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Tax-Free Transportation: Utilizing Commuter Benefit Programs to Save Your Business Money





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Commuter Tax Benefits

Tax-free and Pre-tax Benefits for Commuters and Employers

The Federal Government has enacted tax laws that benefit commuters who travel to work by public mass transit (bus, rail, ferry) or vanpool. The Transportation Equity Act for the 21st Century (TEA-21) amended the federal tax code, Internal Revenue Code Section 132(f), and now allows federal tax advantages for employer sponsored commute incentive programs. Employers can receive tax benefits for providing certain types of employee transportation benefits called “Qualified Transportation Fringes.” Employers who subsidize their employees’ commute may receive equivalent deductions free of additional payroll and federal income taxes.

This guide briefly describes these kinds of tax incentives. However, you should consult your company’s accountant or tax attorney to ensure compliance.

Commuter benefits provide a tremendous payback to employers and employees, especially in centralized areas with high levels of transit service:

Company Benefits

- Offer a valuable and competitive employee benefit
- Improve recruitment and retention
- Reduce employees out of pocket transportation expenses
- Reduce employer FICA taxes
- Reduce company and employee parking costs
- Support company sustainability and corporate social responsibility initiatives
- Reduce congestion and free up parking for customers and clients

Employee Benefits

- Employees may use pre-tax spending accounts or receive tax-free employer-subsidized transportation benefits for transit and vanpooling, increasing take home pay
- Reduces transit/vanpool costs
- Employees save on vehicle operating and parking expenses
- Enhances economical commute alternatives

The monthly limits on transportation fringe benefit spending are as follows:

- 2015 Transit/Vanpool: \$130/month
- 2015 Qualified Parking: \$250/month



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Description of 2015 Federal Commuter Tax Benefits

Tax-free Benefit: Employers can give employees up to \$130 per month in benefits (i.e. transit pass, ticket book, voucher) to commute by **mass transit** (bus, rail, ferry) or **vanpool**. The employer pays for the benefit and receives an equivalent deduction from business income taxes. Employees receive the benefit free of all payroll and income taxes. Any spending over \$130 per month is considered taxable income.

Pre-tax Benefit: Employers can have employees set aside up to \$130 per month of their pre-tax income to pay for **mass transit fare media** or **vanpool fares**. Employees save on payroll and income taxes and employers save on payroll costs. ORCA transit passes, ticket books and/or vouchers must be ordered and distributed by the employer to the employee.

Combination Benefit: Employers can share the cost of commuting by giving the employee part of the commuting expense tax-free and allowing the employee to set aside the remaining amount pre-tax up to the total limit of \$130 per month. For example, an employer provides \$50 towards the cost of a \$100 transit pass, and the employee contributes the remaining \$50 with pre-tax income.

Qualified Parking Benefit: Qualified parking is parking provided to employees on or near the business work premises, or parking on or near a location from which employees commute to work by commuter highway vehicle, mass transit, or vanpool. An employer may provide employees a parking subsidy, allow employees to spend pre-tax dollars, or a combination of the two up to \$250 per month for this benefit.

Employees can receive tax benefits for both transit and parking spending. An employee could spend pre-tax income or receive tax-free commuter benefits up to \$380 per month in the 2015 tax year if they use both transit/vanpool and qualified parking to commute to work.

Bicycle Commuter Benefit

The Internal Revenue Service allows employers to offer up to \$20 per month to employees who are bicycle commuters as a tax-exempt fringe benefit (meaning employees are not required to pay taxes on the benefit). The benefit may be offered to employees that use bicycle commuting for a substantial portion of the travel between the residence and place of work for the following:

- Purchase of a bicycle
- Bicycle improvements
- Bicycle repair
- Bicycle storage or locker rental

The amendment is to the IRS section on Transportation Fringe Benefits - section 132(f). (<http://www.irs.gov/publications/p15b/index.html>)

At this time, the \$20 may not be offered to those employees who are already receiving a tax-exempt fringe benefit for commuting via public transportation (bus, rail, ferry) or vanpool. Unlike the other qualified transportation fringe benefits, a qualified bicycle commuting reimbursement benefit cannot be funded through employee pre-tax income.



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Federal Commuter Tax Benefits: Things to Consider

Commuter Benefits Provide Tax Advantages, Not Tax Credits

It is important to emphasize that commuter benefits have tax advantages because they are not subject to federal income and payroll taxes. The commuter benefits program is not a federal tax credit and employers do not need to file any special tax forms to achieve the tax savings. Employers and Property managers in Washington State who pay for commute trip reduction expenses including transit benefits are eligible for a tax credit on WA State B&O taxes (See following page for details).

Eligibility and Enrollment

All employees or groups of employees can be offered transit/vanpool benefits. However, under tax law, not everyone who works at a given work place is considered an employee. The law specifically states that individuals who are self-employed – which include sole proprietors, partners, persons who hold over 2% ownership in an S corporation and contractors – are not eligible to receive commuter benefits. Unlike some other benefit programs, the commuter benefits law provides employers the discretion to choose which employees are offered the benefit. In addition, the amount of the benefit can vary from employee to employee. This means that an employer could offer the benefit at a site well served by transit or with a strong vanpool program, but not at other sites.

Passes/Vouchers Versus Cash Reimbursement

Employers must decide how to implement a transit/vanpool or parking benefit. There are two ways in which the benefit can be provided to employees, regardless of whether the employer or employee pays: passes/vouchers or a bona fide cash reimbursement arrangement.

- **Passes or Vouchers:** The most common way of distributing transit/vanpool or parking benefits is through transit passes (ORCA) or vouchers, or pre-paid employee parking permits. Typically an employer will purchase passes or vouchers and distribute them directly to employees, or use a third-party benefits administrator to distribute the passes or vouchers. Learn more about ORCA Business options for Downtown Seattle employers at www.commuteseattle.com/orca
- **Cash Reimbursement:** Under bona fide cash reimbursement programs, employers allow their employees to purchase their own parking permits, transit passes or pay for their own vanpool fares and request reimbursement. Employees reserve pre-tax salary through paycheck deductions, purchase a parking permit or transit pass (or other fare media) and request reimbursement from their own reserved salary. Cash reimbursement for transit or vanpool benefits is nontaxable *only if no voucher or similar item is readily available for direct distribution to employees*. Since ORCA passes and vouchers are readily available to Downtown Seattle employers, cash reimbursement may only be used in this region for qualified parking benefits.



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Washington State Business and Occupation (B&O) Tax Credit

Washington State Tax Credit

Employers or property managers who provide commute trip reduction incentives to their employees or tenants are eligible for a credit against their business and occupation (B&O) or public utility tax (PUT) liability. The credit is equal to 50% of benefit costs, up to \$60 per employee per year. No employer or property manager may receive more than \$200,000 of credit per fiscal year. The total amount of credit available for all taxpayers is limited to \$1.5 million per fiscal year.

Commute trip reduction methods that qualify for the credit are:

- Ride sharing
- Public transportation
- Car sharing
- Non-motorized commuting

Things to consider:

- Employers/property managers must maintain a record of each employee and the amount of incentives paid, less any employee contributions.
- The same credit may not be claimed for both B&O and PUT taxes.
- The credit may not exceed the amount of B&O or PUT taxes owed during the fiscal year or reporting period.
- Only one employer/property manager may use the credit for incentives paid to or on behalf of a specific employee.

Applications for the tax credit must be received between January 1st and January 31st each year. You can mail in the application form at the end of this packet, or apply online at:

<http://dor.wa.gov/content/FindTaxesAndRates/TaxIncentives/IncentivePrograms.aspx#Miscellaneous>

Click on “Commute Trip Reduction Program – B&O Tax/Public Utility Tax Credit” under “Miscellaneous Incentive Programs”

The program is set to expire June 30, 2015. All approved credit must be used by June 30, 2015. Any unused credit will expire on June 30, 2015. No adjustments will be allowed after this date.

The legislature is currently considering renewing the credit for future years.



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Get Started!

After an employer decides to offer pre-tax commuter benefits to their employees, they can follow these easy steps to implement the program.

Set up the program: Make arrangements with payroll and accounting to prepare the program to offer to employees.

- Establish the necessary account code for section 132(f) benefits
- Set aside employees' pre-tax income and decide how often employees may make changes to their deductions or participation
- Establish procedures for purchasing mass transit fare media and/or vouchers
- Establish a system for distributing the passes or vouchers

Spread the news: For employees to participate they need to know what's offered to them. Distribute flyers and emails with details about:

- What the incentives include
- How it will benefit them
- When it will be available
- How they can sign up
- How they receive their transit, rail, ferry or vanpool benefit
- Who to contact if they have questions or need assistance

If employees are not sure what transit and vanpool options are available to them, help them access transit schedules and vanpool information.

Sign them up: Employers should have their employees complete a participation form. The form should include:

- Type of transit pass, ticket book or payment voucher they want
- How much should be deducted from their income to pay for the commuter benefit

See sample participation forms located at the end of the packet.

Start the program. The monthly process is simple:

- Payroll deducts pre-tax dollars for participating employees and puts funds in the Pre-tax Commuter Benefits account
- Purchase transit passes, ticket books or vouchers from their mass transit provider using funds from the commuter benefits account
- Track employer contributions to apply for WA B&O tax credit.

Pre-tax dollars, once deducted from the employees' income, cannot be returned. The funds should not accumulate since ideally, the total pre-tax deductions from employees will equal the cost of purchasing mass transit fare media and/or vouchers.

Distribute Passes. Employers need to make sure employees know when and how they will receive their passes, ticket books or vouchers. They will need to have these in hand before the first day of each month.



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Frequently Asked Questions

Who can receive Pre-tax Commuter Benefits?

All W-2 recipients are eligible, including those who work for private sector companies, non-profit companies, federal government, and state and local government (when legislation permits). Self-employed persons, contractors, and 2 percent shareholders of S Corporations are not eligible.

What commuter fares are eligible for Pre-tax Commuter Benefits?

Fares on any mass transit (bus, rail, ferry) or vanpool are eligible when paid with a pass, ticket book or voucher. Transit passes, ticket books, and/or vouchers must be ordered and distributed by the employer to the employee.

Are cash reimbursements allowed?

Cash reimbursements generally are not allowed for transit or vanpool benefits in our region because ORCA cards and vouchers are available. Cash reimbursements are allowed for qualified parking benefits.

Do all vanpools qualify?

No. Vanpools must have a seating capacity of at least six adults, excluding the driver. The vanpools may be operated by a public transit agency, be employee-owned or –leased, or be employer-owned or –leased.

Is there a limit on the Commuter Benefit each employee can receive?

Yes. The Pre-tax Commuter Benefit applies to mass transit or vanpool fares up to \$130 per month and to qualified parking up to \$250 per month for the 2015 tax year.

What are the IRS reporting requirements?

Unlike other pre-tax benefit plans, Section 132(f) that governs Pre-tax Commuter Benefits does not require the creation or submittal of plan documents or filing of reports. However, in an audit, you would have to show an equivalent purchase from a transit agency or third party administrator for the sums deducted from employees. This requirement makes it important to track Pre-tax Commuter Benefits for mass transit and vanpool fares under their own accounting code and not co-mingled with other pre-tax accounts, including Section 132(f) parking benefits.

Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of Commuter Tax Benefits.



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Resources

ORCA Passport for Downtown Seattle Employers: ORCA Passport information and cost comparison tool

<http://www.commuteseattle.com/orca>

King County Metro Tax Guide: Covers WA State and Federal commuter tax benefits for employers

<http://metro.kingcounty.gov/cs/employer/ctr-taxinfo.html>

Internal Revenue Service: provides code regarding qualified commuter fringe benefits in IRS Section 132(f).

<http://www.irs.gov/pub/irs-pdf/p15b.pdf>

Commuter Benefits Work for Us: The Commuter Benefits Work for Us Coalition consists of transit agencies, non-profit advocacy organizations and businesses dedicated to promoting the transit commuter benefit as an effective federal tool to help encourage increased use of public transportation and van pools

www.commuterbenefitsworkforus.com/

Best Workplaces for Commuters: provides information on implementing Commuter Benefits.

www.bestworkplaces.org

Third Party Administrators:

WageWorks: www.wageworks.com

Commuter Check: <http://www.commutercheck.com>

Transit Chek: <http://www.transitcenter.com>

Tranben, Ltd: <http://www.tranben.com>

Information contained in this document was obtained in part from the above resources.

SAMPLE FORM

The attached form may or may not meet your company's specific needs. Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives. Qualified transportation benefits are governed by 26 USC Section 132(f).

PAYROLL DEDUCTION AUTHORIZATION for Pre-Tax Commute Benefit

A.	Actual cost of my monthly transit pass for bus, train, ferry or monthly vanpool fare.	\$ _____
B.	Amount of line A over \$130. This amount will be deducted from my wages after taxes. (In most cases this will be \$0.)	- \$ _____ *
C.	Amount the company contributes to monthly cost of transportation	- \$ _____ *
D.	I hereby authorize my employer to deduct this amount from my monthly wages on a pre-tax basis to be used on my behalf for the purchase of bus, train, ferry or monthly vanpool fare to be loaded to an ORCA business account card provided by my employer. ¹ <small>* C + D not to exceed \$130 per month per 2015 IRS regulations</small>	=\$ _____ *

Employee Ordering options - check one:

(List only those items your company is willing to order for employees. ORCA requires setting up an ORCA Business Choice account.)

ORCA Business Card Reloads
<input type="checkbox"/> ORCA monthly Puget Pass in the amount shown in A above.
<input type="checkbox"/> ORCA monthly vanpool/transit combo (good only for Metro vanpools and buses) in the amount shown in A above.
<input type="checkbox"/> ORCA monthly ferry pass in the amount shown in A above.
<input type="checkbox"/> ORCA E-purse deposit for the amount shown in A above. Card will not accept more than \$300 accumulated funds.

Employee statement

I agree to notify payroll in writing by the _____ day of the month to cancel this arrangement for a pass valid the following month. I understand that money deducted cannot be refunded.

I will be using this benefit for my regular daily direct commute from home to work and return. I will not give, barter, exchange, convey, or otherwise transfer this benefit to any other person.

Signed Name: _____ Date: _____

Printed Name: _____

¹ Pre-purchased, individually owned ORCA cards may not be used for this benefit except Reduced Fare cards purchased by seniors or disabled persons.



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

APRIL 17, 2014

Commuter Trip Reduction Tax Credit Extended to June 2015

Introduction

The Commuter Trip Reduction (CTR) tax credit provided by [RCW 82.70](#) has been extended to June 30, 2015, effective immediately. The program was due to expire July 1, 2014.

(See Engrossed Substitute Senate Bill ([ESSB](#)) [6001](#).)

Note: If the program is not extended after June 30, 2015, CTR incentive payments paid by employers or property managers from January 1 – June 30, 2015, will not accrue CTR credit.

Key components of the original program

- Employers and property managers who provide CTR incentives to or on behalf of their own or other employees are eligible for a credit against their business and occupation (B&O) or public utility tax (PUT) liability.
- CTR methods that qualify for the credit are ride sharing, public transportation, car sharing, and non-motorized commuting.
- The credit is equal to 50 percent of the incentive payments paid by the employer or property manager, not to exceed \$60 per employee per year.
- No employer or property manager may receive more than \$200,000 of credit per fiscal year. This cap does not apply to credits carried forward from prior years.
- The employer or property manager applies to the Department of Revenue the following January for a credit based on the incentives paid in the prior calendar year.
- The Department authorizes credits to the applicants. Each applicant's available credit may be prorated based on the statewide cap.
- Applicants can apply the credit to B&O tax and PUT owed by them. If an applicant is unable to use all its available credit, the credit can be carried forward until used.
- The credit applied may not exceed the amount of B&O and PUT taxes owed. The same credit may not be claimed for both B&O and PUT taxes.
- The statewide cap was reduced to \$1.5 million dollars for applications filed in January 2014 and 2015.

Continued...

How am I impacted by the June 30, 2015, expiration date?

- If you pay CTR incentives from January 1 – June 30, 2015, they will not accrue CTR credit.
- Your last opportunity to apply for CTR tax credits will be in January 2015 for payments made in calendar year 2014.
- Returns you file after June 30, 2015, will not qualify for the CTR credit. For example:
 - June 2015 return filed July 25, 2015, will not qualify for the CTR credit.
 - Annual 2015 return filed January 31, 2016, will not qualify for the CTR credit.
 - Quarter 2, 2015 return filed July 31, 2015, will not qualify for the CTR credit.

How will the statewide cap of 1.5 million affect CTR credits?

The statewide cap for applications submitted in January 2014 and January 2015 will be \$1.5 million. All credits will be prorated so they don't exceed the statewide cap.

Businesses that have unused credits issued in previous years may continue to claim those credits on returns filed by June 30, 2015.

Filing changes to maximize your CTR credit**• Monthly filers:**

- Last regular filing date for tax returns that use CTR tax credit is June 25, 2015 (for tax period May 2015).

• Quarterly filers:

- Last regular filing date for tax returns that use CTR tax credit is April 30, 2015 (for Quarter 1, 2015).
- You may call the Department and have your filing frequency changed to monthly for April – June 2015.

• Annual filers:

- Last regular filing date for tax returns that use CTR tax credit is January 30, 2015 (for tax period calendar year 2014).
- You may call the Department and have your filing frequency changed to quarterly or monthly for 2015.

If you wish to change your filing frequency, please call our Telephone Information Center at 1-800-647-7706.

Continued...

Application information

To receive credit for incentive payments made in 2014, you must apply between January 1 and January 31, 2015.

- [Apply online](#) through My Account
- Apply by paper using [Commute Trip Reduction Credit Annual Application](#)

Additional information

- For more information about the program, see [RCW 82.70](#).
- For help completing the application, call the Taxpayer Account Administration Division at (360) 902-7175.
- For help claiming the CTR credit, call our Telephone Information Center at 1-800-647-7706.

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Business Name: _____ DOR Tax Reg. Number:

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Contact Person (print): _____ Contact Phone Number: _____

I. Calculation of Commute Trip Reduction (CTR) Credit

1. Number of employees for which incentives were paid from January 1, 2014 through December 31, 2014 _____
2. CTR incentives paid from January 1, through December 31, 2014 (maximum \$120 per employee):

\$ _____ x .50 = \$ _____
3. Maximum of \$200,000 CTR credit per employer or property manager per fiscal year \$ 200,000.00

II. Total Available Commute Trip Reduction Credit

4. Possible CTR credit amount for this fiscal year (the lesser of lines 2 or 3) \$ _____

**Instructions for Completing
Commute Trip Reduction Credit Annual Application**

How do I use this form?

- ▶ Use black ink and return the original form to the Department of Revenue by January 31, 2015.
- ▶ Alternatively, apply online through My Account at dor.wa.gov.

Section I.

Calculation of Commute Trip Reduction (CTR) Credit

1. Indicate the number of employees for which incentives were paid from January 1, 2014 through December 31, 2014.
2. The amount of the credit is 50 percent of the amount paid to or on behalf of each employee for ride sharing, car sharing, using public transportation, or using non-motorized commuting. The maximum amount paid is \$120 per employee, credit may not exceed \$60 per employee per fiscal year.
3. Maximum is \$200,000 per employer or property manager.

Section II.

Total Available Commute Trip Reduction Credit

4. Enter the lesser of the lines 2 or 3. This will give the possible CTR credit amount for this fiscal year.

What if the cap is met?

- When the statewide cap is met, the CTR credit applied for will be reduced proportionally.
- Any unused credit will expire on June 30, 2015. All approved credit must be used by June 30, 2015. No adjustments will be allowed after this date.

Mail application to:

- **Taxpayer Account Administration**
Attn: Special Credits and Assessments
PO Box 47476
Olympia, WA 98504-7476

Need Help?

- Internet Assistance - Go to DOR's home page at dor.wa.gov
- Telephone Assistance - Call the Department of Revenue at (360) 902-7175.

For tax assistance or to request this document in an alternate format, please call 1-800-647-7706. Teletype (TTY) users may use the Washington Relay Service by calling 711.