

Benefits Insights

Brought to you by the insurance professionals at
Creative Benefits, Inc.

Commuter Assistance Programs

High gas prices pinch everyone's wallet, especially when factoring in the commute to and from work. Even those who use mass transit have commuting expenses that can add up over time. Under the Internal Revenue Code Section 132, workers can set aside pre-tax dollars to use for certain work-related commuting expenses. These expenses may include qualified parking costs, mass transit expenses and vanpooling. These pre-tax dollars are exempt from federal income taxes, Social Security taxes and state income taxes (in most states). In some cases, employers pay for all or some of the participating employees' costs.

These qualified transportation programs, also known as Commuter Assistance Programs, provide tax-free commuting benefits to employees. However, due to a change in the federal tax law, effective for 2018, employers can no longer deduct the cost of these programs from their taxes as a business expense.

Commuter Assistance Programs can be administered within your organization or outsourced to a specialty provider for approximately \$5 to \$6 a month for each participating employee. For these minimal costs, the provider will enroll your employees in the program and will take on all administrative duties associated with it. However, you may also consider administering a Commuter Assistance Program in-house.

Types of Commuting Expenses

A Commuter Assistance Program can pay expenses related to qualified parking, transit passes and rides in commuter highway vehicles.

- **Qualified parking** is parking you provide to your employees on or near your business premises. It also includes parking on or near the location from which your employees commute to work using mass transit, commuter highway vehicles or carpools. It

doesn't include parking at or near your employee's home.

- **Transit passes** include any passes, tokens, farecards, vouchers or similar items that allow employees to ride free of charge (or at a reduced rate) on mass transit or in a vehicle that seats at least seven adults (including the driver).
- **Vanpooling** is transportation between the employee's residence and place of employment in a commuter highway vehicle that seats at least seven adults (including the driver).

Tax Exclusion Limits

Federal tax law establishes a maximum amount of commuter assistance benefits that employees can exclude from income for tax purposes. These are the limits for taxable years beginning in 2020:

- Qualified parking: \$270 per month
- Combined transit passes and vanpooling: \$270 per month

Creating a Commuter Assistance Program

Follow these steps when setting up a program at your organization:

1. Determine what types of benefits that you want to offer and how you will structure your plan design, including how you will provide benefits to employees and what amount each employee is eligible to receive each month.



Benefits Insights

- Conduct a survey of your workers to determine how they get to work, how they would prefer to get to work and how much they typically spend on commuting. Organize your program based on this information.
- Promote the benefit to employees via a company-wide newsletter or your intranet site.
- Enroll employees who want to participate and set up payroll deductions, if necessary.
- Order transit vouchers or passes for your employees and distribute them accordingly.

If you hire a third-party provider, that organization may handle most of this process for you.

Advantages of a Commuter Assistance Program

Establishing a commuter assistance program can benefit your business in the following ways:

- Serves as a valuable incentive for potential employees who may be hesitant to take a job with your company because of commuting costs.
- Serves as a great add-on to an existing benefits package for employees and can boost employee morale.
- Employees are not taxed on qualified transportation benefits, and can set aside pre-tax dollars to pay for the benefits.
- Program is relatively low-cost to administer or outsource.
- Benefit is easy for employees to utilize.
- Programs work well in large cities with lots of available public transportation and/or parking is expensive, and in smaller areas where commutes can be extremely long.

Disadvantages of a Commuter Assistance Program

The following are the disadvantages of creating such a program:

- Payroll professionals will have additional administrative duties.

- Effective for 2018, qualified transportation benefits are no longer tax-deductible for employers. Tax-exempt employers that provide qualified transportation benefits must recognize unrelated business income tax.
- If you are using a service provider, there are additional responsibilities for overseeing the organization's interaction with your employees.
- Service providers may have a minimum monthly fee that can be overwhelming for small employers or those with low employee participation in the program.
- You must comply with tax regulations regarding statutory limits, plan design, eligibility to sponsor and participate, and more.

For more information regarding Commuter Assistance Programs, please see [IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits](#).