

# An ETC Guide to Tax Benefits



## Marketing Commuter Benefits to your Company

This is a guide to help you grab the attention of your leadership to show how commuter benefits are positives for both employers and employees.

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## Commuter Tax Benefit Advantages

Commuter Benefits provide a tremendous payback to employers and employees.

### Company Benefits

- Reduce employer taxes
- Introduces new employee benefit
- Can reduce parking costs
- Improves recruitment and retention
- Improves company image in the community

### Employee Benefits

- May use pre-tax money for transit and vanpooling, increasing take home pay
- Reduces transit/vanpool costs
- Enhances economical commute alternatives
- Saves vehicle operating costs

## Tax-free and Pre-tax Benefits for Commuters and Employers

The Federal Government has enacted tax laws that benefit commuters who travel to work by public mass transit (bus, rail, ferry) or vanpool. The Internal Revenue Code Section 132(f), and allows federal tax advantages for employer sponsored commute incentive programs. Employers can receive tax benefits for providing certain types of employee transportation benefits called “Qualified Transportation Fringes.” This section briefly describes the tax incentives. However, you should consult your company’s accountant or tax attorney to ensure compliance.

Employees are eligible for employer subsidies or they may set aside up to \$270\* per month of their pre-tax income towards commuting costs. Employers who subsidize their employees’ commute may receive equivalent deductions free of additional payroll and federal income taxes.

\*2021 Tax Law

## Description of Commuter Tax Benefits

**Tax-free Benefit.** Employers can give employees up to \$270 per month in benefits (i.e. transit pass, ticket book, voucher) to commute by **mass transit** (bus, rail, ferry) or **vanpool**. The employer pays for the benefit and receives an equivalent deduction from business income taxes. Employees receive the benefit free of all payroll and income taxes.

**Pre-tax Benefit.** Employers can have employees set aside some of their pre-tax income to pay for **mass transit fare media** or **vanpool fares**. Up to \$270 per month is considered a pre-tax benefit. Therefore, employees save on payroll and income taxes and employers save on payroll costs. Transit passes, ticket books and/or vouchers must be ordered and distributed by the employer to the employee.

**Combination Benefit.** Employers can share the cost of commuting by giving the employee part of the commuting expense tax-free and allowing the employee to set aside the remaining amount pre-tax up to the total limit of \$270 per month. For example, an employer provides \$60 towards the cost of a \$100 transit pass, and the employee contributes the remaining \$40 with pre-tax income.

**Parking Cash Out.** This option is meant to provide an additional financial incentive for employees to use an alternative commute option. An employer may provide employees up to \$270 per month for their parking space. Cash out payment options include:

- taxable cash
- tax-free or pre-tax benefit for transit or vanpool
- combination of cash and a Commuter Benefit

*Employers should consult their company’s accountant or tax attorney to ensure compliance.*

## Things to Consider

### **Commuter Benefits Provide Tax Advantages, Not Tax Credits**

It is important to emphasize that commuter benefits have tax advantages because they are not subject to federal income and payroll taxes (and sometimes state and local income taxes). The commuter benefits program is not a federal tax credit and employers do not need to file any special tax forms to achieve the tax savings.

### **Eligibility and Enrollment**

All employees or groups of employees can be offered transit/vanpool benefits. However, under tax law, not everyone who works at a given work place is considered an employee. The law specifically states that individuals who are self-employed – which include sole proprietors, partners, persons who hold over 2% ownership in an S corporation and contractors – are not eligible to receive commuter benefits.

Unlike some other benefit programs, the commuter benefits law provides employers the discretion to choose which employees are offered the benefit. In addition, the amount of the benefit can vary from employee to employee. This means that an employer could offer the benefit at a site well served by transit or with a strong vanpool program, but not at other sites.

### **Passes/Vouchers vs. Cash Reimbursement**

Employers must decide how to implement a transit/vanpool or parking benefit. There are two ways in which the benefit can be provided to employees, regardless of whether the employer or employee pays: passes/vouchers or a bona fide cash reimbursement arrangement.

#### Passes or Vouchers

The most common way of distributing transit/vanpool benefits is through transit passes or vouchers. Typically an employer will purchase passes or vouchers and distribute them directly to employees, or use a third-party benefits administrator to distribute the passes or vouchers.

#### Cash Reimbursement

Under bona fide cash reimbursement programs, employers allow their employees to purchase their own transit passes or pay for their own vanpool fares and request reimbursement. Employees reserve pre-tax salary through paycheck deductions, purchase a transit pass (or other fare media) and request reimbursement from their own reserved salary. Some employers prefer cash reimbursement since it means that they do not need to purchase and distribute the fare media.

#### Employer Preferences

Employers tend to choose the program that is the least burdensome to administer and this decision is usually based on their own experiences and existing programs. For example, small to medium-sized employers often find it simplest to distribute transit passes or vouchers to employees. However, very large employers may view distribution as a problem and be more interested in cash reimbursement.

Employers must be made aware that simply because distribution may be difficult, this has no bearing on whether cash reimbursement is allowed. Only if passes or vouchers are not readily available can cash reimbursement be used. If distribution is a problem, third-party administrators could be used to distribute the passes or vouchers to employees.

## Employer Characteristics that Contribute to Success

Before attempting to market commuter benefits to your employer, it is helpful to understand what types of employers will be most receptive to implementing a commuter benefits program.

### Location: Near High-Quality Transit

The most important factor affecting an employer's consideration of commuter benefits is worksite location. Employers located near high-quality transit are likely to see the potential for commuter benefits as a valuable benefit for employees. Although there is no single definition of "high-quality" transit, some elements would include frequent and reliable service, ease of access, available capacity, cleanliness and safety, and other "user-friendly" traits such as good signage and comfortable waiting areas.

Employers located in urban areas may find it easier to offer commuter benefits because they tend to have high concentrations of transit and land uses that support transit.

### Employees: Current Transit or Vanpool Users

Employers with vanpool programs may be interested in commuter benefits, and employers with significant numbers of transit riders, even if not well served by transit, may be receptive to commuter benefits.

### Employer Situation: Seeing Value in Commuter Benefits

A key factor that influences the likelihood of an employer considering commuter benefits is if the employer sees value in adding the benefit.

Circumstances that make an employer more likely to add a commuter benefit program include:

- **Current Benefits.** Employers that offer a comprehensive benefit package can more easily implement a commuter benefit versus employers that only offer basic benefits. However, since commuter benefits can be added at little cost to the employer, it may be a way to enhance their benefits.
- **Parking Issues.** Employers with overcrowded parking lots or just wanting to make more parking available for customers may be receptive to adding commuter benefits for their employees.
- **Environment.** Employers who are conscience about being environmentally friendly are generally more receptive to the benefit.
- **Relocating.** Employee commutes become an issue when an employee needs to relocate. Offering a commuter benefit program can help ease some of their employees' frustration and may help retain employees if their commute lengthens because of the relocation.

### Employer Size: More or Less

Medium to large size employers are a natural target for implementing commute benefits. Large employers create a larger potential for participants in commuter benefits. Sometimes the scale of implementation can be a large undertaking.

Smaller employers and participants can sometimes utilize the benefit sooner. However, there is a smaller pool of potential participants.

## Marketing Messages and Strategies

Marketing commuter benefits requires understanding effective messages and approaches for reaching leadership and employees. Even though employees are the end users of commuter benefits, the audience for the message about commuter benefits may be leadership, since employees can only receive the benefit through an employer.

A “push-pull” strategy is usually effective for implementing the benefit.

- Marketing to employees or the general public raises awareness of a commuter benefits program and helps to get employees to “push” leadership to offer the benefit.
- Marketing to leadership serves to “pull” the management along by convincing them that implementing a commuter benefit is a good idea.

When marketing to leaders, the most effective method is direct one-on-one marketing to portray the values of a program and how to establish one.

### Finding the Right Person

Locating the correct person in leadership can be challenging. Often there is only one person, especially for large employers, that can make a final decision to implement a commuter benefit. However, the following suggestions may be helpful:

- At larger employers, the best person is usually the Human Resources Manager who is more likely to introduce a new employee benefit.
- At smaller employers, upper management, such as the CEO or a partner, can usually make a decision fairly quickly.
- Identify a champion to take the program to the correct person within the company.

### Selling the Benefits

Once the right person has been identified, it’s important to talk about commuter benefits in such a way to interest decision makers. Not all leaders have the same interest or problems. Suggestions for selling the idea of commuter benefits include:

- Present the issue as an employee problem that the employer can solve such as stressed employees from their daily commute.
- Identify priorities for the employer such as recruitment and retention of employees and the low cost of implementing such a program.

Potential messages can include:

- Commuter benefits reduce the need for parking.
- Commuter benefits aid recruitment and retention efforts.
- Commuter benefits are low cost compared to other benefits.
- Commuter benefits may provide tax savings.
- Commuter benefits are an aspect of good corporate citizenship.
- Commuter benefits help the environment.

## Get Them Started!

After you decide to offer commuter benefits to their employees, you can follow these easy steps to implement the program.

**Set Up the Program.** Make arrangements with payroll and accounting to prepare the program to offer to employees.

- Establish the necessary account code for section 132(f) benefits
- Set aside employees' pre-tax income and decide how often employees may make changes to their deductions or participation
- Establish procedures for purchasing mass transit fare media and/or vouchers
- Establish a system for distributing the passes or vouchers

**Spread the News.** For employees to participate they need to know what's offered to them. Distribute flyers and emails with details about:

- What the incentives include
- How it will benefit them
- When it will be available
- How they can sign up
- How they receive their transit, rail, ferry or vanpool benefit
- Who to contact if they have questions or need assistance

If employees are not sure what transit and vanpool options are available to them, help them access transit schedules and vanpool information.

*Sample emails and flyers are available in the appendix.*

**Sign them Up.** Employers should have their employees complete a participation form. The form should include:

- Type of transit pass, ticket book or payment voucher they want
- How much should be deducted from their income to pay for the commuter benefit

*Sample participation forms are available in the appendix.*

**Start the Program.** The monthly process is simple.

- Payroll deducts pre-tax dollars for participating employees and puts funds in the Pre-tax Commuter Benefits account
- Purchase transit passes, ticket books or vouchers from their mass transit provider using funds from the commuter benefits account

Pre-tax dollars, once deducted from the employees' income, cannot be returned. The funds should not accumulate since ideally, the total pre-tax deductions from employees will equal the cost of purchasing mass transit fare media and/or vouchers.

**Distribute Passes.** Employers need to make sure employees know when and how they will receive their passes, ticket books or vouchers. They will need to have these in hand before the first day of each month.

## Questions and Answers

### **Who can receive Pre-tax Commuter Benefits?**

All W-2 recipients are eligible, including those who work for private sector companies, non-profit companies, federal government, and state and local government (when legislation permits). Self-employed persons, contractors, and 2 percent shareholders of S Corporations are not eligible.

### **What commuter fares are eligible for Pre-tax Commuter Benefits?**

Fares on any mass transit (bus, rail, ferry) or vanpool are eligible when paid with a pass, ticket book or voucher. Transit passes, ticket books and/or vouchers must be ordered and distributed by the employer to the employee.

### **Are cash reimbursements allowed?**

Cash reimbursements generally are not allowed in our region because vouchers are available.

### **Do all vanpools qualify?**

No. Vanpools must have a seating capacity of at least six adults, excluding the driver. The vanpools may be operated by a public transit agency, be employee-owned or –leased, or be employer-owned or –leased.

### **Is there a limit on the Commuter Benefit each employee can receive?**

Yes. The Pre-tax Commuter Benefit applies to mass transit or vanpool fares up to \$270 per month and to qualified parking up to \$270 per month (2021 tax year). These benefits can be combined for a total of \$540 per month.

### **What are the IRS reporting requirements?**

Unlike other pre-tax benefit plans, Section 132(f) that governs Pre-tax Commuter Benefits does not require the creation or submittal of plan documents or filing of reports. However, in an audit, you would have to show an equivalent purchase from a transit agency or third party administrator for the sums deducted from employees. This requirement makes it important to track Pre-tax Commuter Benefits for mass transit and vanpool fares under their own accounting code and not co-mingled with other pre-tax accounts, including Section 132(f) parking benefits.

Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of Commuter Tax Benefits.

## Appendix

### Sample Form

The attached form may or may not meet your company's specific needs. Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives. Qualified transportation benefits are governed by IRS Section 132(f).

#### Payroll Pre-Tax Deduction Authorization

Agency: \_\_\_\_\_

Employee Name: \_\_\_\_\_

Payroll or Social Security Number: \_\_\_\_\_

I hereby authorize my employer to deduct \$\_\_\_\_\_ from my *monthly/bimonthly/weekly* wages on a pre-tax basis, not to exceed \$270 per month to be used for the purchase of:

- Transit passor tickets
- Vanpool pass or tickets
- Transit voucher
- Vanpool voucher
- Qualified parking

I will be using the benefit exclusively for my regular daily direct commute from home to work and return. I will not give, barter, exchange, convey or otherwise transfer this benefit to any other person. If I selected any of the first four choices, the monthly benefit that I receive does not exceed my average monthly commuting cost based on a 20 day month commuting by public transportation or eligible vanpool.

I understand and agree that false certification may result in disciplinary action taken by my employer up to and including dismissal from employment and possible prosecution for Federal income tax evasion.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

## Sample Form

The attached form may or may not meet your company's specific needs. Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives. Qualified transportation benefits are governed by IRS Section 132(f).

### Payroll Pre-tax Deduction Authorization

*Customize this sample to serve your company's needs.*

			Sample
<b>A.</b>	Actual cost of my monthly transit pass for bus, train, ferry or monthly vanpool fare.	\$ _____	\$ 108.00
<b>B.</b>	Amount of line A over \$270. This amount will be deducted from my wages <b>after taxes</b> . (In most cases this will be \$zero.)	- \$ _____	\$ 0.00
<b>C.</b>	Amount I authorize my employer to deduct from my monthly wages on a <b>pre-tax</b> basis to be used on my behalf for the purchase of bus, train, ferry or monthly vanpool fare.  <small>*Not to exceed \$270 per 2021 IRS regulations</small>	=\$ _____ *	\$ 108.00

#### Ordering options - check one:

*(List only those items your company is willing to order for employees)*

- Monthly passes for bus or train with cost equal to A above
- Monthly vanpool/transit combination pass with cost equal to A above
- Voucher equal to A above that I can use to purchase bus or train monthly passes, ferry or transit passes, pay vanpool fares
- Other \_\_\_\_\_,

#### Employee statement (Optional)

I will be using this benefit for my regular daily direct commute from home to work and return. I will not give, barter, exchange, convey, or otherwise transfer this benefit to any other person.

I understand and agree that false certification may result in disciplinary action taken by my employer up to and including dismissal from employment and possible prosecution for Federal income tax evasion.

Signed Name: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

## Sample Form

The attached form may or may not meet your company's specific needs. Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives. Qualified transportation benefits are governed by IRS Section 132(f).

### Payroll Pre-tax Deduction Authorization

*Customize this sample to serve your company's needs.*

			Sample
<b>A.</b>	Actual cost of my monthly transit pass for bus, train, ferry or monthly vanpool fare.	\$ _____	\$ 144.00
<b>B.</b>	Amount of line A over \$270. This amount will be deducted from my wages <b>after taxes</b> . (In most cases this will be \$zero.)	- \$ _____	\$ 0.00
<b>C.</b>	Amount our company contributes to cost	- \$ _____ *	\$ 69.00
<b>D.</b>	Amount I authorize my employer to deduct from my monthly wages on a <b>pre-tax</b> basis to be used on my behalf for the purchase of bus, train, ferry or monthly vanpool fare,  <small>* C plus D not to exceed \$270 per 2021 IRS regulations</small>	=\$ _____ *	\$ 75.00

#### Ordering options - check one:

*(List only those items your company is willing to order for employees)*

- Monthly pass for bus or train with cost equal to A above
- Monthly vanpool/transit combination pass with cost equal to A above
- Voucher equal to A above that I can use to purchase bus or train monthly passes, transit or ferry passes, pay vanpool fares.
- Other \_\_\_\_\_

#### Employee statement (Optional)

I will be using this benefit for my regular daily direct commute from home to work and return. I will not give, barter, exchange, convey, or otherwise transfer this benefit to any other person.

I understand and agree that false certification may result in disciplinary action taken by my employer up to and including dismissal from employment and possible prosecution for Federal income tax evasion.

Signed Name: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

# Is your commute costing you an arm leg ?



Riding the bus is a great value when compared with the cost of driving. And now you can save even more when you commute on any mass transit (bus, train, rail or ferry) or vanpool.

Take advantage of our company's transit benefit for employees (\$\_\_\_\_\_ per month). Then, reduce your portion of the fare just by signing up for our new "pre-tax commuter benefit." (The name sounds complicated; the concept isn't.)

Here's how it works: with the pre-tax commuter benefit, you pay for your share of the pass (anything over \$\_\_\_\_\_ per month) through a payroll deduction before taxes are applied to your earnings.

That saves you money every month because you avoid paying taxes on the dollars that pay for your share of the cost — and you get the convenience of receiving your transit pass right at work!

To find out more, contact... \_\_\_\_\_

\_\_\_\_\_

*Company logo here*

# Is your commute costing you an arm leg ?



Riding the bus is a great value when compared with the cost of driving. And now you can save even more when you commute on any mass transit (bus, train, rail or ferry) or vanpool.

Cut the cost of your monthly commuting expenses by 20 – 40% just by signing up for our new “pre-tax commuter benefit.” (The name sounds complicated; the concept isn’t.)

Here’s how it works: when you buy a pass on your own, you are using dollars that have already been taxed. With the pre-tax commuter benefit, you can buy your pass through a payroll deduction before taxes are applied to your earnings (up to \$270 each month--amounts over \$270 will be taxed).

You could save hundreds of dollars every year—and get the convenience of receiving your transit pass right at work!

To find out more, contact... \_\_\_\_\_

\_\_\_\_\_

*Company logo here*

## Sample Email Version 1

Employee-paid pre-tax benefit. If your company allows a pre-tax deduction for employees who pay for their own bus passes, use this message.

**Employer instructions:** Cut and paste the information below the line into an e-mail to send to all your employees:

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SUBJECT LINE: New commute benefit for *[company name]* employees

TEXT:

Commuting can be expensive. Choosing a commute option is a great value when compared with the cost of driving. And now you can save even more when you commute on any mass transit (bus, train, ferry) or vanpool.

Cut the cost of your fare 20-40% just by signing up for our new “pre-tax commuter benefit.” (The name sounds complicated; the concept isn’t.)

Here’s how it works: When you buy a bus pass on your own, you are using dollars that have already been taxed. With the pre-tax commuter benefit, you can buy your pass through a payroll deduction *before* taxes are applied to your earnings. (Up to \$270 per month)

You could save hundreds of dollars every year — and get the convenience of receiving your transit pass right at work!

Even if the bus doesn’t come to your neighborhood, you have other good options for using public transit. For example, drive to a nearby park and ride where you can park your car free all day — or check out convenient vanpool service.

For bus route and schedule information, visit [www.communitytransit.org](http://www.communitytransit.org).

To find out more about our new pre-tax commuter benefit, just reply to this email or call *[space for ETC contact name, phone number]*

## Sample Email Version 2

Includes employer subsidy. If your company pays part of the cost for a bus pass plus allows a pre-tax deduction for the employee-paid balance, use this message.

**Employer instructions:** Cut and paste the information below the line into an e-mail to send to all your employees:

---

SUBJECT LINE: Save even more on your transit pass.

TEXT:

Commuting can be expensive. Riding the bus is a great value when compared with the cost of driving. And now you can save even more when you commute on any mass transit (bus, train, ferry) or vanpool.

Take advantage of our company's transit benefit for employees (\$\_\_\_\_\_ per month). Then, reduce your portion of the fare just by signing up for our new "pre-tax commuter benefit." (The name sounds complicated; the concept isn't.)

Here's how it works: With the pre-tax commuter benefit, you pay for your share of the pass (anything over \$\_\_\_\_\_ per month) through a payroll deduction *before* taxes are applied to your earnings.

That saves you money every month because you avoid paying taxes on the dollars that pay for your share of the cost — and you get the convenience of receiving your transit pass right at work!

Even if the bus doesn't come to your neighborhood, you have other good options for using public transit. For example, drive to a nearby park and ride where you can park your car free all day — or check out convenient vanpool service.

For bus route and schedule information, visit [www.communitytransit.org](http://www.communitytransit.org).

To find out more about our new pre-tax commuter benefit, just reply to this email or call [*space for contact name, phone number*].

## Resources

**Internal Revenue Service:** provides code regarding qualified commuter fringe benefits in IRS Section 132(f).

<http://www.irs.gov/publications/p15b/index.html>

**Federal Transit Administration:** provides guidance and sample forms for administering qualified commuter fringe benefits.

<http://www.fta.dot.gov>

**Best Workplaces for Commuters:** provides information on implementing Commuter Benefits.

<http://www.bestworkplaces.org>

**Taxable Fringe Benefit Guide:** a document created by the Internal Revenue Service office of Federal, State and Local Governments to provide governmental entities with a basic understanding of the Federal tax rules relating to commuter benefits and reporting.

<https://www.irs.gov/pub/irs-pdf/p15b.pdf>

**Commuter Benefits:** third party administrator of commuter benefits. Nationwide, Commuter Benefits products are accepted at over 500 commuter partners, such as transit agencies, parking and vanpool providers and bicycle shops.

<https://commuterbenefits.com/>

**Transit Chek by WageWorks:** third party administrator of commuter benefits. TransitChek launched in 1987, the first commuter benefits program in the nation, which has made commuting a more affordable option for hundreds of thousands of people.

<https://www.wageworks.com/transitchek/>

**Tranben, Ltd.:** third party administrator of commuter benefits. Provides tax-free transportation benefit consulting and administrative services to companies and organizations for their employees who use public transportation in commuting to and from work.

<https://tranben.com/>

*Information contained in this document was obtained in part from the above resources.*