



Commuter Choice

Tax-Free Benefit for Qualified Transportation

A Quick Reference for Employers

Updated With 2013 Limits

Prepared By:



For Use By Its Customers
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Overview

What Is Commuter Choice?

Commuter Choice is a tax benefit for employers and their employees who use vanpools or public transit to commute to work. The benefit was established in its current form in 1998 by the Transportation Equity Act for the 21st Century (TEA-21). Its provisions are included in Section 132 of the Federal tax code.



How Does It Work?

An employee chooses to set aside up to \$245/month from his/her regular compensation, on a pre-tax basis, to spend on commuting costs. Deductions are withheld from the employee's regular pay. In turn, the employer provides a voucher to the employee. The employee can apply this voucher toward the cost of commuting.

The employee is able to pay for some of his/her commuting costs on a pre-tax basis, thus saving money on the cost of commuting. The employer saves money on some of the employer taxes on the money set aside on a pre-tax basis, by the employee. The employer also provides an incentive for its employees to use mass transit.

The employer may also pay for all or part of this cost.

Types of Commuting Costs

The following kinds of commuting costs can be applied to this benefit:

- Passes on transit systems
- Vanpooling expenses
- Use of any qualifying commuter transit vehicle provided by any person in the business of transporting for hire.

The benefit is not applicable to the cost of any form of personal transportation.

Cost Saving Example

Employer Savings Example

If an employee chooses to contribute the maximum \$245/month toward the cost of commuting, the employer saves the federal payroll taxes (FICA and Medicare) (7.65% currently) that would have been paid on this amount.

$$\$245/\text{month} \times 7.65\% = \$18.74 \text{ per employee per month, or } \$224.91 \text{ per employee per year}$$

If 50 employees use this benefit for one full year, employer savings would total \$11,245.50.

Employee Savings Example



If an employee chooses to contribute the maximum \$245/month toward the cost of commuting, the employee saves the income tax and payroll tax that would have been paid on that amount. For an employee in the 28% tax bracket, (the amount would vary based on an employee's income) the employee saves the payroll and federal income taxes, or 28% plus 7.65% = 35.65%:

$$\$245/\text{month} \times 35.65\% = \$87.34 \text{ per employee per month, or } \$1,048.11 \text{ per employee per year}$$

Employer Contributions

An employer has the option to contribute all or part of the monthly cost of the Commuter Choice benefit. This is a policy choice for the employer. Employers are not required to provide any contribution.

In considering whether or not to contribute part of the cost, it is important to note that part of this cost is offset by tax savings. An employer can at minimum provide approximately \$18.74/month/employee contribution toward this cost at no cost to the employer, since this would be offset by the employer tax savings if the employee chooses the balance up to the full \$245/month rate. The employer can contribute any amount up to \$245/month.

Any amount that an employer provides to an employee, up to the \$245/month limit, may be excluded from the employee's income.

If the employer provides a contribution that is less than \$245/month, the employee may contribute the difference (up to a combined amount of \$245/month) from his/her salary on a pre-tax basis.

Example #1

An employer contributes \$245/month toward the eligible cost of an employee's commuting, by purchasing vouchers and giving them to the employee without cost to the employee. All of this amount is excludable from the employee's income for federal tax purposes, and is not reported on the employee's W-2.

Example #2

An employer contributes \$275/month toward the eligible cost of an employee's commuting, by purchasing vouchers and giving them to the employee without cost to the employee. \$245 is excludable from the employee's income for federal tax purposes and \$30/month is taxable income.

Example #3

An employer contributes part of the cost of an employee's eligible commuting costs. The employer provides the employee with a \$245 voucher, and charges the employee \$25 for that voucher through a pre-tax payroll deduction. The employer is providing a contribution of \$245 minus \$25 = \$220/month to the employee. The \$220 contribution is excludable from the employee's income for federal tax purposes, and the employee's \$25 share is made on a pre-tax basis.

Costs to Employer

There are two costs, possibly three, to an employer in offering the Commuter Choice benefit.

Voucher Handling Costs

The employer must purchase vouchers from transit agencies, or from voucher distributors. Most transit agencies charge a handling fee in addition to the face value of the voucher. These can range up to 5% of the direct cost of the vouchers, depending on the provider, and the number of vouchers purchased. However, some transit agencies may discount the face value of the transit pass when sold to an employer in bulk, thereby reducing the effect of this expense.

Administrative Costs

Administrative time is required to manage this program on an ongoing basis. There are three administrative tasks:

- publicizing the program and enrolling employees
- tracking deductions through payroll
- purchasing and distributing vouchers.

These administrative costs are proportionally higher for employers in multiple jurisdictions who must purchase vouchers from multiple transit providers.

Cost Sharing

In addition to these above costs, employers may choose to share the cost of all or part of the \$245/month benefit to the employee. This cost is offset by employer tax savings.

Future Years

The current monthly limit of \$245 is scheduled to expire at the end of 2013. Under current law, the monthly limit would revert to \$125, and be subject to annual adjustment based on the rate of inflation.

Voucher Sources

Individual Transit Areas

The Federal Transit Administration's (FTA) web site contains a comprehensive directory of individual transit areas, and how to obtain vouchers for those areas.

www.fta.dot.gov

VPSI CommuterBucks

VPSI CommuterBucks are valid only for VPSI
Commuter Vanpools. To purchase

CommuterBucks

CommuterBucks, contact 1-800-VANRIDE (1-800-826-7433) for a copy of an order form. An order form may also be obtained at www.commuterbucks.com. Fax a completed order form to 248-597-3501, or mail a completed order form with payment to

VPSI CommuterBucks Program
1220 Rankin Dr.
Troy, MI 48083

Third-Party Administrators

Several commercial services, such as WageWorks (www.wageworks.com), and CommuterCheck (www.commutercheck.com) administer Commuter Choice programs for employers, and acquire and distribute vouchers as part of their service.

Reference Sources

Federal Transit Administration

US Department of Transportation

Federal Transit Administration

400 Seventh St. SW

Washington, DC 20590

www.fta.dot.gov

IRS Publications

- Publication 535, "Business Expenses" (See "Qualified Transportation Fringe Benefits")
- IRS Notice 94-3, Fringe Benefits, Exclusion, Qualified Transportation Fringe (Issued 1994, this Notice has not been updated to reflect the passage of TEA-21, and contains out-of-date dollar limits on the monthly exclusion.) (This notice is not available on the IRS Publications web site.)
- "Qualified Transportation Fringe Benefits" Federal Register, January 11, 2001, pp. 2241-2251.

For assistance from vRide, contact your local vRide service office at 1-800-826-7433.