

## **Commuter Choice Tax Savings**

More often, employers are offering full transit benefits to employees. When employers contribute to employee commuting costs, it is the equivalent of offering a low-cost pay raise.

For example: if a \$230 transit benefit were given as a pay increase instead of a commuter benefit, the employer would have to pay payroll taxes on the amount given and employees would pay more in income taxes. When you consider the overall value of offering Commuter Choice Tax Benefits to employees, it may cost the employer more not to provide these benefits.

In 2001, the IRS established Section 132(f), Qualified Transportation Fringe, which now enables commuters to pay for transit, vanpools, bicycling and/or parking costs pre-tax. Depending on the individual's income tax bracket, the savings can add up to hundreds of dollars annually for employees (see Calculating the Benefit below).

An employee can use the pre-tax benefit for "qualifying transportation expenses." Qualifying expenses include items such as transit passes, vanpool fares, and parking fees. Qualifying bicycle commuting expenses include the purchase of a bicycle and bicycle improvements, repair and storage\*.

\* For 2008, the 25% federal income tax bracket applied to single individuals earning between \$32,551 – \$78,850 and married couples earning between \$65,101 - \$131,450.

### **Calculating the benefit: how much can employees save?**

#### **Step 1:**

Determining how much an individual pays in taxes. Example: for an individual in the 25% tax bracket:

<u>Tax</u>	<u>Tax Percentage</u>
Federal Income Tax	25%
FICA/Social Security	6.2%
FICA/Medicaid	1.45%
Georgia State Taxes	6%
Total Tax	38.65%

#### **Step 2:**

Using the Total Tax percentage from the table above (in this sample, 38.65%) to calculate that individual's annual tax savings.

<u>Annual Expenditures</u>	<u>Transit or Vanpool</u>	<u>Parking</u>
Travel Expenses (buying transit passes, etc)	\$2,760	\$2,760
Tax Savings (applying 38.65% to each expense)	\$1,067	\$1,067

What this shows is that an employee in the 25% tax bracket could save up to \$1,067 per year on transit, vanpool or parking costs.

In summary, for an employee who makes \$34,000 per year and takes transit, these pre-tax savings are the equivalent of a \$1,067 raise at not cost to the employer.

With qualified transportation fringe benefits (Section 132(f) of the Internal Revenue Code) or "Commuter Tax Benefits," employers save on payroll related taxes and employees save on federal and state income taxes.

Commuters can receive both the transit and parking benefits (i.e., up to \$460 per month). Employers can allow employees to use pretax dollars to pay for transit passes, vanpool fares and parking.

<u>Incentive Levels</u>	<u>Transit</u>	<u>Vanpool</u>	<u>Qualified Parking</u>
	Up to \$230/month* for transit expenses	Up to \$230/month* for vanpool expenses	Up to \$230/month for parking at or near an employer's worksite, or at a facility from which employee commutes via transit, vanpool, or carpool
<u>Employer Tax Benefit</u>	<u>Transit</u>	<u>Vanpool</u>	<u>Qualified Parking</u>
	Employers give their employees up to \$230/month* to commute via transit; the employer gets a tax deduction and saves over providing the same value in gross income	Employers give their employees up to \$230/month* to commute via vanpool; the employer gets a tax deduction and saves over providing the same value in gross income	Employers give their employees up to \$230/month for qualified parking; gets a tax deduction and saves over providing same value in gross income
	Employers allow employees to use pre-tax income to pay for transit and employers save on payroll tax (at least 7.65% savings)	Employers allow employees to use pre-tax income to pay for vanpooling and employers save on payroll tax (at least 7.65% savings)	Employers allow employees to use pre-tax income to pay for qualified parking and employers save on payroll tax (at least 7.65%)
	or		
	A combination of both up to statutory limits	A combination of both up to statutory limits	A combination of both up to statutory limits
<u>Employee Tax Benefit</u>	<u>Transit</u>	<u>Vanpool</u>	<u>Qualified Parking</u>
	Employee receives up to \$230/month* tax free (not on their W-2 form)	Employee receives up to \$230/month* tax free (not on their W-2 form)	Employee receives up to \$230/month* tax free (not on their W-2 form)
	or		
	Employee pays for commute benefit with the pre-tax income and saves on income tax	Employee pays for commute benefit with the pre-tax income and saves on income tax	Employee pays for commute benefit with the pre-tax income and saves on income tax
	or		
	A combination of both	A combination of both	A combination of both

\* The American Recovery and Reinvestment Act of 2009 increased the transit and vanpool subsidy to be at parity with the parking benefit. The parity is scheduled to expire on December 31, 2010 if not extended by Congress.

NOTE: The Clean Air Campaign, Inc., is not engaged in rendering legal or financial advice, and provides this information free of charge solely to assist businesses exploring benefits for their respective employees. The information presented here does not constitute official tax guidance or a ruling by the U.S. Government. Taxpayers are encouraged to consult with the Internal Revenue Service or a tax professional for specific guidance related to the Federal tax law. By using these materials, the recipient (1) acknowledges and agrees that The Clean Air Campaign, Inc. makes no representations regarding the sufficiency (legal or otherwise) of these materials in any particular jurisdiction or for any particular business purpose, and (2) voluntarily and knowingly assumes all risks associated with their use.