchers for multiple transit systems are required in an area to meet the transit needs of the individual employees in that area, the employer has the option of averaging the costs applied to each transit system voucher for purposes of determining whether the fare media charges for transit system vouchers satisfy this paragraph. Fare media charges are described in this paragraph and therefore cause vouchers to not be readily available if and only if the average annual fare media charges that the employer reasonably expects to incur for transit system vouchers purchased from the voucher provider (disregarding reasonable and customary delivery charges imposed by the voucher provider, e.g., not in excess of $15) are more than 1% of the average annual value of the vouchers for a transit system.

Q12. Are there other restrictions that cause vouchers to not be readily available?
Yes. See Q13 through Q15 below for examples.

Q13. Do advance purchase requirements cause vouchers to not be readily available for the purposes of expense reimbursement?
Advance purchase requirements cause vouchers to not be readily available only if the voucher provider does not offer vouchers at regular intervals or fails to provide the voucher within a reasonable period after receiving payment for the voucher. For example, a requirement that vouchers may be purchased only once per year may effectively prevent an employer from obtaining vouchers for distribution to employees. An advance purchase requirement that vouchers be purchased not more frequently than monthly does not effectively prevent the employer from obtaining vouchers for distribution to employees.
Q14. Do minimum purchase quantities cause vouchers to not be readily available for the purposes of expense reimbursement?

Purchase quantity requirements cause vouchers to not be readily available if the voucher provider does not offer vouchers in quantities that are reasonably appropriate to the number of the employer’s employees who use mass transportation (for example, the voucher provider requires a $1,000 minimum purchase and the employer seeks to purchase only $200 of vouchers).

Q15. Do limitations in available denominations of vouchers cause vouchers to not be readily available for the purposes of expense reimbursement?

If the voucher provider does not offer vouchers in denominations appropriate for distribution to the employer’s employees, vouchers are not readily available. For example, vouchers provided in $5 increments up to the monthly limit are appropriate for distribution to employees, while vouchers available only in a denomination equal to the monthly limit are not appropriate for distribution to employees if the amount of the benefit provided to the employer’s employees each month is normally less than the monthly limit.

Q16. If our company determines we can make cash reimbursements for one of the above reasons, what substantiation requirements must we follow?

Employers that make cash reimbursements must establish a bona fide reimbursement arrangement to establish that their employees have, in fact, incurred expenses for transportation in a commuter highway vehicle, transit passes, or qualified parking. For purposes of section 132(f), whether cash reimbursements are made under a bona fide reimbursement arrangement may vary depending on the facts and circumstances, including the method or methods of payment utilized within the mass transit system. The employer must implement reasonable procedures to ensure that an amount equal to the reimbursement was incurred for transportation in a commuter highway vehicle, transit passes, or qualified parking. The expense must be substantiated within a reasonable period of time. An expense substantiated to the payor within 180 days after it has been paid will be treated as having been substantiated within a reasonable period of time. An employee certification at the time of reimbursement in either written or electronic form may be a reasonable reimbursement procedure depending on the facts and circumstances.

Q17. What are examples of reasonable reimbursement procedures?

Following are examples of reasonable reimbursement procedures. In each case, the reimbursement is made at or within a reasonable period after the end of the events described above. (1) An employee presents to the employer a parking expense receipt for parking on or near the employer’s business premises, the employee certifies that the parking was used by the employee, and the employer has no reason to doubt the employee’s certification. (2) An employee either submits a used time-sensitive transit pass (such as a monthly pass) to the employer and certifies that he or she purchased it or presents an unused or used transit pass to the employer and certifies that he or she purchased it and the employee certifies that he or she has not previously been reimbursed for the transit pass. In both cases, the employer has no reason to doubt the employee’s certification. (3) If a receipt is not provided in the ordinary course of business (e.g., if the employee uses metered parking or if used transit passes cannot be returned to the user), the employee certifies to the employer the type and the amount of expenses incurred, and the employer has no reason to doubt the employee’s certification.
Q18. We have several facilities. Could we offer qualified commuter benefits to one facility but not the others?
   Yes.

Q19. Could we vary the amount between facilities or types of employees?
   Yes. An employer may provide benefits of any amount, or provide no assistance, in the purchase of vouchers.

Q20. How are benefits treated if an employee terminates employment and the transit pass covers multiple months?
   In general, the value of transit passes provided in advance to an employee for a month in which the individual is not an employee must be included in the employee’s wages for income tax purposes. Transit passes distributed in advance to an employee are excludable from wages for income and employment tax withholding purposes if the employer distributes transit passes to the employee in advance for not more than three months. At the time the passes are distributed, there cannot be an established date that the employee’s employment will terminate (for example, if the employee has given notice of retirement) occurring before the beginning of the last month of the period for which the transit passes are provided. Assume the employer distributes transit passes quarterly, and the employee elects to have $765 deducted from salary to cover transit vouchers for April, May, and June. If employment terminates on May 31, and there was not an established date of termination at the time the transit passes were distributed, then the value of the transit passes provided for June ($255) is excludable from the employee’s wages for employment tax purposes. However, the value of the transit passes distributed for June ($255) is not excludable from wages for income tax purposes. If the employee’s termination date was established at the time the transit passes were provided, then the $255 is included in the employee’s wages for both income and employment tax purposes.

Q21. What are the typical internal administrative (and other) costs faced by employers who implement commuter benefit programs?
   The most common internal administrative costs faced by employers who implement commuter benefit programs include the cost of managing the program on a day-to-day basis, marketing the program to employees, distributing transit passes or vouchers, etc. Other internal costs depend on the type of program that the employer chooses to establish. For example, if an employer sets up a vanpool program, then typical costs could include the amount of money spent on purchasing or leasing a commuter highway vehicle, finding and/or training someone to drive the vehicle, and any additional insurance expenses.

Q22. Does a qualified commuter benefits plan have to be in writing?
   No. The Internal Revenue Code does not require that a commuter benefits plan be in writing or that any form of written plan be submitted to the IRS. However, a company may wish to have certain written rules in order to answer employee questions and describe how the commuter benefit program operates. For example, an employer could write a plan that describes:
   • Which employees are eligible to receive commuter benefits
   • What benefits will be provided by the company
   • How the company vanpool and emergency ride home programs operate
   • The procedure for enrolling in and discontinuing participation in the benefits program

The company should not submit this plan to the IRS, but should make it available to all employees.
Q23. What are the payroll tax requirements for qualified commuter benefits?

Qualified commuter benefits that do not exceed the statutory monthly limit are not considered wages for purposes of FICA, the Federal Unemployment Tax Act (FUTA), and federal income tax withholding. Any amount by which an employee elects to reduce compensation under the limit is not subject to the FICA, the FUTA, and federal income tax withholding. Qualified commuter benefits exceeding the applicable statutory monthly limit are wages for purposes of FICA, FUTA, and federal income tax withholding and are reported on the employee’s Form W-2, Wage and Tax Statement. Also, cash reimbursements to employees (for example, cash reimbursement for qualified parking) in excess of the applicable statutory monthly limit are treated as paid for employment tax purposes when actually or constructively paid. Employers must report and deposit the amounts withheld in addition to reporting and depositing other employment taxes. To receive payroll tax savings, employees do not have any additional paperwork requirements beyond those normally performed when filing taxes.

Q24. Is our company allowed to continue to use cash reimbursement where debit cards restricted to use for fare media are available?

No. With increased availability of electronic fare media on transit systems, the IRS announced that after December 31, 2015, employers will no longer be permitted to provide Qualified Transportation Fringe Benefits in the form of cash reimbursement in geographic areas where terminal-restricted debit cards are readily available (Rev. Rul. 2014-32).

Q25. Under what circumstances can we use smartcards for providing Qualified Transportation Fringe Benefits?

Smartcards are cards that contain a memory chip storing certain information that uniquely identifies the card and value stored on the card, and that can be used either as fare media or to purchase fare media. The amount stored on the smartcard provided by a transit system must be usable only as fare media; it cannot be used for any other purpose or to purchase anything else. Of course, the amount cannot exceed the statutory limit (currently $255 per month). The employer makes payments directly to the transit system and instructs how much should be placed on each employee’s smartcard. The employer does not require employees to substantiate their use of the cards. See the following section for more detail.

Q26. What is a terminal-restricted debit card?

Terminal-restricted debit cards are debit cards that are restricted for use only at merchant terminals at points of sale at which only fare media for local transit systems is sold.

Q27. Under what circumstances may we use a terminal-restricted debit card for providing Qualified Transportation Fringe Benefits?

The employer must provide a debit card that is restricted for use only at merchant terminals at points of sale at which only fare media for the transit systems are sold. The other conditions for using a terminal-restricted debit card are similar to those governing the use of a smartcard (see answer to Q25). See the following section for more detail.

Q28. My employer neither provides Qualified Transportation Fringe Benefit subsidies nor allows me to use pre-tax dollars to purchase my transit benefit. Can I report my commuting costs and receive a tax break without my employer’s participation?

In most communities, your employer is not required to provide Qualified Transportation Fringe Benefits or offer the opportunity for employees to use pre-tax income to purchase fare media. However, your employer must be involved in either offering subsidies or allowing you to purchase fare media with pre-tax income for you to exclude those benefits from wages for FICA, FUTA, and income tax withholding under section 132(f).
Qualified Transportation Fringe Benefit Rules Regarding Electronic Payment Media

With the growing use of electronic payment media in transit systems (e.g., smart cards and debit cards), the IRS asked for comments in 2012 on the use of such transit fare media to provide Qualified Transportation Fringe Benefits. Rev. Rul. 2014-32, issued in response, describes eight situations involving transportation benefits and whether they qualify to be excluded from income under Sec. 132. The following was excerpted directly from the Rev. Rul. 2014-32 and describes the eight situations and whether the use electronic payment media qualifies as a qualified transportation fringe benefit in each situation.

Situation 1 – Smart Cards. Employer A provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit under § 132(f)(2) (the statutory monthly limit). Transit System X provides smartcards that may be used by employers in the metropolitan area served by Transit System X to provide fare media for Transit System X to employees. Smartcards are cards that contain a memory chip storing certain information that uniquely identifies the card and value stored on the card, and that can be used either as fare media or to purchase fare media. The amount stored on the smartcard provided by Transit System X is usable only as fare media; it cannot be used for any other purpose or to purchase anything else. Employer A uses the smartcards to provide transportation benefits to its employees. Employer A makes monthly payments to Transit System X on behalf of its employees who participate in the transportation benefit program, which Transit System X then electronically allocates to each employee’s smartcard as instructed by Employer A. Employer A does not require its employees to substantiate their use of the smartcards.

IRS Analysis of Situation 1. In Situation 1, the fare media value stored on the smartcards is usable only as fare media for Transit System X. Thus, the smartcard qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 distributed in-kind by Employer A to its employees. In addition, the amount allocated to each employee’s smartcard is within the amount specified by § 132(f)(2) (A). Accordingly, the value of the fare media provided by Employer A to its employees through the smartcards is excluded from the employees’ gross income as a qualified transportation fringe benefit within the meaning of § 132(a)(5) without requiring the employees to substantiate their use of the smartcards. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

Situation 2 – Terminal Restricted Debit Cards. Employer B provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit Card Provider P provides terminal-restricted debit cards that may be used by employers to provide transportation benefits to their employees. Terminal-restricted debit cards are debit cards that are restricted for use only at merchant terminals at points of sale at which only fare media for local transit systems is sold. Employer B uses the terminal-restricted debit cards provided by Debit Card Provider P to provide transportation benefits to its employees. Employer B makes monthly payments to Debit Card Provider P on behalf of its employees who participate in the transportation benefit program, which Debit Card Provider P then electronically allocates to each employee’s terminal-restricted debit card as instructed by Employer B. Employer B does not require its employees to substantiate their use of the debit cards.
IRS Analysis of Situation 2. The terminal-restricted debit card provided by Employer B to its employees qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 because it can be used only at merchant terminals at points of sale at which only fare media for local transit systems can be purchased. In addition, the amount allocated to each employee’s debit card each month is within the amount specified by § 132(f)(2)(A). Therefore, the value of the fare media provided by Employer B to its employees through the terminal-restricted debit cards is excluded from its employees’ gross income as a qualified transportation fringe benefit within the meaning of § 132(a)(5) without requiring the employees to substantiate their use of the debit cards. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

Situation 3 – Reimbursed MCC-Restricted Debit Cards. Employer C provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit Card Provider Q provides debit cards that may be used by employers to provide transportation benefits to their employees. Debit Card Provider Q restricts the use of the debit cards to merchants that have been assigned a merchant category code (MCC) indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. Employer C uses the MCC-restricted debit card provided by Provider Q to provide transportation benefits to its employees. A voucher or similar item exchangeable only for a transit pass is not otherwise readily available for purchase by Employer C for direct distribution to Employer C’s employees within the meaning of § 132(f)(3). For the first month an employee participates in the transportation benefit program, the employee pays for fare media with after-tax amounts. The employee then substantiates to Employer C the amount of fare media expenses incurred during the month following reasonable substantiation procedures implemented by C as described in §1.132-9(b) Q/A-16(c) of the Income Tax Regulations. Employer C then remits to Debit Card Provider Q an amount equal to the amount of substantiated fare media expenses for the prior month, which Debit Card Provider Q then electronically allocates to the debit card assigned to the employee. For subsequent months, Employer C reimburses the employee for fare media expenses incurred by the employee by providing funds to Debit Card Provider Q to be allocated to the employee’s debit card equal to the amount of fare media expenses substantiated under the following procedures (not exceeding the statutory monthly limit). With respect to expenses for which employees seek reimbursement that were paid using the MCC-restricted debit card, Employer C receives periodic statements providing information on the use of each debit card, which include information on the identity of the merchants at which the debit card was used and the date and amount of the debit card transactions. In addition, for the first month the debit card was used, prior to providing reimbursement, Employer C requires that the employee certify that the debit card was used only to purchase fare media. For subsequent months, Employer C does not require employee certifications prior to reimbursement of recurring expenses that match the seller and the time period covered for expenses previously substantiated under the procedures described above (e.g., for an employee who purchases a transit pass every month from the same seller). However, Employer C requires a recertification at least annually from each employee that the debit card was used only to purchase fare media. Employer C reviews the periodic statements in combination with the employee certifications to determine the fare media expenses incurred by each employee through the use of the debit card and reimburses each employee for the expenses that have been substantiated by transmitting funds to Debit Card Provider Q to be allocated electronically to each employee’s debit card. With respect to
fare media expenses for which Employer C’s employees seek reimbursement that were not paid using the MCC-restricted debit card, the employees substantiate the amount of the fare media expenses incurred following reasonable substantiation procedures implemented by Employer C as described in § 1.132-9(b) Q/A-16(c). For example, an employee receiving reimbursements of less than the maximum monthly excludable amount of transportation expenses may increase his or her reimbursements for future months by paying for increased fare media expenses by some method other than the use of the debit card and substantiating the additional amount using reasonable substantiation procedures as described in § 1.132-(9)(b) Q/A-16(c).

IRS Analysis of Situation 3. The debit card provided by Employer C to its employees does not qualify as a transit system voucher under § 1.132-9(b) Q/A-16(b)(2), but Employer C has established a bona fide reimbursement arrangement within the meaning of § 1.132-9(b) Q/A-16(c). The debit card provided by Employer C does not qualify as a transit system voucher because it is possible that a MCC-restricted debit card may be used to purchase items other than fare media. A merchant properly classified to accept the debit card as payment may sell merchandise other than fare media, and there is nothing in the debit card technology which prevents its use to purchase items other than fare media. Because a voucher or similar item exchangeable only for fare media is not readily available to Employer C for direct distribution to its employees, § 132(f)(3) permits Employer C to provide Qualified Transportation Fringe Benefits in the form of cash reimbursements for transit pass expenses, but only if the reimbursements are provided under a bona fide reimbursement arrangement. With respect to expenses incurred during the first month an employee participates in the transportation benefit program, and with respect to expenses not paid using the MCC-restricted debit card, Employer C has implemented reasonable substantiation procedures as described in § 1.132-9 Q/A-16(c). With respect to expenses paid using the MCC-restricted debit card, Employer C receives periodic statements providing information on the purchases made with the debit card, including the identity of the seller, and the date and amount of the debit card transactions. In addition, for the first month an employee uses the MCC-restricted debit card, Employer C requires that the employee certify that the card was used only to purchase fare media. Employer C does not require monthly certifications with respect to recurring items if the item described in the periodic statement matches with respect to the seller and the time period that have previously been substantiated as fare media expenses. However, Employer C requires at least an annual recertification from each employee that the debit card was used only to purchase fare media. Prior to remitting an amount to Debit Card Provider Q to put on the debit card as a reimbursement to the employee for fare media expenses, Employer C examines the periodic statements describing debit card transactions in combination with employee certifications to determine the fare media expenses incurred by each employee through the use of the debit card. Employer C provides funds to Employer Provider Q to be electronically allocated to the debit cards only as reimbursements for substantiated fare media expenses that have been incurred and substantiated in this fashion. Based on the facts and circumstances, Employer C has established a bona fide reimbursement arrangement for transit passes within the meaning of § 1.132-9 Q/A-16(c). In addition, the amount of the monthly benefit is within the amount specified by § 132(f)(2)(A). Therefore, the value of the fare media provided by Employer C to its employees through the MCC-restricted debit cards is excluded from its employees’ gross income as a qualified transportation fringe benefit within the meaning of §
132(a)(5). The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

**Situation 4 – Pre-loaded MCC-Restricted Debit Cards.** Employer D provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit Card Provider Q provides debit cards that may be used by employers to provide transportation benefits to their employees. The debit cards have been restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. Employer D uses the MCC-restricted debit card provided by Debit Card Provider Q to provide transportation benefits to its employees. A voucher or similar item exchangeable only for a transit pass is not otherwise readily available for purchase by Employer D for direct distribution to Employer D’s employees within the meaning of § 132(f)(3). Employer D provides employees with the MCC-restricted debit cards as soon as they begin work. Prior to using the MCC-restricted debit cards, Employer D’s employees certify that the card will be used only to purchase fare media. In addition, written on each debit card is the statement that the card is to be used only for fare media, and, by using the card, the employee certifies that the card is being used only to purchase fare media. At no time do Employer D’s employees substantiate to Employer D the amount of fare media expenses that have been incurred.

**IRS Analysis of Situation 4.** As in Situation 3 above, the MCC-restricted debit card does not qualify as a transit system voucher under § 1.132-9(b) Q/A-16(b)(2). Because a voucher or similar item is not otherwise readily available to Employer D, Employer D may provide Qualified Transportation Fringe Benefits in the form of cash reimbursements for transit passes under a bona fide reimbursement arrangement. Employer D provides the debit cards in advance, requiring its employees to certify that they will use the cards exclusively to purchase fare media. This arrangement does not constitute a bona fide reimbursement arrangement under § 1.132-9(b) Q/A-16(c) because it provides for advances rather than reimbursements and because it relies solely on employee certifications provided before the expense is incurred. Those certifications, standing alone, do not provide the substantiation of expenses incurred necessary for there to be a bona fide reimbursement arrangement. Because Employer D is providing MCC-restricted debit cards that are not transit system vouchers, and because Employer D is not reimbursing its employees for fare media expenses under a bona fide reimbursement arrangement, the amounts Employer D provides to its employees through the MCC-restricted debit cards are included in its employees’ gross income and are wages for FICA, FUTA, and income tax withholding.

**Situation 5 – MCC-Restricted Debit Cards with Additional Restrictions.** Employer E provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit Card Provider R provides debit cards that may be used by employers to provide transportation benefits to their employees. The debit card can be used to purchase fare media on several transit systems within the metropolitan area in which Employer E is located. The debit cards are restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. Debit Card Provider R has worked with the bank that issues the debit card to place additional restrictions on the debit card based on a merchant’s Merchant Identification Number. These restrictions block all purchases from any merchant in the area with an acceptable MCC that sells any items other than fare media. These restrictions have been tested and effectively prohibit recipients of the debit cards from using them to purchase any items other than fare media. Employer E makes monthly
payments to Debit Card Provider R on behalf of its employees who participate in the transportation benefit program, which Debit Card Provider R then electronically allocates to each employee’s debit card as instructed by Employer E, in an amount not to exceed the statutory monthly limit. Employer E does not require its employees to substantiate their use of the debit cards.

**IRS Analysis of Situation 5.** The MCC-restricted debit card containing additional restrictions constitutes a transit pass because the technological restrictions and limitations effectively prohibit employees from using the cards to purchase any items other than fare media for use on local transit systems. The determining factor for a debit card to qualify as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 is whether the card restricts purchases to fare media. Based on technological advances, this restriction can be implemented with either a terminal-restricted debit card or an MCC-restricted debit card through technologies that limit use of the card to purchase of only fare media. For example, MCC-restricted debit cards that can only be used to purchase fare media from merchants that either sell only fare media or that have a dedicated fare media terminal can qualify as transit passes because the restrictions prevent use of the debit cards to purchase items other than fare media. It is possible that other technological restrictions are or will become available that will allow additional electronic media to qualify as a transit pass. The value of the fare media provided by Employer E to its employees through the MCC-restricted debit cards is excluded from its employees’ income as a qualified transportation fringe benefit within the meaning of § 132(f)(5) without requiring the employees to substantiate the use of the debit card. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

**Situation 6 – MCC-Restricted Debit Cards for Vanpools.** Same facts as in Situation 5, except Employer E also provides the Debit Card Provider R debit card to employees who commute using commuter highway vehicles (often called “vanpools”). Employer E requires the employees to use the debit card to purchase their vanpool vouchers. The vanpool voucher provider does not sell any other merchandise. Vanpool vouchers may be purchased by the employee in-person at certain locations or online. If purchased online, the vanpool voucher provider imposes a reasonable and customary delivery charge. The employee includes the delivery charge as a cost of transit and pays for the delivery charge with the debit card. The aggregate cost of the vanpool voucher and the related delivery charge does not exceed the statutory monthly limit.

**IRS Analysis of Situation 6.** The Debit Card Provider R debit card provided by Employer E to its employees qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3. For those employees who obtain the transit pass online, thereby incurring a delivery charge, the delivery charge is included as part of the transit benefit, and may be excluded from income, subject to the monthly statutory limit. Thus, delivery charges incurred by an employee in acquiring transit benefits are included as part of the transit benefit. In contrast, delivery charges incurred by an employer in obtaining transit passes are not taken into account in determining whether vouchers are readily available for direct distribution by an employer, as described in § 1.132-9 Q/A-16(b)(5).

**Situation 7 – Loading a Smartcard with an MCC-Restricted Debit Card.** Employer F and Employer G provide to their employees transportation benefits in amounts not exceeding the statutory monthly limit. Employer F’s employees and Employer G’s employees commute using Transit System Z. Transit System Z provides a smartcard that may be used by employers to provide transportation benefits to their employees. Transit System Z’s smart-
card includes separate accounts to separately track funds provided directly by an employer that are available only for transit use, funds provided directly by an employer that are only available for nontransit use (e.g., parking), and funds added by the cardholder/employee that are available for either use. Funds in each of the three accounts cannot be transferred between accounts. Provider S provides debit cards, which may be used by employers to provide transportation benefits to their employees. Similar to Situation 5, the debit cards are restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media and the cards contain restrictions based on a merchant’s Merchant Identification Number. Except as provided below, these restrictions block all purchases from any merchant in the area with an acceptable MCC that sells any items other than fare media. Employer F provides its employees who use Transit System Z with the Provider S debit card and employees use the debit card to load funds onto the smartcard. When Employer F’s employees use the Provider S debit card to load funds onto their smartcards, the funds are placed into the account holding funds that are available for either transit or nontransit use. Although the Provider S debit card is otherwise equipped with restrictions to prevent use of the card to purchase any items other than fare media, the restrictions do not work to prevent the employee loading funds onto the smartcard account holding funds that are available for either transit or nontransit use. Employer F does not require its employees to substantiate their use of the debit card. By contrast, Employer G provides transportation benefit amounts directly to Transit System Z. Each month, Transit System Z places an amount not exceeding the statutory monthly limit into each of Employer G’s employees’ smartcard accounts that can only be used for transit. Employer G does not require its employees to substantiate their use of the smartcard.

**IRS Analysis of Situation 7.** The smartcard provided by Transit System Z qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 with regard to the amounts provided by Employer G directly to Transit System Z and placed into the account that can only be used for transit. In that case, the value of the fare media is excluded from the employee’s income and is excluded from wages for FICA, FUTA, and income tax withholding. However, Provider S MCC-restricted debit card provided by Employer F to its employees who use Transit System Z does not qualify as a transit pass under §§132(f)(5)(A) and 1.132-9(b) Q/A-3 because the debit card may be used to purchase items other than fare media. Specifically, employees that use the Provider S debit cards to load funds onto the smartcard will be able to use those funds for either transit or nontransit use. In addition, because the smartcard qualifies as a transit pass when amounts are provided directly by the employer to Transit System Z and placed into the account that can only be used for transit, Employer F and Employer G must use the smartcard in this manner, or another transit system voucher, to provide transit benefits to their employees as long as the smartcard or other transit system voucher is readily available (that is, benefits provided through the Provider S MCC-restricted debit cards could not in such case be excluded from employees’ gross income as Qualified Transportation Fringe Benefits even if employees were required to, and did, substantiate that the cards were used solely to purchase fare media). Accordingly, the value of the benefits provided by Employer F to its employees through the Provider S debit cards is included in the employees’ income and is included in wages for FICA, FUTA, and income tax withholding.

**Situation 8 – Terminal-Restricted Debit Cards.** Employer H has been providing transit benefits to its employees via a bona fide cash reimbursement arrangement. Debit card Provider T offers a terminal-restricted debit card,
which is readily available under § 1.132-9(b) Q/A-16(b)(4), for use in the geographic area of Employer H’s business. Provider T’s terminal-restricted debit card is the only readily available voucher or similar item in the area.

**IRS Analysis of Situation 8.** Employer H has implemented a bona fide cash reimbursement arrangement. However, § 132(f)(3) provides that a qualified transportation fringe includes a cash reimbursement by an employer to an employee for transit benefits only if a voucher or similar item that may be exchanged only for a transit pass is not readily available for direct distribution by the employer to the employee. Rev. Rul. 2006-57 provided that the IRS would not challenge the ability of employers to provide Qualified Transportation Fringe Benefits in the form of cash reimbursement for transit passes when the only available voucher or similar item is a terminal-restricted debit card. Based on comments received in response to Notice 2012-38, the IRS concludes that terminal-restricted debit cards are now widely used and generally available for purchase by employers subject to terms and costs that are similar to other forms of electronic media. Accordingly, the provision included in Rev. Rul. 2006-57 permitting employers to use cash reimbursement if the only available voucher or similar item is a terminal-restricted debit card is no longer warranted. Beginning after December 31, 2015, in order to provide time for employers to comply, employers are no longer permitted to provide Qualified Transportation Fringe Benefits in the form of cash reimbursement in geographic areas where a terminal-restricted debit card is readily available. Whether terminal-restricted debit cards are readily available for direct distribution by an employer to employees must be determined under the standards in § 1.132-9(b) Q/A-16(b)(5) and (b)(6). The terminal-restricted debit cards offered by Transit System T qualify as a transit pass and are readily available in Employer H’s geographic area. Therefore, after December 31, 2015, Employer H may no longer provide Qualified Transportation Fringe Benefits in the form of cash reimbursement for transit passes.
Profiles of Organizations Providing Subsidized Commuting Benefits

The following summary of subsidized commuting was extracted from “Quality of Life Benefits: Access, Civilian Workers” table from the Bureau of Labor Statistics' National Compensation Survey, March 2015.

Percent of Workers with Access to Subsidized Commuting Benefits: National Compensation Survey, March 2015 (All workers = 100%)

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<th>Characteristics</th>
<th>Civilian Workers</th>
<th>Private Industry Workers</th>
<th>State/Local Government Workers</th>
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<td>Third 25 percent</td>
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<td>1 to 99 workers</td>
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<td>1 to 49 workers</td>
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### Characteristics

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<td>100 to 499 workers</td>
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<td>500 workers or more</td>
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### Geographic Areas

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<td>Middle Atlantic</td>
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</tr>
<tr>
<td>East North Central</td>
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<td>4</td>
<td>14</td>
</tr>
<tr>
<td>West North Central</td>
<td>4</td>
<td>3</td>
<td>---</td>
</tr>
<tr>
<td>South Atlantic</td>
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<td>East South Central</td>
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</tr>
<tr>
<td>West South Central</td>
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<tr>
<td>Mountain</td>
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<tr>
<td>Pacific</td>
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1. Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.
2. Categories are based on the average wage for each occupation surveyed, which may include workers with earnings both above and below the threshold. The average wages are based on the estimates published in the "National Compensation Survey: Employer Costs for Employee Compensation, March 2015."

NOTE: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the “Glossary of Employee Benefit Terms” at [www.bls.gov/ncs/ebs/glossary20122013.htm](http://www.bls.gov/ncs/ebs/glossary20122013.htm).

(accessed December 23, 2015)
Eight Steps to Starting a Commuter Benefit Program as a Pre-Tax Payroll Deduction

Employers can take the following steps to start a commuter benefit program that includes pre-tax payroll deductions:

1. Determine if the commuter benefit program will be staffed completely in-house or contracted to a commuter benefit provider or third-party benefit administrator.
   - In-house staffing may make the most sense for small employers, employers with a single location, employers serviced by one transit provider, and/or when very low employee participation in the program is expected. Reach out to the local transit agency for assistance on acquiring the transit passes. If you are administering the program in-house, determine how to handle a wide range of tasks, from how to enroll employees to how to acquire fare media to how these passes/tokens/vouchers will be distributed.
   - A benefit provider is likely to provide more options and economies of scale. There are two general types of benefit providers: (1) commuter benefit provider that provides these benefits only and (2) third-party benefits administrators that provide flexible spending accounts and other benefits as well as commuter benefits. There are benefit provider companies that offer bulk purchasing of debit cards or vouchers, or there are companies that offer online ordering platforms where employees manage their own accounts and employers receive a monthly payroll file of their activity. Some providers require an agreement, while others do not. Most vendors with an online ordering platform require that employers set up an Automated Clearinghouse (ACH) transfer for payment, while bulk providers allow for check payment. Online programs generally offer options including debit cards (personalized and anonymous) fare media such as monthly passes, vouchers, smart card-loading, and direct payment to vanpools. Employer savings in payroll taxes may offset the benefit providers’ costs.

2. Identify key departments and appropriate managers to be involved. Usually this includes human resources/benefits, payroll/accounting, tax/legal, and commute alternatives program representation. Hold a group meeting with them to discuss the program and work out program logistics. Request that the transit agency (if staffing effort internally) or the benefit provider give a presentation on the process.

3. Determine what commuter benefits will be provided by the employer and to whom.
   - An employer may:
     - Subsidize parking costs
     - Subsidize transit fares
     - Subsidize commuter highway vehicle (e.g., vanpool) fares
     - Reimburse eligible bicycle commuting expenses
   - With employer approval, an employee may choose to:
     - Use his or her pre-tax income for parking costs
     - Use his or her pre-tax income for transit fares
     - Use his or her pre-tax income for vanpool fares
The employer and employee may choose to combine the parking, transit, and commuter highway vehicle benefits up to the tax free limit.

The commuter benefit as provided by an employer subsidy can apply to employees in a single location or at several locations and at varying amounts based on location.

- Same dollar level for all locations (e.g., $255 for transit in New York and $255 for transit in Chicago)
- Different dollar levels for each location (e.g., $255 for transit in New York but $50 for transit in Tampa)
- Same percentage (e.g., 50% of monthly transit pass) for all locations
- The commuter benefit may apply to all employees or subsets of employees (e.g., only employees who work in specific locations or only employees with specific job functions (e.g., hard to recruit positions)

4. If employees are using pre-tax income, establish a deduction code for the benefit; consult with your accounting department and/or payroll services. If a program with an online ordering platform is used, the service will also likely generate a payroll file. Ask the transit benefit provider representative for a sample to give the payroll department an idea of what to expect.

5. If a bulk purchasing option is used:

- Create and distribute a program information and application form that explains the program, gives the employee the instructions to sign up, allows them to choose how much they want to deduct from their salary, and indicates which option your bulk benefit provider offers (usually debit cards or vouchers).

- Distribute the benefit to the employees. An assigned staff person can distribute the debit cards or vouchers or the fare media can be attached to employees’ paychecks. Because vouchers and debit cards are like cash, it is best not to distribute them through open in-house mailboxes.

6. If a company that offers an online ordering platform is selected, send out an email instructing employees how to set up an account and place their order. Most programs have an option to make orders recurring so employees have to visit the site again only if they want to make changes to their participation.

7. Update the company personnel policy handbook to include a description of the program and the company’s participation in it. Be sure to include information related to how to enroll and participate and any other guidelines particular to your company.

8. Market the commuter benefit program to employees through new employee orientations, intranet, benefits fairs, special events such as BWC’s Race to Excellence, periodic communications via newsletters/emails, and mailings to employee homes.

Adapted from material provided by Stuart Baker, Commuter Check.
Employer Decision–Making Process

One advantage of qualified transportation fringe benefit is its ability to be customized to the needs of the employer. However, this broad flexibility also creates the need for employers to make a wide range of decisions that are strategic, financial, administrative and marketing-related. The following flowcharts (shown in Figures 3-6) represents some of the major decisions that an employer must make. The flowchart has been recreated from the decision support tree contained in TCRP Report 87 – Strategies for Increasing the Effectiveness of Commuter Benefits Programs. (Transit Cooperative Research Program, 2003).

The hope is this flowchart will help employers develop and implement a qualified transportation fringe benefit program that matches their specific needs. The flowchart can also serve to improve the understanding of transit agencies and commuter assistance programs as to the factors to be considered as part of the employer’s decision-making process.

Figure 3. Strategic Decisions

Issues to consider:
• How do parking and transit availability and cost differ among sites?
• Is it more fair to give all employees equal dollar amount, or equal percentage?
• Will program be centrally run, or will branch locations run their own programs?

TCRP Report 87 – Strategies for Increasing the Effectiveness of Commuter Benefits Programs.
(Transit Cooperative Research Program, 2003.)
Figure 4. Financial Decisions

What kinds of programs should we implement?

- Parking cash out
  - Helps reduce parking demand

- Transit/vanpool benefits
  - Location near transit
  - Regional transit agency program exists
  - Good vanpool potential

- Parking benefits
  - Have paid parking
  - Combine with transit/vanpool benefits if employees use park-and-ride

Who pays?

- Employer
  - Highest cost to employer, but also highest potential participation
  - Want to reward employees already using transit or enhance benefits package
  - Work with payroll to set up pre-tax deduction system

- Shared
  - In-between
  - Consider:
    - Average cost of transit
    - Need to reduce parking demand
    - Can a transportation allowance equalize benefits among walkers, carpoolers, and bicyclists?
    - Cost of parking
    - Trip reduction goals

- Employee
  - Lowest cost to employer (may even save money on payroll taxes), but lowest potential participation
  - Want to reward employees already using transit or enhance benefits package
  - In-between
Figure 5. Administrative Decisions

How to provide benefit?
- **Passes**
  - Best when region is served by a single transit provider or regional pass

- **Vouchers**
  - Best when employees use several different transit/vanpool providers

- **Cash reimbursement**
  - Best when there is no regional pass or voucher available or there are multiple worksites; Tax law may restrict applicability

How to distribute passes or vouchers?
- At single worksite: central point
- At multiple worksites: Distribute with paychecks, inter-office mail, mail to employees homes

What denominations to purchase? What is monthly fare? What is highest transit/vanpool cost to any employee?

How to monitor?
- Honor system (employees sign statements)
- Receipts (only works where transit system issues receipts)

How often can employees enroll?
- • Less frequently: Easier to administer, but less employee flexibility
- • More frequently: Employee can change commuter mode with seasons, but harder to administer

How will employees enroll?
- **Online**
  - Easier for office with widespread computer access

- **Paper forms**

Develop online registration

Develop and distribute forms

Who will administer the program?
- **External Third-Party Benefits Administrator**
  - Makes sense for large and multi-site employers, but entails additional costs

- **Internal**
  - Makes sense for smaller, single-site employers; will probably involve cooperation between HR, payroll, IT

Best Workplaces for Commuters  33
### How should we market the program internally?

- Flyers
- Posters
- Transportation fairs
- Web site
- Blast voice-or email
- Annual benefits enrollment

### Program Launch

**How should we measure results?**

- Number of employees parking and/or purchasing permits
- Percentage increase in employees not driving alone
- Change in retention since program was implemented

### Continued marketing

**How to measure success**

- Number of employees parking and/or purchasing permits
- Percentage increase in employees not driving alone
- Change in retention since program was implemented

**How to compile the data**

- Parking counts or counts of vehicle entering parking area
- HR or personnel data
- Employee survey

### Program Goal

- Reducing parking demand
- Trip reduction
- Recruitment and retention
- Employee satisfaction

### How to measure success

- Number of employees parking and/or purchasing permits
- Percentage increase in employees not driving alone
- Change in retention since program was implemented

### How to compile the data

- Parking counts or counts of vehicle entering parking area
- HR or personnel data
- Employee survey

---

**Figure 6. Marketing and Monitoring Decisions**
Effects of Commuter Benefits on Travel Behavior

According to Analyzing the Effectiveness of Commuter Benefits Programs (Report 107) from the Transit Cooperative Research Program (TCRP), the overall findings are that commuter benefits programs do the following:

Commuter benefits generally increase transit ridership, but not in all cases. Based on a review of surveys by transit agencies, the study found increases in transit use due to employer-provided transit benefits. However, the range of increases varied from little to no increases to more than double. Individual workplaces also experienced a wide range of effects. The report summarized the finding in this manner:

“In general, the surveys conducted by transit agencies and other organizations found notable increases in transit use, whereas the worksites in mandatory commute trip reduction areas found that effects ranged from decreases in transit use to increases in transit use and that the effects were very small, on average, across all worksites in these areas. These differences may reflect different characteristics of the worksites and programs being examined, as the worksites in the mandatory commute trip reduction areas were much more likely to be in suburban areas with low starting transit mode shares, tended to provide a low level of financial support, and may have offered a wider range of other employee commute programs (e.g., rideshare matching and telecommuting). It is also possible that many of those worksites continue to offer free parking, which outweighs transit benefits for many commuters.”

Commuter benefits help convince commuters who drive alone to ride transit. The good news, from the perspective of encouraging use of non-single occupant vehicles (non-SOV) to reduce congestion and pollution, is that most new transit riders switched from SOV travel. The majority of the new transit riders reported that they previously commuted to work alone, and, the figure was more than 90% in more than half the surveys.

Commuter benefits induce changes in commute and non-commute behavior. Surveys in Philadelphia and New York City imply that transit benefits recipients tend to foster use in transit for all types of trips. An employer-provided transit benefit makes it convenient to ride transit, particularly if the benefit is without time or trip purpose restrictions. The researchers were unable to determine if there was a similar impact on off-peak-period transit services for smaller transit markets.

The effectiveness in changing travel behavior differs among programs, based on factors including transit availability, level of employer payment, and supporting programs. Transit availability at the workplace appears to correlate positively with the level of increase in transit ridership. High starting transit mode shares at the worksite tend to see larger increases in the number of transit users than suburban areas with lower initial transit mode shares. However, suburban locations often show higher percentage gains in ridership. Little to no change in transit use are most likely to be found in areas that have under 5% of employees using transit before initiating the transit benefit program. This lack of change in transit use may be due to worksite characteristics that are not very conducive to transit. These worksite characteristics can be limited/infrequent transit services, plentiful free parking, or automobile-oriented land use patterns. Employer-subsidized transit benefit programs are more likely to increase employee use of transit than employee-paid pre-tax transit benefits programs. Finally, combining the roll-out of a new transit benefits program with marketing and supporting
services, such as a guaranteed or emergency ride home program, seems to produce a greater increase in ridership than implementing the transit benefit program alone.

Tax Information
The Internal Revenue Code that governs employer provided commuter benefits is found at 26 USC Section 132(f) and is available at [http://uscode.house.gov/search/criteria.shtml](http://uscode.house.gov/search/criteria.shtml). For more information relating to qualified transportation fringes in Section 132(f), visit the Internal Revenue Service (IRS) website at [www.irs.gov](http://www.irs.gov). This site contains useful information for employers regarding the tax treatment of Qualified Transportation Fringe Benefits.
Resources

Publications available from the IRS that may be useful include:

Publication 15b, Employer’s Tax Guide to Fringe Benefits—Transportation (Commuting) Benefits—This guide discusses the exclusion rule that applies to benefits employers provide to employees for their personal transportation, such as commuting to and from work. http://www.irs.gov/publications/p15b/index.html

Fringe Benefits Guide—This guide was created by the Internal Revenue Service office of Federal, State and Local Governments (FSLG) to provide governmental entities with a basic understanding of the federal tax rules relating to employee fringe benefits and reporting. Used as a supplement to other IRS publications, the Fringe Benefits Guide can be a helpful tool for anyone responsible for determining the taxability, withholding, and reporting requirements regarding employee fringe benefits. https://www.irs.gov/pub/irs-pdf/p5137.pdf


Rev. Rul. 2014-32—This IRS final ruling on when employer-provided transportation benefits provided through electronic media are excluded from gross income under §§ 132(a)(5) and 132(f) of the Internal Revenue Code (Code) and from wages for employment tax purposes. https://www.irs.gov/pub/irs-drop/rr-14-32.pdf

Transportation Impacts of Commuter Benefits
The Transit Cooperative Research Program of the Transportation Research Board has published two research studies on commuter benefits:

TCRP Report 87—Strategies for Increasing the Effectiveness of Commuter Benefits Programs—This guidebook is intended to assist transportation agencies—transit providers, metropolitan planning organizations, commuter assistance and rideshare organizations, transportation management associations, and others—to increase the effectiveness of their commuter benefits and outreach programs. It is designed to help agencies improve their commuter benefits offerings to better meet employer needs and increase participation through more effective marketing. The guidebook’s recommendations are based on interviews with 15 transportation agencies in five metropolitan areas, as well as interviews with 36 employers. This guidebook discusses ways in which agencies can work with employers and develop regional programs that are responsive to employers’ needs. http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_87.pdf

TCRP Report 107—Analyzing the Effectiveness of Commuter Benefits Programs—This report is designed to help employers, transit agencies, other organizations that promote transit benefits and policy makers to better understand the impacts of a transit benefits program and how to quantify these impacts for their own programs. Although the topic of this research study is commuter benefits, broadly defined, data to assess the impacts of vanpool benefits or other financial benefit programs were limited, and, consequently, the focus of this report is on transit benefits programs.

Since the early 1990s, federal legislation and actions have enabled and expanded the range of commuter benefits that employers can offer their employees. This section briefly describes the evolution of the Qualified Transportation Fringe Benefits program. http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_107.pdf
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Appendix A: A Brief History of Qualified Transportation Fringe Benefits

Pre-1992: Parking is the only Qualified Transportation Fringe Benefit
Prior to 1992, parking was the only Qualified Transportation Fringe Benefit specifically excluded under the federal tax code. The Tax Reform Act of 1984 codified use of transit benefits as a *de minimis* fringe benefit. A *de minimis* benefit is a service or item of such small value or provided so infrequently as to make accounting for it impractical or impossible. As a result, transit benefits were allowed to be offered tax-free to employees as long as they were of small value. The initial *de minimis* value was defined at $15 per month, which was later adjusted to $21 per month. Vanpool benefits were considered neither Qualified Transportation Fringe Benefits nor *de minimis* benefits.

In 1992, Congress passed the Energy Policy Act of 1992 (Pub. L. No. 102-486). This Act was important in that it expanded the term Qualified Transportation Fringe Benefit to include transit passes and transportation in commuter highway vehicles (i.e., vanpools), in addition to qualified parking. As a result, it allowed employers, for the first time, to offer vanpool benefits tax-free. It also allowed transit passes to be provided to employees tax-free at a higher value than allowed for a *de minimis* fringe. The Act imposed a tax-free limit of $60 per month on transit/vanpool benefits and $155 per month for qualified parking. It provided an inflation adjustment to these limits based on changes in the consumer price index (CPI), with increases to rise in increments of $5. To receive tax-free status, all benefits were required to be offered in addition to, and not in lieu of, salary. The Act applied to benefits provided after December 31, 1992.

1995: Tax-free limit on transit/vanpool benefits rises to $65 per month
In accordance with the inflation adjustment provisions of the Energy Policy Act of 1992, the monthly tax-free limit for commuter highway vehicles and transit passes was raised from $60 to $65 for tax years beginning in 1996.

1997: Taxpayer Relief Act of 1997
The Taxpayer Relief Act of 1997 (Pub. L. No. 105-34) amended the federal tax code to allow qualified parking to be provided to employees in lieu of salary beginning December 31, 1997. As noted above, the tax code previously stated that Qualified Transportation Fringe Benefits could not be taken in lieu of salary. As a result, prior to 1998, the tax code created a major barrier for employers who wanted to offer their employees cash in lieu of parking (parking cash out); if they offered a choice of cash or parking, all employer-provided parking would become taxable. By allowing parking benefits to be taken in lieu of salary, the Taxpayer Relief Act of 1997 allowed employers to offer their employees the option of accepting taxable cash income in lieu of a parking space at work, while maintaining the tax-free status of the parking benefit. The employer would only have to pay taxes on the cash payment, not the parking benefit.

1998: Transportation Equity Act for the 21st Century (TEA-21)
The Transportation Equity Act for the 21st Century (Public Law 105-178), which was enacted on June 9, 1998, amended the Internal Revenue Code to allow any Qualified Transportation Fringe Benefit to be provided in lieu of salary. Just as the Taxpayer Relief Act of 1997 allowed qualified parking benefits to be taken in lieu of income, TEA-21 expanded this to also allow transit pass and commuter

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highway vehicle benefits to be taken in lieu of other monetary compensation. The Act also raised the tax-free limit on transit pass and commuter highway vehicle benefits from $65 to $100 per month, starting in 2002. (For 2005, the tax-free limit increased to $105 per month for transit/vanpool benefits and $200 per month for qualified parking.)

1999: Commuter Choice Initiative launched
In 1999, the federal government started the Commuter Choice Initiative. As part of this, the Federal Transit Administration (FTA) released the Commuter Choice Toolkit and the U.S. Environmental Protection Agency, in collaboration with the U.S. Department of Transportation, initiated the Commuter Choice Leadership Program to honor employers providing commuting benefits to their employees.

2001: Final Regulation: Qualified Transportation Fringe Benefits
On January 11, 2001, the IRS issued final regulations concerning Qualified Transportation Fringe Benefits and their excludability from employees’ gross income. The regulations provide rules to ensure that transportation benefits provided to employees are excludable from gross income. These regulations provide clarification regarding under what circumstances transportation fringe benefits may be provided pursuant to a compensation reduction agreement, the ability to carry over excess amounts to subsequent periods, reporting requirements, and use of cash payments rather than transit vouchers or passes.

2002: Best Workplaces for CommutersSM unveiled
In 2002, the U.S. Environmental Protection Agency and the U.S. Department of Transportation unveiled the Best Workplaces for Commuters list, a list to honor and recognize employers who offer their employees outstanding commuting benefits. Participating companies earn the designation Best Workplaces for Commuters, a mark of excellence for environmentally- and employee-friendly organizations. The program builds on the efforts of many top employers to help get employees to work safely, on time, and free of commute-related stress. It provides the tools, guidance, and promotion necessary to help U.S. employers of any size incorporate commuter benefits into their standard benefits plan, reap financial benefits, and gain national recognition. The list replaces and builds upon the work begun by the Commuter Choice Leadership Initiative to recognize employers who offer their employees outstanding commuting benefits.

2002–2009: Periodic Inflation adjustments of $5 raised the cap from $65 to $120

2007: University of South Florida begins managing Best Workplaces for CommutersSM
In October 2007, the National Center for Transit Research at the University of South Florida assumed control of the program when the EPA was forced to discontinue its participation due to budget cuts.

2009: Transit and vanpool benefits placed on par with parking; bicycle reimbursement added

Under the American Recovery and Reinvestment Act (ARRA), the monthly tax exclusion for employer-provided commuter highway vehicle transportation and transit pass benefits increased to $230, effective from March–December 2010. Previously, there were two separate monthly exclusion amounts, one for transit passes and commuter highway transportation such as commuter vans and a different one for qualified parking. The exclusion amount for qualified parking was set at a higher rate. The new law made all the exclusion amounts equal and set them at the higher rate for qualified parking. The law provided the equal benefits through December 31, 2010. According to the IRS, “Employees may exclude from income $230 per month in transit benefits and $230 per month in parking benefits—up to a maximum of $460 per month. Employees may receive benefits for commuter transportation and transit passes and benefits for parking during the same
Beginning January 1, 2009, employees may be reimbursed for reasonable expenses of qualified bicycle commuting up to $20 per qualified bicycle commuting month. Reasonable expenses include the purchase of a bicycle and bicycle improvements, repair, and storage. The exclusion for a calendar year is $20 multiplied by the number of qualified bicycle commuting months during that year. A qualified bicycle commuting month is any month the employee uses the bicycle regularly for a substantial portion of the travel between his or her residence and place of employment and he or she does not receive any of the other Qualified Transportation Fringe Benefits. Employees are not entitled to this exclusion if the reimbursement for bicycle commuting is made under a compensation reduction agreement.

**2012: Transit and vanpool benefits reduced and parking benefits increased**

Congress did not act by the end of 2011 to extend the parity among transit, vanpool, and parking benefits that was established in 2009 and extended through 2011. As a result, the transit and commuter highway vehicle benefits were rolled back to the pre-ARRA level of $120, then adjusted for inflation by the IRS to a maximum of $125 per month. Parking was already at $230 prior to ARRA, so the 2012 IRS-adjusted level is $240 for 2012. The bicycle reimbursement level remains at $20 per month.

**2013: Parity among transit, vanpool and parking benefits reinstated**

The American Taxpayer Relief Act of 2012 re-instated parity among transit, commuter highway vehicles (e.g., vanpool) and parking at a maximum of $240 per month for 2013. The bicycle reimbursement level remains at $20 per month. On January 11, 2013, the Internal Revenue Service announced the annual inflation adjustments for tax year 2013. The monthly limitation regarding the aggregate fringe benefit exclusion amount for qualified parking is $255 in 2016. The aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is $255 per month in 2016 and made retroactive to $250 per month for 2015. Bicycle commuting reimbursement limitations remain at $20 per month.

2014: Parking benefits increased and transit/vanpool benefits decrease

Congress delayed passing the tax extenders bill that covers tax benefits that were subject to sunsetting, by the end of 2013. Passage of the bill would have preserved the parity between parking and transit/commuter highway vehicle benefits. Therefore, the parking rate limit for 2014 is $250. The transit and commuter highway vehicle (e.g., van pool) rolled back to $130 for 2014.

**2015: Parity among transit, vanpool and parking benefits reinstated and made permanent**

In late December 2015, the Consolidated Appropriations Act of 2016 was signed into law. This Act permanently matches the monthly limit of transit/vanpool benefits to monthly tax benefit limit provided by employers for parking. With annual cost of living increases, the monthly limitation under § 132(f)(2)(B) regarding the fringe benefit exclusion amount for qualified parking is $255 in 2016. The aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is $255 per month in 2016 and made retroactive to $250 per month for 2015. Bicycle commuting reimbursement limitations remain at $20 per month.
Best Workplaces for Commuters, a program designed to encourage sustainable transportation innovation recognized 29 employers nationwide during the annual “Race to Excellence” Virtual Awards Ceremony. The awards recognize organizations who have taken exemplary steps to offer transportation options such as vanpool and transit benefits or telework and compressed workweek for their employees.

“Best Of” the Race to Excellence
Supporting Agency – reThink, Orlando, FL
University – University of California, Irvine
Employer – The MITRE Corporation, McLean, VA

Race to Excellence Winners
Employer Category:
ActioNet, Inc., Vienna, VA
Booz Allen Hamilton, McLean, VA
Consumer Technology Association (CTA)™, Arlington, VA
GoTriangle, Research Triangle Park, NC
GVF, King of Prussia, PA
Mayo Clinic, Rochester, MN
State of Arizona, Phoenix, AZ
The MITRE Corporation, McLean, VA
Tindale Oliver, Tampa, FL
Yale New Haven Hospital, New Haven, CT

Site: Hacienda, Pleasanton, CA

Supporting Agency Category:
Commuter Services FDOT District One, Bartow, FL
Commuter Services of PA, York, PA
reThink, Orlando, FL
SLOCOG / iRideshare, San Luis Obispo, CA
Suburban Transit Network, Inc. (TransNet), Blue Bell, PA
Triangle J Council of Governments, Durham, NC
GVF, King of Prussia, PA

University Category:
Cal State University, Northridge, Northridge, CA
North Carolina State University, Raleigh, NC
Stanford University, Stanford, CA
UC Davis, Davis, CA
UCLA, Los Angeles, CA
University of California, San Francisco, San Francisco, CA
University of California, Irvine, Irvine, CA
University of North Carolina at Chapel Hill, Chapel Hill, NC
University of North Carolina at Greensboro, Greensboro, NC
University of South Florida, Tampa, FL
Virginia Tech, Blacksburg, VA

See more at: www.bestworkplaces.org/race-to-excellence-2/