

Benefit Fact Sheet

What is it?

Commuter assistance programs allow employees to be reimbursed for qualified commuting expenses on a tax-favored basis. The parking and mass transit accounts enable employees to set aside a portion of their salary to pay for certain expenses on a pre-tax basis. Eligible expenses must be for travel to and from work, and include parking, mass transit or van pool expenses. Employees may also be reimbursed for bicycle commuting expenses.

The tax-favored commuter benefits are made possible under Section 132 of the Internal Revenue Code. For 2012, the limits allowed under Section 132 are \$240 per month for parking near or on work premises, and an additional \$125 a month for mass transit and vanpool expenses, or \$20 per month for bicycle commuting expenses. Administration of commuter assistance plans can be handled internally or outsourced to a specialty provider.

Why offer it?

- Assuming a 33% tax burden, employees who take full advantage of the available deduction for parking would realize an annual savings of \$950. ([Source: WageWorks](#))
- Because these plans reduce payroll, employer FICA contributions (approx. 7.65%) are decreased. These savings can offset all or part of the cost of outsourced administration.

What types of employers offer it?

Any type of organization may offer this benefit.

What size employers offer it?

Any size organization can offer this benefit. Outsourcing of plan administration can be more cost effective for larger employers who have higher enrollment and can better spread fixed costs.

What are the critical underwriting or participation requirements?

- This is not an ERISA plan; therefore there are no discrimination or participation requirements.
- Third party administrators may have minimum monthly fees that can become a factor for small employers or employers with low participation.

What's new in this area?

- **Transit and Parking IRS Benefit Limits:** Monthly reimbursement limits are indexed annually by the IRS. The American Recovery and Reinvestment Act (ARRA) included a provision to temporarily equalize the amounts that are available under tax free fringe benefit transit and parking reimbursement programs until December 31, 2011.
- **Bicycle Commuter Benefit:** ARRA also amended IRS Section 132(f) to add a bicycle commuter benefit. The change allows up to \$20 per month to reimburse reasonable expenses related to bike commuting, such as equipment purchases or repairs. Unlike parking and mass transit benefits, the bicycle commuter benefit must be employer-paid to be a tax-free benefit. Employees are not eligible for the bicycle commuter benefit if they are already receiving another commuter tax-free fringe benefit for any given month.
- **San Francisco Commuter Benefits Ordinance:** The City of San Francisco added a commuter benefits mandate in 2008. Employers with more than 20 employees are required to offer commuter benefits and encourage employees to use public transit or van pools. Companies with employees in San Francisco are required to comply with the [Commuter Benefits Ordinance](#) (199-08) after January 20, 2009.

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- **Benefit Administration:** Technology improvement and cooperation among transit agencies has led to online capabilities for accessing benefit information and resources.

How much does it cost?

A commuter assistance plan can be administered by a third party administrator (TPA) for approximately \$5 to \$6 per month per participating employee. A TPA performs the majority of the work associated with enrolling and administering the plan. Alternatively, employers may consider using their own staff to administer a plan. With higher employee participation, the savings to the employer (FICA) is normally equal to, or greater than, the cost of administering the plan via a TPA.

Informational link(s)

- [IRS Employer's Tax Guide to Fringe Benefits](#)
- [WageWorks](#)
- [Commuter Check](#) (Edenred USA)
- [San Francisco Commuter Benefits Ordinance](#)

Pros and cons

Pros

- Savings for employees via pre-tax deductions.
- Savings for the employer via reduction in FICA.
- Low-cost enhancement to overall benefit package.
- High visibility benefit which is convenient and easy for employees to utilize.

Cons

- Additional administrative responsibilities for payroll department.
- Responsibility for plan administration or oversight of third party.

Notes

Cash reimbursement for transit passes is only considered a qualified transportation fringe if a voucher program is not readily available for direct distribution to employees.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.