Tax Laws Benefit Employers

Employers providing transit and vanpool subsidies now have increased flexibility in the way these benefits are offered to employees, according to changes made to the Internal Revenue Code (IRC).

Effective during tax years beginning after December 31, 1997, employers may continue to provide transit and vanpool "qualified transportation fringe benefits" in addition to current compensation paid to their workers or, for the first time, *in lieu of* their existing compensation * (IRC Section 9010, 26 USC 132 (f)).

As a result of the Transportation Equity Act for the 21st Century (TEA-21) and the Taxpayer Relief Act of 1997, transit and vanpool qualified transportation fringe benefits can now be used as follows:

a **Benefits in Addition to Compensation**- Employers may give their employees up to $270 per month in benefits to commute to work by transit or eligible vanpools. The employer pays for the benefit and receives an equivalent deduction from his business income taxes. Employees receive the benefit completely free of all payroll and income taxes, *in addition to* their current compensation.

a **Benefits in Lieu of Compensation**- Employers may permit their employees to set aside some of their pre-tax income to pay for transit or eligible vanpools. Employers do not pay for the benefit but permit employees to use some of their gross income to pay for commuting expenses, before taxes are computed, up to $270 per month. Employees save on payroll and income taxes on the amount of the benefit they purchase, since that amount is no longer treated or reported as taxable salary. Employers' payroll costs are reduced since payroll taxes do not apply to the set aside amount because it is treated as a benefit.

a **Combination-** Employers may share the cost of commuting with their employees. Employers can give their employees part of the commuting expense tax-free *in addition to* their compensation and allow the employees to set aside part of their gross income (*in lieu of* compensation) to pay the remaining amount, up to the total monthly limit of $270. The employer receives an equivalent deduction from its business income taxes while the employee saves on payroll and income taxes on the set aside amount for the balance of the benefit.

Employers are encouraged to take advantage of these exciting tax code changes. Providing transit benefits in lieu of salary will not increase costs to employers but will actually reduce payroll costs since payroll taxes do not apply to these benefit amounts.

**not permitted to be part of "cafeteria" plans or flexible spending accounts*