Hello and welcome to the Turning Transportation Benefits into Tax Benefits presentation.
Why are transportation benefits important to both employers and employees? Transportation benefits can be really powerful tools for several reasons.

As an ETC, presenting the benefits of offering transportation incentives can perk up leadership’s ears when you tell them how these incentives provide tax benefits to both the company and employees. It’s another tool you have in making the pitch for CTR incentive programs.

For the company, it can do just that, provide tax credits from the State of Washington, as well as the opportunity to provide pre-tax benefits to employees through the Transportation Fringe Benefits provision in IRS Code 132(f).

If you’re on your human resource team, you’ll enjoy the perks of offering pre-tax transportation benefits, cash-out programs or subsidies for commuter passes, such as ORCA. This is a great tool for recruitment and retention.

When companies provide ways to make it less expensive for employees to get to and from work, studies have
shown positive effects can include:
- A happier and healthier workforce, hence a potential reduction in health insurance costs.
- Potential additional parking near your worksite.
- Recognition for being a great place to work for commuters.
- Less FICA taxes paid by employers.
We need to preface this presentation by saying that, although this information is being presented by the Community Transit CTR Team, we are not tax professionals.

This is an overview of the transportation fringe benefits, as they are called by the IRS, and we encourage you to visit the resources we provide as a way to educate yourself and your leadership about how to start an incentive program and how to receive tax credits from the State of Washington if your employer qualifies.

Tax laws and codes can also change at the cast of a vote, so please visit the IRS and Washington State websites for more information as you get closer to building your program. The laws can be revisited on an annual or bi-annual basis, or depending on the expiration of a code on file.
Let’s define some of the terms related to qualified transportation fringe benefits as explained by the IRS.

A commuter highway vehicle is any vehicle which seats at least six people (not including the driver). The expectation is that 80 percent of the vehicle mileage will be for transporting employees between their homes and workplaces, with employees occupying at least one half of the vehicle’s seats. Think of this as Vanpool.

A Transit Pass is any pass, token, fare card or voucher, or similar item entitling a person to ride, free of charge or at a reduced rate, on mass transit or in a hired vehicle that seats at least six people, not including the driver. We are most familiar with ORCA as a transit pass, but there are also third party commuter services such as Wage Works and Commuter Benefits that provide passes.

A qualified parking incentive is parking you provide for your employees either at your worksite or nearby where they use mass transit, commuter highway vehicles or carpools. This does not include parking near your employees’ homes. There are very few places in Snohomish County and the City of Bothell where employers charge for parking,
but this an option if you do.

Under tax law, not everyone who works at a given workplace is considered an employee. The law specifically states that individuals who are self-employed – which include sole proprietors, partners, persons who hold over 2 percent ownership in an S corporation and contractors – are not eligible to receive commuter benefits. Employees are current employees and contractors who work mostly full-time for a 12-month period and are directed by employees of your company.
With a Tax-Free Benefit to employees, employers give employees up to $270 per month for benefits to commute using mass transit. The employee does not have to pay income taxes on this amount if it is used to purchase the commute fare.

With a Pre-Tax Benefit, employees buy their commute fare pre-tax through payroll deductions and they save on payroll and income taxes thereby increasing their overall take home. Employers also save by not paying the payroll taxes on the pre-tax amounts.

A Combination Benefit is the opportunity for employers and employees to share the cost of commuting, giving the employee part of the commuting expense tax-free and allowing the employee to then purchase the balance of the fare pre-tax. For example, if a monthly bus pass costs $100, the employer could provide $50 toward the purchase of the pass, and the employee could use pre-tax dollars to pay the additional $50 balance.

Whichever option you choose, the IRS caps these benefits at $270 per month per employee.
Qualified Parking is tax-exempt free parking space employers provide at the worksites. Employees don’t pay taxes on the use of parking spaces on or near a worksite, or a location from which employees take commuter highway vehicles, mass transit or vanpools.

Parking cash out is an option for employers with limited parking to give employees cash instead of the free parking space. In this case, the caveat is that the cash value of a parking space is taxable if cash is given to an employee in lieu of a parking space. The cash they receive is taxable at the same rate as their regular compensation. The exemption to that is if the parking cash out money is used in part or all to purchase mass transit commute fare. Then that portion is tax-exempt. Any remaining parking cash out dollars above the cost of the commuter fare is taxable.

For example, if an employer values a parking space at $100 per month, they can provide a transportation benefit toward the purchase of an ORCA card or similar pass to an employee. If they provide a $60 transportation benefit and the remaining $40 in cash, the employer is only taxed on the $40 and the employee receives the benefit of a
$60 pre-tax payroll deduction.

IRS limits for 2021 are $270 for Transportation (aka Commuter) Fringe Benefits and $270 for Qualified Parking separately. However, employees can combine these benefits and receive up to $540 in pre-tax benefits per month.

Up until 2018, commuters were able to receive pre-tax benefits up to $20 per month for bicycle commuting. This changed and now employees cannot enjoy the pre-tax benefits of bicycle commuting. They can still receive reimbursements from their employer, however it is only the employer who can directly apply for tax credits on behalf of the incentives they pay to employees. Unfortunately, any reimbursements given to employees under a Bicycle Commuter Tax Benefit program is taxable as income to the employee. The provisions of the Tax Cut and Jobs Act related to the Bicycle Commuter Tax Benefit expire in 2026. At that time, employees may be able to again receive pre-tax benefits up to $240 per year.
If your employer pays Business & Occupation tax or Public Utility Tax in the state of Washington and it provides incentives for ridesharing, using public transportation, car sharing or more sustainable transportation, also known as non-motorized commuting, your company is allowed a credit against its B&O tax or Public Utility tax.

Property managers who provide incentives for employees other than their own are also eligible for this tax credit.
This credit is equal to 50 percent of the paid incentives, not to exceed $60 per employee per fiscal year. Employers can receive credits under only one of these taxes, but not both. The credit limit for both an employer or property manager is $100,000 per fiscal year.

Under WA State Law, eligibility for credits is through January 1, 2024.

In order to receive these credits, employers must submit an application during the month of January for the prior year.
It is important to emphasize that commuter benefits have tax advantages because they are not subject to federal income and payroll taxes. The commuter benefits program is not a federal tax credit and employers do not need to file any special tax forms to enjoy the tax savings.

All employees or groups of employees can be offered transit and/or vanpool benefits. As was mentioned before, 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 percent 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.
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 or vouchers, or a bona fide cash reimbursement arrangement.

The most common way of distributing transit and 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.

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 salary. Some employers prefer cash reimbursement since it means that they do not need to purchase and distribute the fare media.

There are substantial restrictions on when an employer can legally use cash reimbursement. Please contact your tax professional for more regulations regarding cash reimbursements.

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.
After an employer decides to offer commuter benefits to their employees, they 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.

**Sign them Up**
Employers should have their employees complete a participation form.
The form should include:
• Type of transit pass or payment voucher they want.
• How much should be deducted from their income to pay for the commuter benefit.

**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.

**Measure the Outcome.**
When the program is set up some key measurables should be established. Examples can include reducing need for parking spaces, the number of employees participating in pre-tax benefit, etc.
There is a lot to consider when beginning an incentive program. We encourage you to think about your company’s culture and how an incentive program can benefit both your employer and your CTR program. We also encourage you to do your homework as these programs are not one-size fits all. How you decide on what you’d like to offer can depend heavily upon the size and location of your company.

As you make your decisions, here are a few links to help with your Transportation Fringe Benefits research. If you have any questions, you can always reach out to our Community Transit CTR Team.

Hyperlinks for easy reference:

Internal Revenue Service, Employers Tax Guide to Fringe Benefits  

Best Workplaces for Commuters  
https://www.bestworkplaces.org/

Taxable Fringe Benefit Guide  

WA State RCW 82.70  
https://app.leg.wa.gov/RCW/default.aspx?cite=82.70

Wage Works  
https://www.wageworks.com/

Commuter Benefits  
https://commuterbenefits.com/about-us/
https://www.bestworkplaces.org/

**Taxable Fringe Benefit Guide**

**WA State RCW 82.70**
https://app.leg.wa.gov/RCW/default.aspx?cite=82.70

**Wage Works**
https://www.wageworks.com/

**Commuter Benefits**
https://commuterbenefits.com/about-us/