

TAX BENEFITS OF TRANSIT

Employers and employees benefit from transit subsidies. Federal law allows employers three ways to reduce the cost of commuting via public transportation (bus, train, or registered vanpool) or qualified parking for employees. Companies can offer employees:

- a tax-free *employer*-paid transportation subsidy
- a pre-tax *employee*-paid payroll deduction, or
- a combination of the above (the employer and employee both contribute)

The IRS sets tax-exempt and pre-tax limits. The following are the limits for the 2013 tax year, but the effective date may allow for \$240 per employee per month retroactivity back to January 1, 2012 if an employer so chooses:

- \$245 per employee per month for bus, rail, registered vanpool (all public transportation), or
- \$245 per employee per month for qualified parking

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

Many companies offer a combination of the above two options, meaning companies can choose to directly subsidize a percentage of the monthly cap, and then employees can make up the difference with pre-tax income.

Compared to other benefits, transit benefits are cost-effective and offer businesses the opportunity to lower their payroll taxes.

Pre-tax payroll deductions are referenced in the Internal Revenue Code, Section 132(F), as amended by TEA-21, Title IX, Section 910.

