



# Employer-Based Commuter Benefits Programs: *How they Work and their Impacts*

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Michael Grant  
ICF

# Purpose / Overview

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- **Understanding types of commuter benefits programs**
  - What they are, how they work
- **Benefits for employers, employees, and society**



# Types of Financial Incentives

## *Commuter benefits programs*

- Transit benefits
- Vanpool benefits
- Bicycle benefits
- Parking cash out and parking-related benefits

Other supporting incentives and infrastructure (e.g., guaranteed ride home, prizes, rideshare rewards)



# What are Commuter Benefits?

- A type of *qualified transportation fringe benefit*
- Part of the federal tax code: Title 26 USC Section 132(f)
- Tax-free (no federal payroll or income taxes) up to specified limits

# How do Commuter Benefits Work?

- **Requires employer involvement**
- **Employers elect to provide benefits through:**
  - *Employer-paid program:* A tax-free benefit of transit and vanpool fares,
  - *Employee pre-tax program:* Employees reserve income on a pre-tax basis to pay for transit or vanpool costs or
  - *Combination of the above*
- **The legal non-taxable limit on transit/vanpool benefits is *\$255 per month* in 2017**

# Transit and Vanpool Benefits



- Function in similar ways
  - Employer can pay for the cost of transit passes or vanpool fares tax-free
  - Employer can allow employees to have the amount taken from their pay pre-tax
  - Employer and employee can each pay a portion of the cost
- Combined limit for transit/vanpools is \$255/month in 2017
- May be combined with parking benefit

# Bicycle Commuting Reimbursement Benefits

- **Employees can be reimbursed up to \$20/month for biking to work**
  - Helps to cover bike repair and storage costs
- Cannot be combined with other qualified transportation fringe benefits
- Cannot be implemented by taking money from employee's pay on a pre-tax basis
- Applies for months in which the employee regularly uses a bicycle for a substantial portion of travel to work



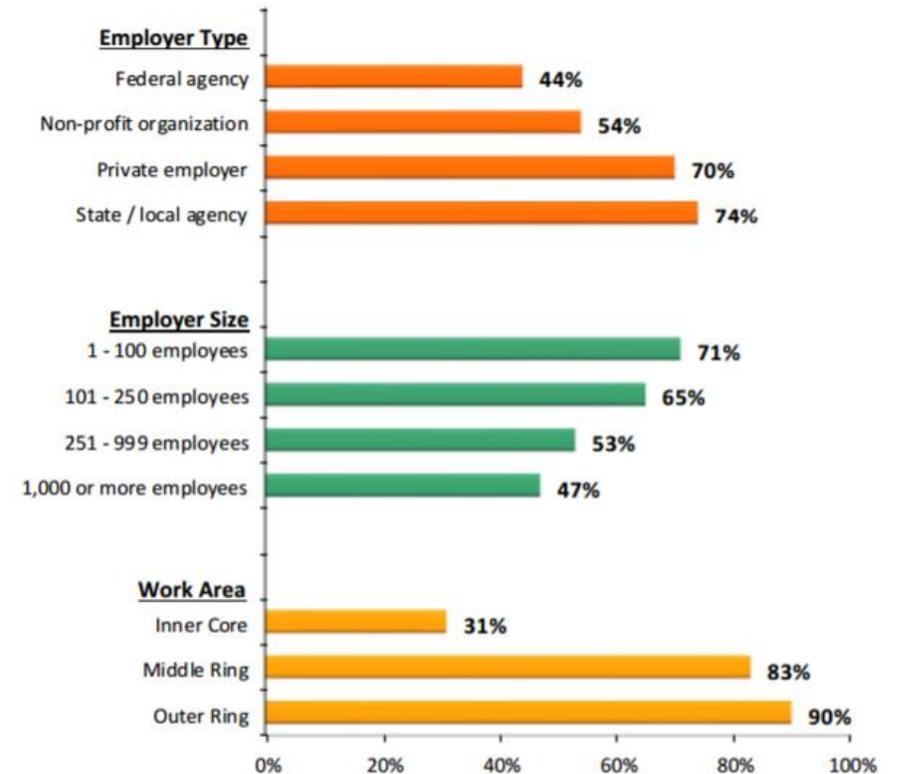
# Parking Benefits

*Many employers provide parking for free or at heavily subsidized rates, which encourages driving alone.*

- **Qualified parking can be either:**
  - Parking at the worksite or
  - Parking at a location from which an employee commutes to work by transit, vanpool, or carpool (e.g., Metro parking facility)



## On-Site Free Parking Availability at Work in Washington, DC Metro Area



Source: Metropolitan Washington Council of Governments, Commuter Connections State of the Commuter Survey 2016. Prepared by LDA Consulting, June 30, 2016.

# Parking Cash Out

- Employee can choose between

A free  
parking space



OR

Additional taxable salary  
(or a tax-free transit or  
vanpool benefit)



- Creates an “*opportunity cost*” for parking
- Employee may choose to carpool, use transit, vanpool, bicycle, walk, or other option

# How do commuter benefits work?

- **Tax law excludes these benefits from gross income for purposes of taxation, up to specified limits**
  - No federal payroll tax (i.e., Social Security, Medicare)
  - No federal income tax
- **Commuter benefits are non-taxable income**
  - Employer-paid benefits have no tax associated with them.
  - Employee-paid benefits involve converting taxable salary into a non-taxable benefit (functions like a tax deduction)
- **Commuter benefits are not a federal tax credit**



# How do Commuter Benefits Save Money for Employees?

Employees who reserve income on a pre-tax basis for commuter benefits convert taxable income to non-taxable (functions as a tax deduction).

EARNINGS	RATE	HOURS	THIS PERIOD	YEAR TO DATE	TAXES / DEDUCTIONS	THIS PERIOD	YEAR TO DATE
REGULAR	26.11	80.00	2088.80	26717.98	FEDERAL W/H	268.92	3967.35
SPBON				500.00	SOCIAL SECURITY W/H	126.55	1817.46
Pub Reward				600.00	MEDICARE W/H	29.59	425.05
SALHOLIDY				615.84	DISTRICT OF COLUMBIA W	125.55	1825.14
SALSCKHRS				308.60	MED PRETX	39.39	551.46
SALVACTKN				1481.98	DEN PRETX	5.23	73.22
LIFE 50K+			0.18	2.41	LTD	1.98	27.62
					401K	208.88	2812.44
					PTX MET CK	3.22	288.22
					LIFE 50K+	0.18	2.41

	GROSS PAY	TAXES	DEDUCTIONS	NET PAY
CUR	2088.98	550.61	258.88	1279.49
YTD	30226.81	8035.00	3855.37	18336.44

VAC BAL	56.00	VAC/SICK Balances for the Period Ending : 26-JUN-2002	
SICK BAL	61.84		

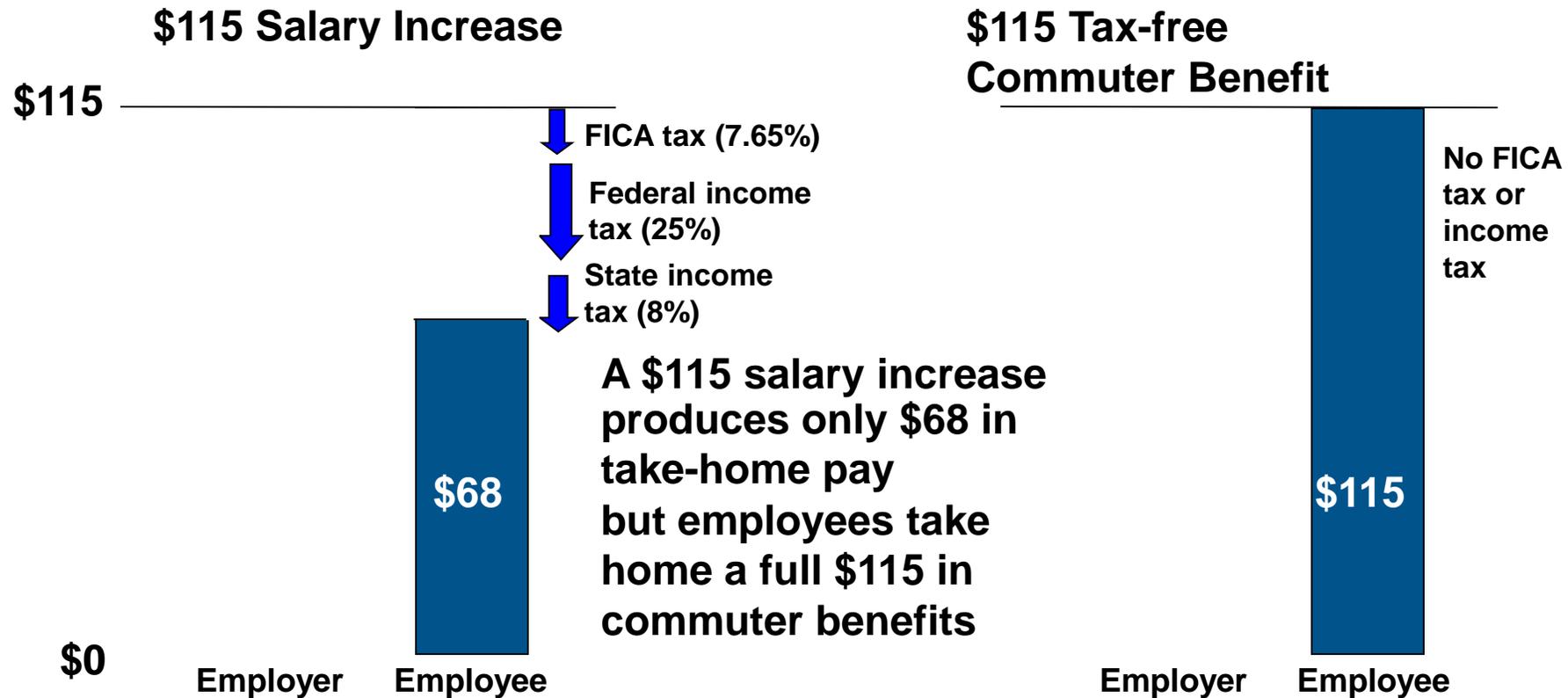
Here's a sample of how one employee's pay stub shows a pre-tax commuter benefits deduction – a separate line item after medical, dental, disability, and 401(k) deductions. At year end, this amount reduces the amount of taxable income on the employee's W-2 form.

("Ptx Met Ck" is "Pre-tax Metrochek")

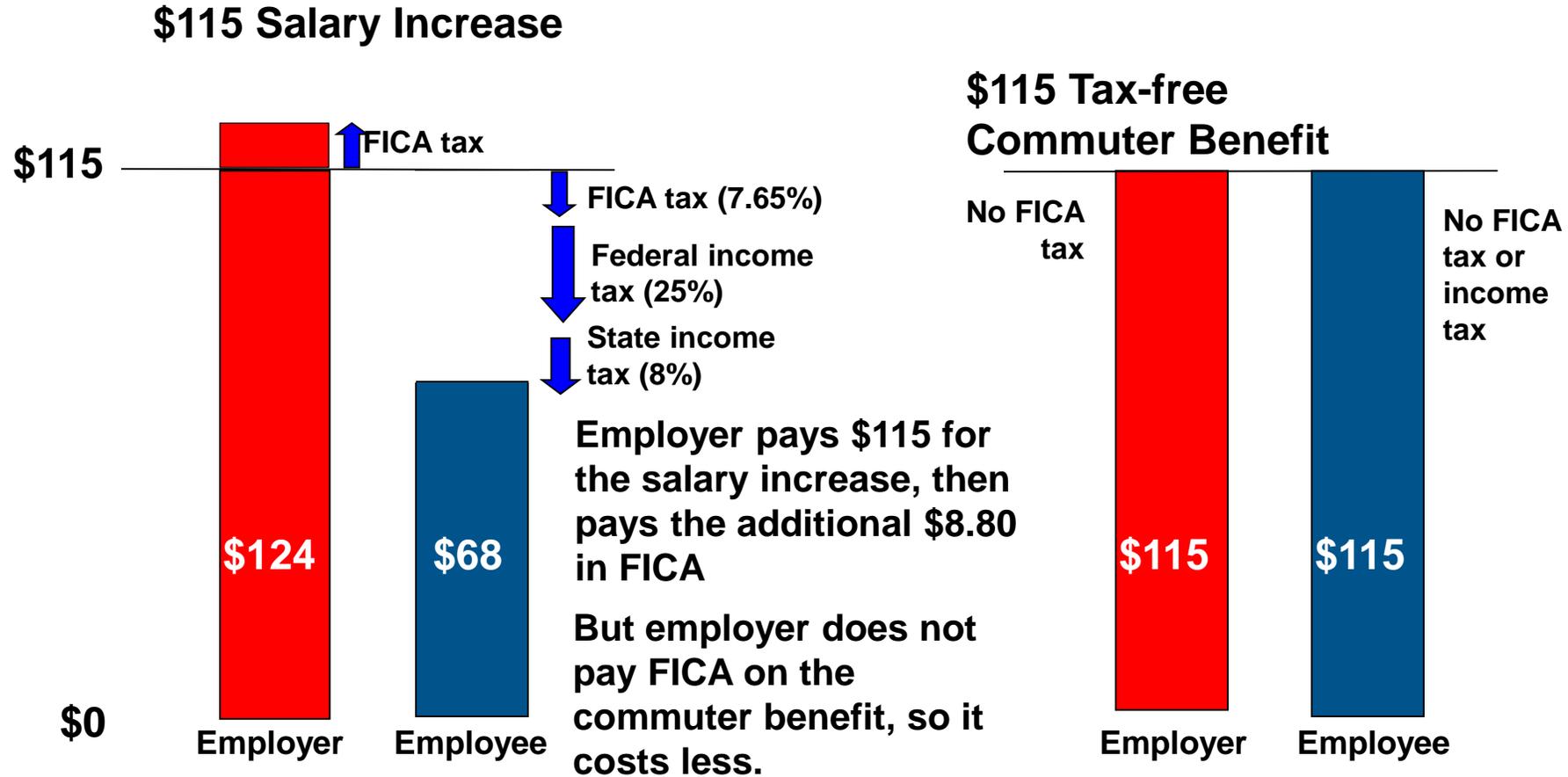
# How do Commuter Benefits Save Money for Employers?

- **Non-taxable** for payroll taxes
  - Employers don't have to count a transit/vanpool benefit like regular income to employees, so they do not pay payroll taxes on it.
- Like any corporate expense, the cost of commuter benefits (and fees) are **tax-deductible** as a business expense
  - Commuter benefits are not special in this regard.
  - Noteworthy that for a profitable company (one that pays corporate income taxes), it costs the employer less money to give the benefit than its face value.

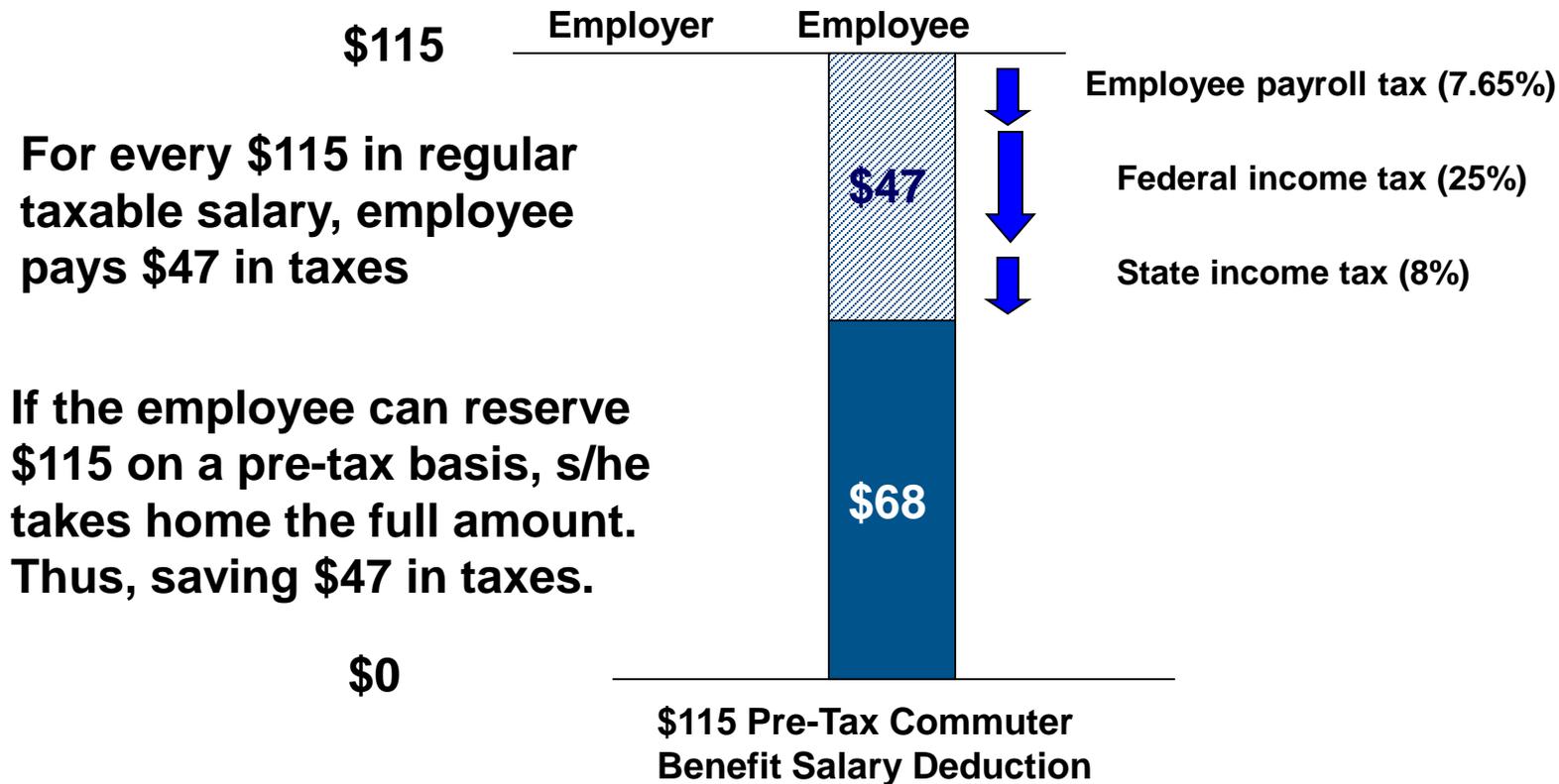
# Employer-Paid Benefits Give Employees More Take-Home Pay



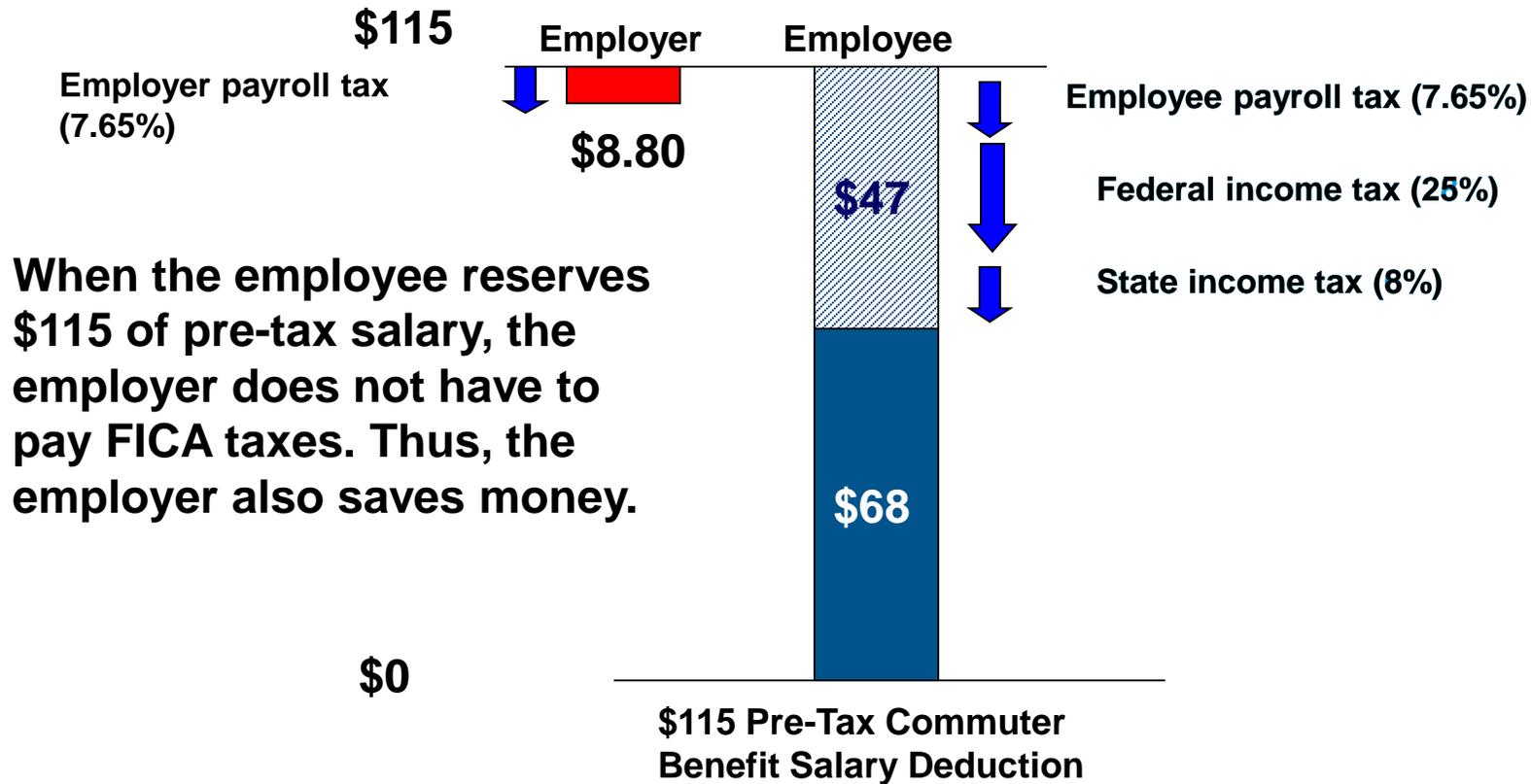
# Employer-Paid Benefits are Cheaper for Employer than a Salary Increase



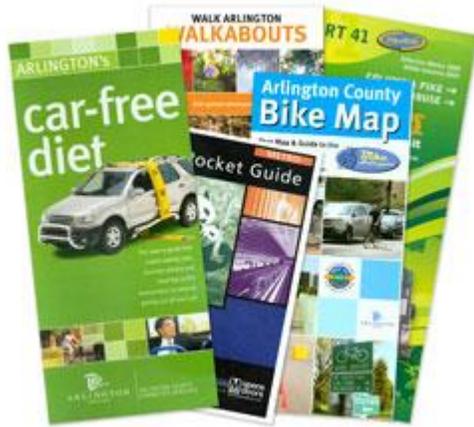
# Employee-Paid Pre-Tax Commuter Benefit



# Employee-Paid Pre-Tax Commuter Benefit



# Supporting Benefits



- Guaranteed Ride Home
- Shuttles from transit to work site
- Providing information (transportation days/fairs etc.)
- Offering employees a flexible work schedule (including opportunities to telecommute)
- Bike facilities – racks, showers, or changing areas
- Providing employer-specific ridematching information

# Benefits to Businesses and Employees

- **Employers**

- Can save money directly or through increased worker retention
- Image improvement due to corporate social responsibility



- **Employees**

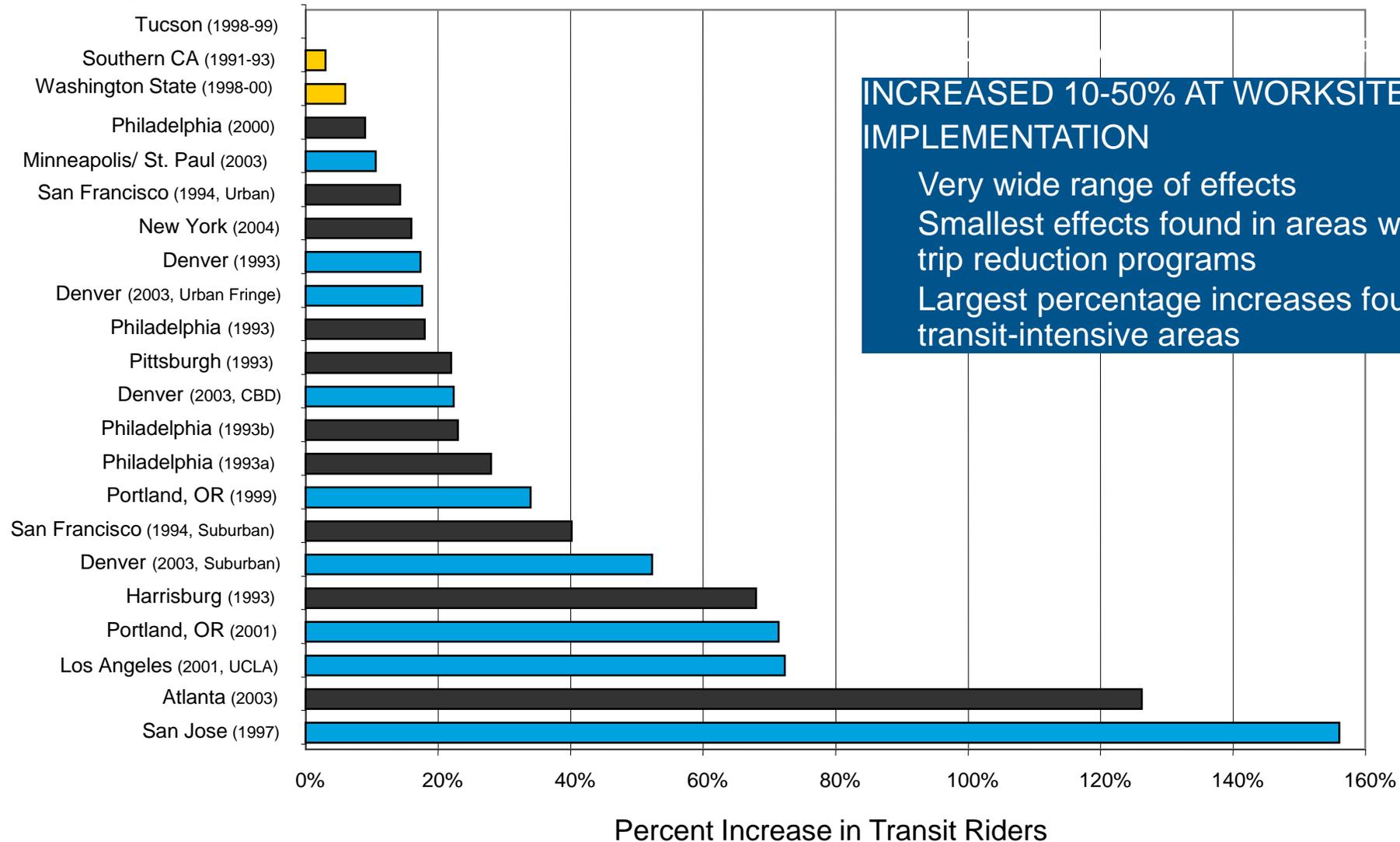
- Save money by spending less on gas, parking, and auto maintenance
- Improved quality of life through reduced commute stress

# Commuter Benefits Increase Transit Ridership, Reduce Driving Alone

- According to a synthesis of transit benefit studies, employee transit ridership typically increased 10-50% at worksites after program implementation
- Typically 10 to 25% of transit benefits recipients were new transit riders
- Typically, 80% or more of new transit riders were previous single occupant vehicle (SOV) commuters



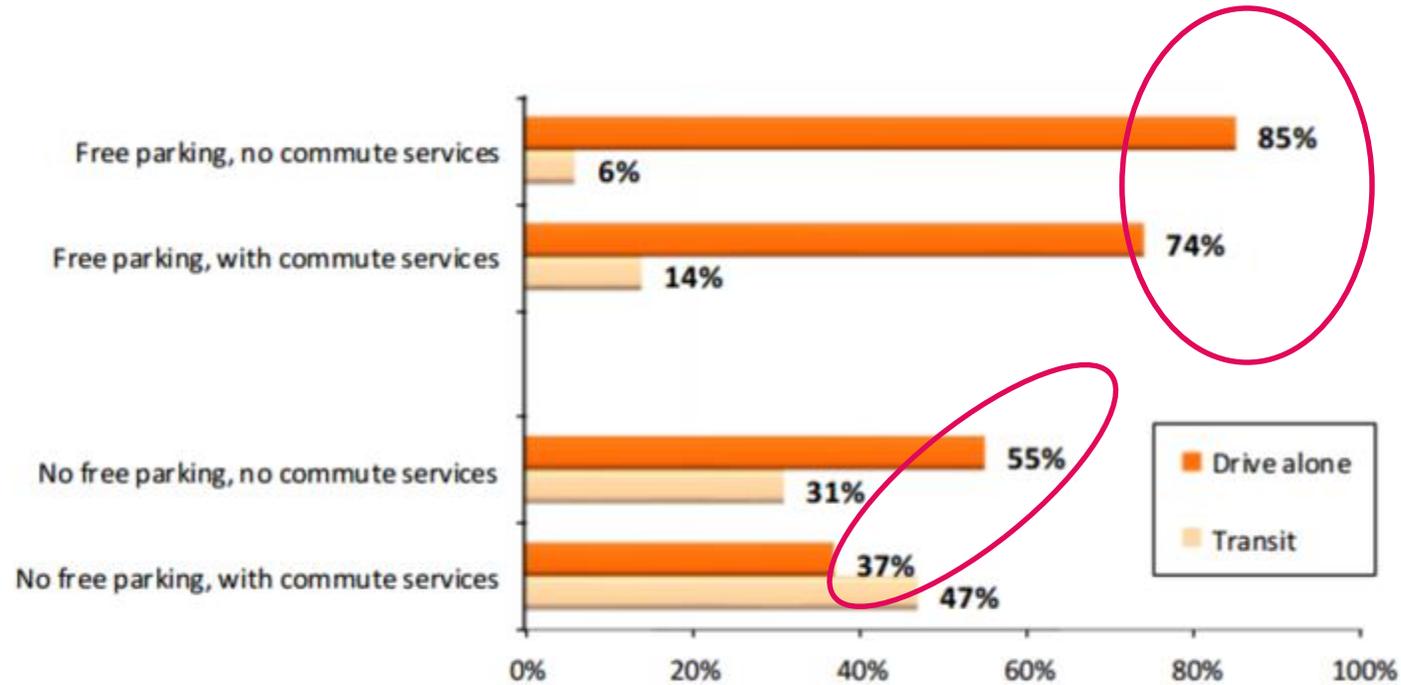
# Transit Benefits Programs Increase Transit Ridership



**INCREASED 10-50% AT WORKSITES AFTER IMPLEMENTATION**

Very wide range of effects  
 Smallest effects found in areas with mandatory trip reduction programs  
 Largest percentage increases found in less transit-intensive areas

# Free Parking and Commuter Benefits are Significantly Correlated with Mode Shares in the Washington, DC Region



Source: Metropolitan Washington Council of Governments, Commuter Connections State of the Commuter Survey 2016. Prepared by LDA Consulting, June 30, 2016.

# Effectiveness of Parking Cash Out Programs



**San Francisco County Transportation Authority (Tishcler, 2015)**  
Modeling of parking cash out scenario  
estimated share of work auto trips drops by 6% citywide  
and 9% in downtown business area

**Minneapolis-St. Paul (Van Hattum, 2009):**  
Analysis of 7 employer sites found a 12% reduction  
in single occupant vehicle travel



**Southern California (Shoup, 2005)**  
Employers saw a 13% reduction in single occupant driving;  
a 12% reduction in vehicle miles traveled

# Questions?

For further information, feel free to contact  
Michael Grant  
[Michael.Grant@icf.com](mailto:Michael.Grant@icf.com)  
202-862-1211

