

# Tax Incentives for Commuters

## A Direct Dividend for Businesses

In addition to benefiting your employees, offering commuter benefits can have fiscal advantages for your company. Tax incentives offered by federal and state governments make it easier than ever for businesses to pursue transportation-related perks.

### Federal Qualified Transportation Fringe Benefit

The commuter tax benefit, formally known as the Qualified Transportation Fringe Benefit program (governed under Section 132[f] of the IRS Code), provides a tax incentive to employees who commute using specific modes (vanpool and public transit) that also benefits employers. The benefit program also applies to parking and bicycling costs. (Refer to IRS Guidance and your company tax advisor for in-depth information).<sup>1</sup>

The value of any commuter benefits offered by an employer to employees is exempt from withholding and employment taxes and is not reported as a taxable amount on the employees' W-2 form. The value of these benefits is also deductible as an employer-provided benefit from the employer's gross profit.

### Ways to Offer the Commuter Tax Benefit

The Commuter Tax Benefit applies only to work-related trips taken on a federally defined commuter vehicle, including bus, rail, subway, ferry, subscription bus, or shuttle. Also included is a vanpool that has seating capacity of at least 6 adults plus the driver and has at least 80 percent of its mileage used for commuting.

Employers can structure their commuter benefit program in one of three ways:

- **Benefits in addition to salary:** Employers can provide each employee with a transit pass, vanpool voucher, or similar item entitling them to transportation on a transit vehicle or a vanpool. In limited cases, they can provide cash reimbursement for these types of

commute when no pass, voucher, or similar item is available and when use is strictly substantiated. Your business can deduct commuting subsidies as a normal business expense; that value of the subsidy is nontaxable to the employee.

- **Employee pre-tax set-aside:** Employers may set aside an employee's pre-tax income amount used for qualified commuting expenses before calculating payroll taxes. Employers also pay employment taxes only on the reduced amount of the employee's salary.
- **Combination of reimbursed benefits and pre-tax set-aside:** Employers can choose to pay part of an employee's commuting costs, deducting that amount as an employee benefit, and then deduct the remaining cost up to the allowable amount per month per employee from an employee's salary before calculating taxes.

### Qualified Parking Benefit

Employers can also choose to help cover employees' cost of parking at a lot from which they commute to work by a vanpool, carpool or public transit in one of three ways:

- Paying for their parking directly
- Deducting the cost of the parking pre-tax from the employees' salary
- A combination of both, up to a maximum of \$245 per month per employee in 2013

Employers who provide parking on or near the business work premises can deduct the cost of that parking.

### Qualified Bicycle Benefit

As of January 2012, employers may also provide reimbursements of up to \$240 per year (\$20 a month) for reasonable expenses incurred by an employee for the purchase, maintenance, and storage of a bicycle used to commute to work. However, reimbursement for

<sup>1</sup> Current information on the commuter tax benefit is available at the [National Center for Transit Research](#).

bicycle commuting is not available for employees who already accept a parking or transit subsidy. Unlike the other qualified transportation fringe benefits, a qualified bicycle commuting reimbursement benefit cannot be funded through employee pre-tax income.

### State Tax Incentives

Maryland and Minnesota allow businesses to claim a tax credit for amounts they pay toward employee commuting costs. In Maryland, businesses can claim a tax credit for 50 percent of the eligible costs of providing eligible commuter benefits up to a maximum of \$50 per employee per month. In Minnesota, employers that purchase transit passes to resell or give to their employees may be eligible for a 30 percent state tax credit.

Before implementing any type of commuter benefit program, consult your tax advisor.

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The “Transportation Toolkit for the Business Community” gives businesses the information they need now to assist their employees in achieving a timely, cost-efficient commute that promotes their productivity and job satisfaction. View other fact sheets and resources at [www.ctaa.org/transportation\\_to\\_work](http://www.ctaa.org/transportation_to_work) for information on how to access transportation-related tax benefits, partner with local providers to find answers to employees’ and customers’ transportation needs, become part of a transportation management association, and more.

This toolkit was created by the Community Transportation Association of America’s Joblinks Employment Transportation Initiative—serving communities since 1993 in solving employment transportation issues.



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