

# Commuter Tax Benefits

**FEDERAL TAX LAWS** benefit employers and their employees who commute to work using public transit or vanpools. Employees may set aside up to \$105 a month of pre-tax income toward commuting costs, avoiding both income and payroll taxes on the amount. Employers may provide subsidies, treating the cost as a business expense on which they don't pay payroll taxes.

## OPTIONS FOR SAVING:

- **Employees Pay.** Employees may set aside up to \$105 per month of their pre-tax income for transit or vanpool costs, excluding that amount from federal income and payroll taxes (Social Security and Medicare). The employer saves on payroll taxes. This is similar to a flexible spending account for health care or dependent costs, only in relation to commuting.
- **Employer Pays.** When companies subsidize commute costs, employees may receive up to \$105 in transit or vanpool benefit tax-free. Because this benefit is tax-free for employees, it's better than an equivalent salary increase. It's also tax deductible for businesses and reduces the employers' payroll tax obligations.
- **Employer and Employees Share Transit Costs.** Companies may subsidize a portion of the fares tax-free, with employees setting aside the balance in pre-tax income.
- **Parking Cash-out.** When companies offer a program called parking cash-out, employees can opt not to use a parking space paid for by the company, and employees may receive up to \$200 per month in lieu of parking at work (or at a transit center). For example, if a business subsidizes parking at \$75 per month per employee, a parking cash-out option allows employees to choose from the following: keeping the parking space; giving up the parking space and receiving \$75 extra each month in taxable salary; or receiving \$75 per month tax-free to pay for transit or vanpooling.



EPA's Transportation Web site:  
[www.bwc.gov/employ/benefits.htm](http://www.bwc.gov/employ/benefits.htm)

For more information, visit the following sites:

[www.commutersolutions-hou.com](http://www.commutersolutions-hou.com)

[www.centralhouston.com](http://www.centralhouston.com) or [www.houstondowntown.com](http://www.houstondowntown.com)

## Q&A

**What types of commuter services qualify for the Transportation Commute Benefit?**

Any public or privately owned or operated bus, rail, shuttle bus service or vanpool that provides regular commute operations, i.e., Metro, Woodlands Express, MetroVan or miniPOOL.

**Can the employer provide both a parking benefit and the transit/vanpool benefit to employees who travel in vanpools and use commercial parking?**

The driver of a vanpool who uses commercial parking is eligible for a parking benefit (up to \$200/month), as well as the transit/vanpool benefit (up to \$105 a month). All other employees in the vanpool are eligible only for the vanpool benefit, because only one person can receive the parking benefit.

**Are walkers, bicyclers or carpools covered under the Transportation Commute Benefit?**

No, but employers can offer incentive programs, such as taxable subsidies, for those who walk, bike or ride in a carpool.

**What type of record-keeping is required?**

With cash reimbursements, a written agreement/policy is acceptable. For transit and vanpools, keep records proving expenditures, such as transit pass invoices from the local provider.

**Can transit passes be provided by the employer in lieu of compensation?**

Yes. Employees can set aside some pre-tax income to pay for transit or vanpools. An accountant or tax attorney should be consulted to ensure compliance.



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