SETTING UP PRE-TAX TRANSPORTATION BENEFITS

PERIMETER COMMUNITY IMPROVEMENT DISTRICTS

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OVERVIEW

Providing pre-tax transportation benefits allows employees to save real money on something they already pay for: Their commute to work. Commuters can use pre-tax funds for transit, vanpool, or parking costs. Employers also save on payroll taxes, particularly FICA, Social Security, and Medicare. They also gain a new employee benefit, which can help employee retention and morale. In cases where employers lease or own parking spaces for their employees, this program can also result in substantial parking cost savings.

Use this detailed guide to explore the different options for implementation of IRS code 132(f), or send this resource to your payroll department for assistance with implementation.

DESCRIPTION

There is a great benefit available to employers to help employees offset their commute costs. The program, established in 2001 by the IRS, known as section 132(f), enables commuters to pay for transit, vanpools, and/or parking costs pre-tax up to monthly limits set by the IRS.

As of January 1, 2019, maximum pre-tax amounts are:

- Up to $265 per month for transit and/or vanpool costs ($3,180 per year)
- Up to $265 per month for parking costs ($3,180 per year)

Setting up these programs is easy for businesses, especially since most administer far more complicated benefit programs (like healthcare). Most likely, your payroll department has implemented this program before. These programs are exempt from typical IRS regulations for benefits such as form filings, irrevocable elections, mandatory enrollment, etc. They are easy for an employee to manage as well, since they are modeled after other common flexible spending plans.

PROGRAM SETUP

There are three ways employers can setup these programs for employees. The one that is right for you depends on the level of commute subsidy, or additional dollar amount provided toward employee commute costs, that you want to offer. Options include:

1. Employees pay 100% of their commute expenses with pre-tax funds. Employer pays no commute-related benefits. This is the option for an employer that does not offset transit or vanpool costs in any amount.

2. Employer pays all commute-related benefits. Employees receive this program as a full paid benefit. For example, the employer can purchase MARTA passes at $95 per month and then provide that benefit to employees.

3. A mix of Options 1 and 2. Employer and employees share costs of commute-related benefits.

This tax benefit program is very flexible for employers. If you choose to purchase transit or vanpool products for your employees, you can purchase as much or little as they want, up to $265 per month. Using the $95.00 MARTA monthly pass as an example, an employer could provide $30 per month for transit fares as a tax-free fringe benefit for employees and still allow the employee to set aside up to $65.00 per month from their own paycheck ($30 + $65.00 = $95.00). The employer will realize federal tax savings for that employee, and the employee pays no income tax on the $65.00 set aside each month.

CALCULATING THE BENEFIT: *How much can the benefit save your employee annually?*

These tax savings really add up for an individual employee. Consider a typical employee who pays 22% federal tax and up to 6% in Georgia state and local taxes in each paycheck. This employee opts to take full advantage of the Option 1 benefit described above ($95 per month pre-tax withdrawal from their paycheck).

- **Step 1:** First, we figure out how much an individual pays in taxes.

Example: for an individual in the 22% tax bracket[1]:

Tax		Tax Percentage
Federal Income Tax		22%
FICA	Social Security	6.2%
	Medicare	1.45%
Georgia State and Local Income Taxes[2]		6%
Total Tax		**35.65%**

- **Step 2:** Then, we use the Total Tax percentage from the table above (in this case, 35.65%) to calculate that individual's annual tax savings.

An employee's annual...

Tax	MARTA Pass
Travel Expense[3]	$1,140
Tax Savings (applying 35.65% to each expense)	**$406**

[1] For 2019, the 22% federal income tax bracket applied to single individuals earning between $38,701 - $82,500 and married couples earning between $75,900 - $153,100.

[2] Assumed 6% combined state and local tax.

[3] Assuming the pre-tax amount an individual will claim in 2019 for transit is $95/mo. ($1,140 annually).

What this shows is that an employee in the 22% tax bracket could **save up to $406 per year** on transit or vanpool costs.

In summary, for an employee who makes $40,000 per year and takes transit, these pre-tax savings are the equivalent of a **$406 raise** at no cost to the employer.

SET-UP TIPS

There are some specifics you should confirm before launching a pre-tax commute program, including:

1. Target the right level of benefit. Employees won't necessarily know how much to set aside from their paycheck each month, especially if they don't currently use transit or vanpools. You can help them by providing the costs of these transportation alternatives. The chart below provides details for Atlanta's transit provider pricing. This can help you and your employees determine the right amount to set aside each month.

Perimeter Connects offers the sale of discounted transit passes directly to Perimeter-area employers

Transit Agency	Pass	Price
MARTA	Monthly Benefit: Unlimited pass for the calendar month	$76.00 (through the employer partner program, this is a 20% discount from the general pass)
	Breeze Card (permanent card to be used with all fares)	$2.00
	2-trip/round trip fare	$5.00
	10-trip fare	$25.50
	20-trip fare	$42.50
SRTA Xpress	10-Ride Green Zone Pass	$25.00
	Monthly Green Zone Pass	$100.00
	10-Ride Blue Zone	$35.00
	Monthly Blue Zone Pass	$125.00

2. Make sure your recordkeeping system is in order. While this is a simple program to implement compared to most benefit programs, the IRS still requires you to do some recordkeeping. Be proactive and plan to keep records and documentation of the items listed in the Next Steps document.

3. Setup a simple communications plan. As the program matures, employees will likely want to add to or decrease their monthly contributions. Be clear in setting a policy as to when employees can modify their contributions. Each time you allow your employees to modify their contribution (e.g., every six months), let others know they can sign up as well.

4. Track the number of participants. It will be helpful to understand how your employees are taking advantage of this benefit.

Next steps: **Implementation: Discover How to start a transit pass program**