

# Q&A



## EMPLOYER QUESTIONS

### **What is the *Commuter Choice* Program?**

*Commuter Choice* refers to recent changes in the Internal Revenue Code [(26 USC 132(f)] which permit employers to offer employees a tax-free benefit to commute to work by methods other than driving alone.



### **Why is there a *Commuter Choice* Program?**

The *Commuter Choice* Program provides incentives for employees to choose public transit or vanpools. The program addresses many important quality of life issues. The hidden burden of excessive automobile use shows up in taxes for road and highway construction and repair as well as traffic enforcement. Traffic congestion contributes to stress, road rage and lost time. We all pay the price for excessive auto use. By lowering the number of single occupant automobiles on the roads, we conserve energy. We regain productive time now spent on



congested roadways. The air is cleaner. We all benefit from a healthier, more pleasant environment. Supporting your employees with *Commuter Choice* boosts morale. It makes you more attractive as an employer competing for highly skilled workers in a competitive economy. Commuting to work is

more affordable for everyone. It is a critical link for workers who are making the monumental transition from welfare to work. By establishing *Commuter Choice* in your organization, you are helping your employees do the right thing. It's good for the bottom line. It's good for the environment. It's good for all of us.

## How will *Commuter Choice* affect my bottom line?

**Increased productivity.** Your employees will arrive ready to work. They won't be bringing with them the frustration and trauma associated with traffic congestion and road rage or the tardiness associated with unforeseen traffic tie-ups.

**Tax savings.** Not only will your employees save federal income and payroll taxes, so will you. Your net pay out also will be reduced for FICA, Federal Unemployment tax and Federal income tax. In some areas, state income tax pay out will also be reduced. And that's good for business!



**Competitive edge.** Baby boomers and Generation Xers are redefining the way America thinks about work. They choose socially responsible companies that are committed to the environment. They want benefits that support their lifestyles. When asked if your company is environmentally friendly and socially responsible, with *Commuter Choice*, you will be able answer "yes."

## Will *Commuter Choice* cost me more money?

Not necessarily. There are several ways in which your employees may receive a transit or vanpool benefit. The most attractive option to employees is for the company to cover the full cost of the transit benefit. Some companies offer the *Commuter Choice* benefit as a low-cost salary or wage enhancement. You may decide to do the same. You also may elect to provide a partially subsidized benefit in addition to your employees' current salary. The benefit would be free of all payroll and income taxes to your employees, and you would deduct the cost from your business income taxes.

A second option is to offer *Commuter Choice* as a "pre-tax" benefit. You may permit your employees to have up to \$65 per month taken out of their current monthly pay, towards the actual cost of commuting on transit or in vanpools before taxes are applied. Many

employers prefer this option because the employee pays the cost. Your share of FICA and unemployment taxes are also reduced. IRS requirements must be followed to ensure that transit benefits remain tax-free. It's great for employees and it saves you money.



Third, you may share the cost of commuting with your employees. You may elect to pay for a portion of the tax-free transit benefit and allow your employees to pay the balance of the costs by having their share taken out of their salary before taxes. At the present time, the total maximum amount eligible as a tax-free benefit is \$65 per month of actual costs, even when you share the costs.

This *Commuter Choice* Toolbox makes it easy and convenient for you to establish and administer program that meets the IRS requirements for tax-free transportation benefits. Also, many transit agencies have *Commuter Choice* programs in place to make it even easier. See the *Commuter Choice Program Directory*.

## **Can I simply reimburse my employees for their commuting expenses?**

In areas where vouchers that can be exchanged for transit media or vanpool services are not readily available, you may reimburse your employees for the cost of transit. See IRS rules governing section 132(f) benefits for a definition of “readily available.”” In most cases, you must either provide vouchers, bus passes, tokens, farecards, etc., instead of cash reimbursement to your employees. In areas where such vouchers or passes do not exist or where the transit provider does not accept vouchers or passes, you may reimburse your employees for their transit and vanpool costs up to the \$65 limit as discussed above.



## **If I already provide a parking benefit, can it be converted to a transit or vanpool benefit?**

Yes. Many employers provide free or subsidized parking for employees, making it more economical for the employee to commute by automobile. The goal of *Commuter Choice* is to make it as economical for employees to use mass transit. You may establish a parking “cash out” program. Your employees may forego parking and cash out the value of the parking benefit. The value of the parking benefit will be subject to taxes. However, if up to \$65 of the value is converted to *Commuter Choice* transit or eligible vanpool benefits, the amount converted will be not be subject to taxes.

There is no real cost to you, if you are leasing parking spaces for your employees. You simply transfer your cost for the parking space



to a direct payment to your employees. Should the employee decide to accept the cash value rather than a tax-free *Commuter Choice* transit or vanpool benefit, the amount is treated as additional compensation and they also incur payroll and income taxes. If the cash out value is greater than \$65, your employees could accept a tax-free *Commuter Choice* transit or vanpool benefit and receive the balance in taxable salary.

## **Do all vanpools qualify for this benefit?**

No. A vanpool, or “commuter highway vehicle” must have a seating capacity of at least six adults (not including the driver) and at least 80% of the mileage must be for purposes of transporting employees between their homes and places of employment. For these commuting trips, the number of employees transported must

be at least one-half of the adult seating capacity of the vehicle, excluding the driver.

## **Can I give my employees both a transit and vanpool benefit?**

Yes. However, the maximum tax-free amount is \$65 per month. This same limit applies whether these benefits are provided separately or in combination with one another. For example, you could give an employee a \$40 vanpool benefit and a \$25 transit pass for a monthly total of \$65, but not a \$50 vanpool benefit and a \$30 transit pass, since the total of \$80 would exceed the tax-free limit of \$65. Any amount over \$65 would not be tax-free.

## **Does the \$65 limit increase over time?**

Yes. With changes in the cost of living, the tax-free amount could increase each year. And, in January 2002, the eligible tax-free amount will be increased automatically to \$100 per month. If any increases occur before that time, IRS will announce them. If your company is paying the cost, the decision to increase your benefit rests with you. If your employees are participating in a pre-tax *Commuter Choice* benefit program or a combination program, you may permit them to increase their benefit up to the \$100 monthly limit.



## **Where can I obtain further information?**

On the Web, see <http://www.fta.dot.gov> and select “Commuter Choice” for further guidance. Also contact your local transit agency to determine if they have a program to sell transit vouchers or passes to employers for distribution to employees. Access to the home pages of more than 100 transit agencies can be found at this Web site under “Links.” You may also find the name of your transit agency at the American Public Transit Association website (<http://www.apta.com/govt/legis/passcont.htm>).

**Commuter**  **Choice**  
America's Way to Work

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