



# Pre-Tax Parking and Transit Benefits

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*Benefit Strategies administers pre-tax Parking and Transit accounts*



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# Section 132 of the IRS Code Allows Pre-tax treatment of commute related transit and parking expenses

Employers and/or Employees can make pre-tax contributions, up to the federal maximum permitted

## Two types:

- Parking  
For commute related parking expenses
- Transit  
For commute related transit expenses

## Tax advantages to employees:

Funds deducted from pay for transit and parking, up to the federal maximum, are free of federal, state and FICA taxes

## Tax advantages to employers:

Payroll tax liability decreased due to employee pre-tax contributions  
Employer contributions are excluded from employee gross pay, reducing payroll tax liability

# Section 132 of the IRS Code Allows Pre-tax treatment of commute related transit and parking expenses

## Two Methods:

- **Pre-tax Accounts:**

Employers and/or employees contribute pre-tax dollars, to accounts. Employees pay for eligible parking and transit from funds in their account(s)

- **Employer Purchase:**

Employers directly purchase transit and parking passes with employer and/or employee contributions

# Employer Tax Savings

- Employers save the **7.65%** FICA taxes on employee salary re-directed to Transit and Parking Accounts

Pre-Tax Account Employer Savings Example	Payroll	FICA Tax (7.65%)
Total Annual Payroll For FICA	\$4,000,000	\$306,000
Total Pre –Tax Commuter Benefit Annual Election: 50 Employees Elect \$150 Per Month Each to Pre-Tax Commuter Account $(40 \times \$150) \times (12) = \$90,000$	\$90,000	
Resulting Payroll For FICA	<b>\$3,910,000</b>	<b>\$299,115</b>
<b>Annual Employer FICA Savings \$6,885</b>		

Employers can contribute to an employee account, up to the federal maximum, without having to add the amount to the employee's gross pay.

# Employee Tax Savings

Employees save because they don't pay **federal, state or FICA taxes** on salary directed to Transit and Parking Accounts

- **It's like getting a raise!**

<b>Pre-Tax Account Employee Savings Example</b>	<b>Not Enrolled In Pre-Tax Account</b>	<b>Enrolled In Pre-Tax Account</b>
Annual Earnings	\$36,000	\$36,000
Annual Commuter Election Amount	\$0	<b>-\$1,800</b>
<b>Taxable Income</b>	<b>\$36,000</b>	<b>\$34,200</b>
Approximate taxes paid = 27.65%	-\$9,954	-\$9,456
<b>Annual tax savings/increase in spendable income by enrolling</b>		<b>\$ 498</b>

# Understanding Parking and Transit Accounts

- Eligible Parking expenses include:
  - Parking costs incurred at or near employee worksite, such as Metro parking lots
  - Facility from which employee commutes to work by carpool, commuter highway vehicle or any other means
- Eligible Transit expenses include:
  - The cost of any pass, token, fare card, voucher, or other item that entitles employee to use mass transit for the purpose of traveling to/from place of work
  - Transit may be via:
    - Mass transportation system, such as subway, train, bus, ferry
    - A private mass transit enterprise conducted by a company or individual that is in the business of transporting people (at least 3 not including driver) in a qualified commuter vehicle (such as vanpool.)
      - Qualified commuter vehicle requires seating capacity for at least 6 adults (not including the driver)

# Pre Tax Federal Maximums

- Transit Federal Monthly Maximum 2016: \$255
  - Parking Federal Monthly Maximum 2016: \$255
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- Employers and/or employees can contribute to Parking and Transit accounts, up to the maximum permitted
    - Employer contributions count towards the pre-tax maximum
      - Example: Employer contributes \$50 to transit accounts - employees can then elect up to \$205
  - Employers can add post-tax accounts:
    - Providing a post-tax account allows employees to pay for expenses in excess of the pre-tax limit with one payment method
      - Example: Cost of transit pass is \$300. Employee elects \$255 pre-tax and \$45 post-tax. Total funds of \$300 are loaded to the card to purchase the pass.

# Administration

- **Employers can administer in-house or use a vendor for all or part of administration**
- **Third Party Administrator (TPA) Vendors For Transit and Parking Accounts**
  - TPA vendors typically provide full administration, including major credit card loaded with pre-tax funds, plan documents, employee education on pre-tax commuter accounts, enrollment and election method, administrator and employee web portals, customer service for accounts, employer reporting
    - Some TPAs are able to load FSA and Commuter benefits on same debit card; card swipe machine sends a merchant code so TPA knows the type of account to debit.
  - Employers typically responsible for funding, sending payroll deduction reports and communicating employee terminations to vendor
  - Employees responsible for purchasing transit and parking with the major credit card provided

# Administration

- **Transit System Vendors For Direct Purchase (WMATA)**
  - Transit vendors typically provide transit cards, employee education on transit system, customer service for transit system
  - Employers typically responsible for card/pass distribution to employees, funding, plan documents, enrollment and election method, employee education on pre-tax commuter accounts
  - Employees may receive transit passes directly from employer/vendor, or receive a transit system card loaded with election amount, that they then use to allocate funds towards the type of pass needed

# Enrollment and Election

- Employee enrolls in plan and makes monthly election
  - Enrollment and election method vary by vendor
  - Election carries forward month to month unless employee requests change
  - Employees can change election amount, and come on and off the plan, throughout the year as needed (no Qualifying Event required)
    - Example: Can come off the plan in month they will be on vacation and not using transit, and then re-join the following month
- No open enrollment requirement
  - Election and enrollment carries over plan year to plan year
- For employee contributions to pre-tax accounts, employer can deduct election amount on a payroll schedule basis or other schedule
  - Many employers take monthly or bi-monthly deductions for these accounts

# Using Commuter Funds

- TPA Vendors
  - Typical arrangement is vendor provides a major credit card to each participant and loads it with the election amount each pay period. The employee chooses the passes/parking they need and pays with the card.
  - Most transit systems have rechargeable transit cards that can be loaded with new funds using the vendor provided card as payment method.
    - Many transit systems also provide auto re-load.
  - Example: Use card to purchase/add funds/auto-reload a SmartTrip Card, CharmCard
- Transit Vendors
  - Typical arrangement is vendor provides transit card. This could be an actual transit pass, or a transit card loaded with election amount for employee to allocate towards type of pass needed.
  - Example: SmartBenefits program

# Using Commuter Funds

- Parking Accounts:
  - Typically, the vendor provided card can be used, and many TPA vendors also allow participants to submit for reimbursement if they have paid with their own funds. Reimbursement methods may be online, mobile app and/or paper claim form.
- Transit Accounts:
  - Funds **must** be accessed through a card; requests for reimbursement are not permitted per federal regulation
- Unused monthly funds are rolled over to the following month
  - “Use it or lose it” doesn’t come in to play until termination; funds forfeited to employer
- Receipts are not required, but suggested to keep with tax records

# Employer Funding of Accounts

Funding methods vary by vendor:

- “Salary Reduction”: Employer forwards amount of participant deductions each pay period to vendor and vendor loads funds on applicable date.
- “Claims Paid Basis”: Vendor invoices client for claims the vendor paid (through card use and reimbursements submitted) the prior week.
- “Pre-funding”: Employer deposits an amount with the vendor based on anticipated claims for a certain time period (quarterly for example). The amount is replenished at a specified threshold.
- If employer is purchasing transit and parking directly from a transit vendor, payment for passes/parking purchased for that month is typically required.

# Offering Transit and Parking Accounts To Your Employees

1. Assess your needs to determine the design that will work best for you and your employees
  - Offer one of the accounts or both?
  - Provide an employer contribution to either?
  - Provide a post-tax account to either?
  - Set a lower monthly maximum than what is allowed?
  - Understand timing
    - Example: Deductions coming out in June are for purchasing July transit passes, which are typically purchased last 10 days of June
2. If outsourcing the administration, choose a vendor
  - What administration tasks will you and your staff have?
  - What are the fees and the funding method required?
  - How easy will it be for employees to use? What support is offered for employees?

## Offering Transit and Parking Accounts To Your Employees

3. Provide employees with informational materials/meetings
  - May be responsibility of vendor or employer
  - This is very important if the way employees are used to obtaining parking and transit passes is going to be different
4. Conduct initial enrollment (paper forms, online)
  - May be responsibility of vendor or employer
5. Process enrollments and elections with vendor and your payroll system
6. Distribute cards to employees
  - May be responsibility of vendor or employer
7. Payroll deductions and/or employer contributions begin
8. Plan administration begins
9. Claim State of Maryland 50% of employer contribution, up to \$50 per month

## A Few Words On Bicycle Accounts

- 100% funded by employer
- Federal maximum pre-tax benefit is \$20 times the number of Eligible Months:
  - Employee eligible all 12 months can receive \$240 annually
  - Eligible months are months employee was actively employed and enrolled in the plan **and** regularly using a bicycle for substantial portion of commute during the month
  - Months in which employee receives pre-tax parking or transit benefits are not eligible months
- Reimbursement used for:
  - Cost of purchasing a bicycle, bicycle improvements, repair and storage for a bicycle regularly used for commuting to and from work



# Thank you!

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