



## **Commuter tax savings with TEA-21**

**With commuter benefit programs under Section 132(f), employees can save 40 percent of the cost of the program from payroll and income taxes, while employers save 8 to 10 percent in payroll related costs.**

### **Here's how the tax benefits work:**

Commuter Tax Benefits: Section 132 (f) of the federal tax code allows private employers, non-profit organizations and public agencies to provide transit benefits (also called "commuter benefits" or "transportation fringe benefits") to employees tax-free. These benefits includes vRide seat fees (ranging from \$66 to \$140 per month)

When you pay for any of these commuter benefits or allow your employee to pay for the benefit through payroll deductions, up to \$245 per month (for tax year 2013) is treated as excludable fringe benefits which means the amount is not counted as taxable wages. Therefore, these amounts are not subject to withholding or payroll taxes (FICA and unemployment taxes) saving both employers and employees on taxes. And since the State of Hawaii's tax code mirrors the federal code with respect to this benefit, the same amounts are treated as non-taxable wages at the State level, too.

### **Administration of Tax Benefits:**

Administration of these benefits is much simpler than other pre-tax benefit programs. No written plans or reporting are required by the IRS but you can create them if desired. There is no "use-it-or-lose-it" provision, and the employer can choose how often to allow employees to make elections. And employers can offer any amount (within the \$245/month limits) to any employee or group of employees because there is no "nondiscrimination test."

## **There are two ways to implement these tax benefits.**

### **Employer Pays**

The employer can pay for the full cost of the transit benefit for an employee. The employer can deduct the full amount of the subsidy as a business expense from its federal and Hawaii income taxes thereby reducing the actual cost of the benefit by its applicable federal and State tax rates. The employer does not include the amount of the transit cost (up to \$245 per month per employee) in the employee's wages and, therefore, does not incur payroll taxes: FICA (Social Security and Medicare) at 7.65% and federal and state unemployment taxes on the benefit amount.

### **Employee Pays**

The employer can allow an employee to take a monthly pre-tax payroll deduction for the amount of the transit benefit (up to \$245 per month). Because the amount is not considered taxable wages, the employer avoids paying payroll taxes (FICA and federal and state unemployment taxes). The employee saves by not paying federal and state income tax and payroll taxes (FICA) on the amount deducted.

### **How to Get Started:**

To access these tax benefits, employers must go through VPSI Commuter Bucks (vouchers which may be used to purchase monthly passes for vRide). Employers cannot reimburse their employees and must purchase the passes or vouchers for employees taking payroll deductions.

Or if you use a third-party administrator, such as Ceridian, or ADP, talk to your representative about setting up a commuter benefits program through them.

Contact vRide at **(808) 596-8267** on Oahu or **1-800-Van-Ride (1-800-826-7433)**. We'll be happy to answer your questions or help you find the information you need.

