

TAX-FREE COMMUTER BENEFITS GUIDE

*Offer tax savings and incentives to
help your employees get to work!*



commute seattle

Welcome!

We hope this guide serves as an introduction to tax-free commuter benefits that your company can offer. These benefits can save your business money and help you retain a competitive workforce.

Transit, bicycling and qualified parking can all qualify as tax-free benefits, and this guide will help you understand how to take advantage of these savings.

Learning how to administer a pre-tax or tax-free subsidy program and whether or not your business could benefit from working with a third party administrator is a crucial step in program planning. This guide makes understanding options, rules and program administration easy so you can start your own commuter benefits program today!

Most Seattle businesses offer some form of transportation benefit to their employees. Now they can save more than ever with tax-free commuter benefits!

How to Use this Guide

This guide describes the tax allowances for commuting expenses outlined in Internal Revenue Code Section 132(f). Employers can support employee commutes tax-free in one of three ways:



Employer-Paid Subsidy Program



Employee-Paid Pre-Tax Program



Combination Program

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What are Tax-Free Commuter Benefits?

Commuter benefits describe the tax allowances for commuting expenses outlined in IRS Code Section 132(f)¹. Employers and employees can save money in three different ways:



Employer-Paid
Subsidy Program



Employee-Paid
Pre-Tax Program



Combination Program

Unlike a tax credit, there are currently no requirements for businesses to file additional tax forms or reports when providing these benefits. Employers should consult their company's tax accountant, payroll or benefits administrator to ensure compliance with applicable regulations, and keep careful records.

How Much Does a Program Cost?

Commuter benefit programs are generally cost neutral or even save businesses money. They also promote goodwill amongst staff by helping them save money on their commutes. They can also free up nearby parking for customers and guests by encouraging employees to find new ways to commute. Transit benefits are a proven way to increase the use of public transportation by employees by cutting their commute cost up to 40%.

Who Qualifies?

These benefits are available to all W-2 recipients through their employers; this excludes individuals who are self-employed such as sole proprietors, partners, persons who hold over 2% ownership in an S corporation, and contractors.

By raising take home pay, the pre-tax benefit could reduce earned income tax credits for very low income workers, particularly part-time or seasonal workers. These individuals may choose to decline to participate in a commuter benefit program.



¹To view the full federal regulations, please visit the IRS' Employer's Tax Guide to Fringe Benefits ([Publication 12-B](#))

What Qualifies as a Tax-Free Benefit?



Transit Benefits

In 2017, tax-free subsidy or pre-tax transit spending is capped at \$255 per employee per month for busses, light rail, ferry, water taxi, and vanpool.



Bicycle Commuter Benefits

Employers may offer up to \$20 per month to employees who are bicycle commuters as a tax-free subsidy only. This \$20 may not be offered to any employee during the same month that they receive the transit benefit.



Qualified Parking Benefits

Parking provided to employees on or near the worksite, or a location from which employees take a commuter highway vehicle, mass transit or vanpool also qualify for an additional \$255 benefit. When combining parking and transit benefits, employees can receive a total tax-free benefit of \$510 per month in 2017.



What About State Taxes?

Businesses and property managers in Washington State who pay for transit benefits are eligible for a tax credit against their business and occupation (B&O) tax or public utility tax (PUT). Learn more online at the Washington State Department of Revenue [website](#).

Why Offer A Commuter Benefits Program?

- Employers save on FICA taxes
- Employers are able to provide cost neutral pre-tax or low cost tax-free subsidies to their staff, attracting and retaining employees with competitive transit benefits
- Employers can earn awards and public recognition for supporting sustainable commutes
- Employers and employees can open more parking for customers and reduce congestion near the workplace
- Employees who use a sustainable commute to work **may be healthier** and less stressed, potentially saving the company on health insurance claims and sick leave
- Employees incur lower transit, vanpool or bike costs than if they paid out of pocket

How Much Can Tax-Free Benefits Really Save You?



Subsidy Case Study

Before

- Joe is single, no children, rents apartment
- He makes **\$25,000** per year, no other income source
- He pays **\$5,196** per year in federal income and FICA taxes
- His employer pays **\$1,913** per year in FICA taxes
- He usually buys a \$99/month ORCA pass for **\$1,188** per year

After

- His employer orders ORCA Passport and covers it fully for **\$685** per year
- He saves **\$1,188** per year
- If he had received a raise of \$1,188, he would have had to pay an additional **\$269** per year in taxes and Joe's employer would have paid an extra **\$91** in FICA taxes

Employer-Paid Subsidy Program

Covering the commute costs for your staff is cheaper than offering a cash raise of the equivalent amount because you don't have to pay payroll taxes on the benefit, and the employees don't pay federal income taxes associated with the value of the subsidy.



Pre-Tax Case Study

Employee-Paid Pre-Tax Program

Allowing your employees to use their own pre-tax income to cover their transit needs is a great way to save on payroll taxes, while helping employees reduce their own commuting costs. Businesses can administer these simple programs in-house or through a third-party vendor.

Before

- Jane is single, no children, rents apartment
- She makes **\$50,000** per year, no other income source
- She pays **\$12,064** per year in federal income and FICA taxes while buying her normal ORCA pass
- Her employer pays **\$3,825** per year in FICA taxes
- She usually buys a \$99/month ORCA pass for **\$1,188** per year

After

- Her employer gets ORCA Choice, and sets up pre-tax for Jane's monthly ORCA purchase
- She saves **\$388** per year in federal income and FICA taxes
- Her employer will save **\$91** per year in FICA taxes



Combination Program Case Study

Combination Program

For employers who want to offer a subsidy and also allow employees to use their own pre-tax income to pay for the remainder of their commute costs, combining a subsidy with pre-tax is easy!

Before

- Joanne is single, no children, rents apartment
- She makes **\$35,000** per year, no other income source
- She pays **\$7,461** per year in federal income and FICA taxes
- Her employer pays **\$2,677** per year in FICA taxes
- She usually buys a \$99/month ORCA pass for **\$1,188** per year

After

- Employer orders ORCA Passport and subsidizes 50% of the cost for \$342 per year. Joanne pays the remainder with pre-tax income
- Her employer also saves \$26 on FICA taxes per year, reducing the cost of Passport to **\$316** per year for the employer
- Joanne saves **\$846** on her ORCA pass, and **\$78** on taxes, for a total of **\$924 in yearly savings**

One Regional Card For All (ORCA)

ORCA (One Regional Card for All) passes are unique electronic cards used to pay for rides on public transportation throughout the Puget Sound region. Riders can load the card with funds and use it like a debit card, or add a variety of passes to cover regional buses, trains, streetcars and ferries. While companies outside of the Puget Sound region rely heavily on commuter debit cards provided by third-party vendors to provide their employees flexible commuter benefits over 1,200 Seattle businesses choose an ORCA Business Program!



ORCA Business Passport is a cost effective, comprehensive, annual transportation pass program only available to employers. Employees can pay for their share of Passport using pre-tax income, saving the individual and company on taxes while getting Passport's bulk pricing.

Employers in downtown Seattle, Belltown, International District, South Lake Union, and Queen Anne can participate with 5+ employees, while employers outside of downtown Seattle can enroll with 20+ participants. Custom contracts are available to businesses with 500+ employees.



ORCA Business Choice allows employers to load a dollar amount or a variety of passes, including PugetPasses and Washington State Ferry passes, onto their employees' ORCA cards at retail pricing on a monthly basis. Choice gives employers the flexibility to subsidize as much or as little of their employees' transportation costs as they want while letting employees use pre-tax income to pay the remainder. Employers also have the flexibility to choose who they cover.

Learn more at commuteseattle.com/services/orca/

What About Third-Party Benefits Administrators?

Many businesses administer their commuter benefits program in-house. The workload associated with administering transportation benefits will vary depending on the complexity of benefits offered and number of employees who choose to participate. When using an ORCA Business program, managing commuter benefits can be as simple as making one annual purchase and handing out cards!

For some businesses, an existing or new employee takes on these activities while other companies outsource these functions to a third-party. HR managers, payroll departments, transportation coordinators, managers and owners need to understand the requirements associated with managing an in-house commuter benefits program and assess their own capacity. A third-party vendor can handle tasks such as:



Writing or providing a commuter benefits policy



Ordering the benefits each month



Determining how and when employees can enroll



Setting up payroll deductions with the correct accounting codes



What type of benefit you will provide



Distributing the benefit

How Much Does It Cost?

Some benefit administrators charge a flat fee for this service, while others charge a dollar amount per person or a percentage of the tax savings. Commuter benefits programs are often cost-neutral when using a third party vendor, to administer employee pre-tax spending programs due to payroll tax savings.

How Do I Choose a Vendor?

All businesses are encouraged to shop around, first inquiring with their existing benefits administrator. Contact Commute Seattle for a list of vendors who currently provide commuter benefits in the Seattle area.



Pick Your Plan

I want to...

Fully subsidize
my employees'
commutes



Employer-Paid Subsidy Program

Covering the commute costs for your staff is cheaper than offering a cash raise of the equivalent amount because you don't have to pay payroll taxes on the benefit, and the employees don't pay federal income taxes associated value of the subsidy.

Turn to page 9
to learn more!

Help my
employees save
on their commute,
but at little or
no cost to my
business



Employee-Paid Pre-Tax Program

Allowing your employees to use their own pre-tax income to cover their transit needs is a great way to save on payroll taxes, while helping employees reduce their own commuting costs. Businesses can administer these simple programs in-house or through a third-party vendor.

Turn to page 11
to learn more!

Partially
subsidize my
employees'
commutes



Combination Program

For employers who want to offer a subsidy and also allow employees to use their own pre-tax income to pay for the remainder of their transit or qualified parking costs, combining a subsidy with pre-tax is easy!

Turn to page 13
to learn more!

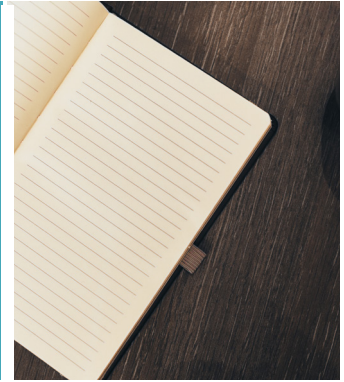


EMPLOYER-PAID SUBSIDY PROGRAM GUIDE

1

Make a Plan

Loop in decision makers, HR and payroll for a conversation about commuter benefits, corporate values and budget to determine how the benefit will fit within company culture and enhance the current benefit package.



2

Evaluate Employee Needs

Conduct a transportation survey to determine how many employees will participate and their commuting preferences. This will help determine whether you provide ORCA cards, parking vouchers, bike subsidies, or another benefit. Commute Trip Reduction affected companies may already have this information in their most recent program report.



3

Speak to a Vendor

It can be helpful to chat with a vendor to learn more about legal requirements, options and the administrative requirements. Use the following questions as a guide for getting the conversation started:

- What is the cost per participant, and is there a flat or minimum fee?
- In what forms do the benefits come- vouchers, debit cards, ORCA cards? Are there shipping costs?
- When does the vendor need the funds each month?
- What information does the vendor need each month, in what format, and by when?
- Will the vendor distribute the benefit or does the company need to?



EMPLOYER-PAID SUBSIDY PROGRAM GUIDE

4

Coordinate

Work with upper management, HR and/or payroll to decide how to administer the program. Most businesses will be able to administer subsidies without the help of a third-party vendor, especially if they use a benefit like ORCA Business Passport.

- How does the company want to offer a subsidy to its employees?
- Who will administer and organize?
- Who will pay the vendor and how will the payment be made?

5

Draft Policies and Procedures

Create a written policy to use as a reference for employee questions. Include procedures and policies for important dates and deadlines, eligibility, procedures for lost transit passes, and a company contact for employee questions.



6

Encourage Participation

Promote the program to your employees through a company email, flyers, paycheck inserts, or at a staff meeting. Include commuter benefits information in the employee orientation and handbooks, and continue to remind new and existing employees.

Consider hosting a transportation fair or contacting Commute Seattle for more ideas for encouraging your employees to use their new benefit! If the benefit is less than \$255, or the employee also drives for part of their commute, consider offering Employee-Paid Pre-Tax to cover the remainder of their commuting costs.





EMPLOYEE-PAID PRE-TAX PROGRAM GUIDE

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Coordinate

Work with upper management, HR and/or payroll to decide how to administer the program. Consider capacity of your administrative staff and cost of contracting with a vendor, as well as the type of commute benefits that you wish to help your staff purchase.

- Should we administer in-house or select a vendor?
- Who will manage the program?
- How will we do payroll deductions? Does payroll need to set up a new deductions code?
- When would we deduct funds from employees' paychecks?



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Set Up Pre-Tax Deductions

Work with your payroll administrator to set up a commuter benefits pre-tax deduction code. Determine when to make deductions based on when you expect to purchase ORCA cards, parking vouchers, or pay the third-party vendor.

7

Encourage Participation

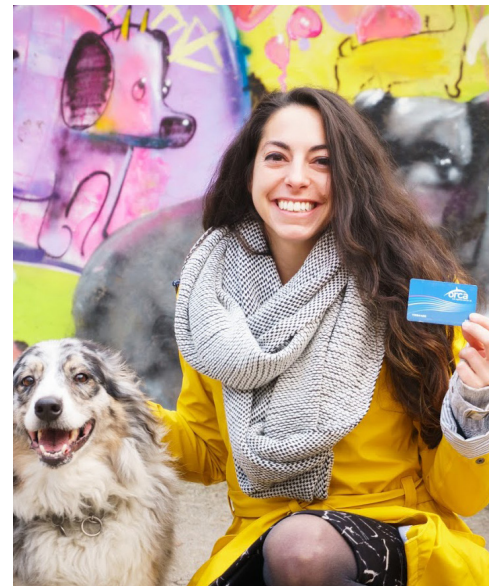
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8

Order and Distribute Benefits

Collect orders and inform employees about important dates, deadlines, deduction dates, etc. If administering in house, use the pre-tax dollars deducted from employee paychecks to order their qualified transit benefit, such as an ORCA card, and distribute.

When using ORCA Business Passport, you may charge employees up to 50% of the cost of their pass. Their monthly share can be deducted from their pre-tax income.





COMBINATION PROGRAM GUIDE

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Encourage Enrollment

Promote the program to your employees through a company email, flyers, paycheck inserts, or at a staff meeting. Include commuter benefits information in the employee orientation and handbooks, and continue to remind new and existing employees. Consider hosting a transportation fair or contacting Commute Seattle for more ideas for encouraging your employees to use their new benefit!

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THIS IS HOW WE GO.

A happy employee begins with a happy commute. Is your commute benefits program keeping up?



commute seattle

For over 10 years, Commute Seattle has helped local businesses of all sizes unlock their potential and empower employees to use convenient, affordable, and sustainable transportation options. Commute Seattle offers free consultations to businesses interested in learning more about commuter benefits and ORCA Business programs.

We provide consulting services, parking management strategies, best practices in providing transportation, and more. We also offer a variety of educational services including transportation fairs and commuter seminars.

Call 206-613-3242 or email kendleb@commuteseattle.com for more information, to schedule a free consultation or to learn about our additional services. Visit us on the web at commuteseattle.com



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