

## Tax Benefits for Transportation Programs

Federal law now allows employers two ways to offer their employees a commute benefit free of payroll taxes: Companies can offer employees a tax-free employer-paid subsidy or a pre-tax payroll deduction (or a combination of both) to reduce an employee's cost of public transportation (bus, train, ferry or registered vanpool). The law applies when the company (or qualified third party) delivers the commute benefit to the employee in the form of a pass or voucher.

Specifically:

When the **company pays** part or all of the public transportation fare and delivers the benefit to the employee in the form of a pass or voucher:

The employee receives the **tax-free** benefit of the employer-subsidized pass or voucher up to \$230\* a month.

The employer has a tax deductible business expense for federal taxes.

When the **employee pays** part or all of the cost of public transportation and buys or receives the pass or voucher from the employer:

The employer can allow the employee to pay via a **pre-tax** payroll deduction, up to \$230\* a month (amounts over \$230 are taxable).

The employee saves federal withholding and FICA payroll taxes on the amount deducted.

The employer saves paying FICA on the amount deducted.

If the cost of the transit pass or voucher exceeds \$230, any amount over \$230 can be deducted from employee wages on an after-tax basis.

\*When the company and employee share the cost of the pass or voucher, the total combined tax-free and pre-tax amounts may not exceed \$230 per month per employee. Here's an example: If the employee needs a \$72 bus pass and the employer decides to cover \$30 per month of that cost, then the employee receives a tax-free benefit of \$30 and the pre-tax deduction from employee wages is \$42. The employee receives the \$72 bus pass from the employer.

**Parking Cash Out** – Employer offers cash payment in lieu of providing parking

- Employee receives taxable payment up to \$230/month, or a tax-free subsidy up to \$230/month with the balance in cash as taxable income

Visit [www.orcacard.biz](http://www.orcacard.biz) to place an order for ORCA cards. It's the way to take advantage of the commute tax benefits which are available to employees only through a company program. Some companies opt to use a third party to administer the benefit.

### ***Bicycle Commuter Benefit***

The Internal Revenue Service allows employers to offer up to \$20 per month to employees who are bicycle commuters as a tax-exempt fringe benefit (meaning employees are not required to pay taxes on the benefit). The benefit may be offered to employees for the following:

- Purchase of a bicycle
- Bicycle improvements
- Bicycle repair
- Bicycle storage or locker rental

The amendment is to the IRS section on Transportation Fringe Benefits - section 132(f).  
*link to <http://www.irs.gov/publications/p15b/index.html>*

At this time, the \$20 may not be offered to those employees who are already receiving a tax-exempt fringe benefit for commuting via public transportation (bus, rail, ferry) or vanpool.

**Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives.**

*\*\$230 is the benefit amount for 2010*