7 Qualified Transportation Fringe (QTF) Benefits

This section discusses rules that apply to benefits provided to an employee for the employee's *personal* transportation related to commuting to and from work. *IRC §132(f)(1;) Reg. § 1.132-9(b)*

Qualified Transportation Fringe (QTF) benefits include:

- Commuter transportation in a commuter highway vehicle
- Transit passes
- Qualified parking
- Qualified bicycle commuting expenses

Employer-provided QTFs with fair market values (FMV) that do not exceed monthly excludable limits, set annually, are exempt from withholding and payment of employment taxes, not reported as taxable wages on the employee's Form W-2, and not included in gross income.

The exclusion from income for this benefit applies only to employees; former employees and independent contractors are not eligible to receive this benefit. *IRC §132(f)(5); IRS Notice 94-3; TD 8933; Regs.§1.132-9(b)*

Valuation

Generally, transportation benefits, under the general rule for fringe benefits, are valued at FMV; exceptions are noted where applicable.

Combined Benefits

The exemption applies whether an employer provides only one, or a combination, of these benefits to employees. The total benefits cannot exceed the statutory dollar limitations, or the excess is taxable as wages to the employee. The benefit may also be offered in the form of a pre-tax, payroll deduction for employees. See the discussion “Salary Reduction Agreements” later. *IRC §132(f)(4)*

Cash Reimbursements for Transportation Expenses

Cash reimbursements for transportation expenses can be excludable if the employer establishes a bona fide reimbursement plan. This means there must be reasonable procedures to verify reimbursements and the employees must substantiate the expenses. See “Transit Passes” for additional requirements. *IRC §132(f)(3)*

Cash Advances

Cash advances for transportation benefits are not considered reimbursements and are treated as taxable wages.

Nondiscrimination Rules

Nondiscrimination rules applicable to other benefits do *not* apply to QTFs – these benefits are exempt even if provided exclusively to highly-compensated employees. *Reg. §1.132-8*

Transportation in a Commuter Highway Vehicle

To exclude the value of transportation in a commuter highway vehicle, the following must apply to the vehicle:

- It is provided by an employer, or by a third party for the employer.
- It is used for travel between an employee residence (or parking lot) and the workplace.
- It has seating capacity for at least six adults (excluding the driver).
- Half of the seating capacity (excluding the driver) is occupied by employees.
- The employer must reasonably expect that at least 80% of the mileage is used for transporting employees between residences, the workplace and/or parking area. *IRC 132(f)(5)(B); Reg. §1.132-9(b)*

Commuter transportation may include vanpools, and the vehicles may be owned and operated by transit authorities or employees.

Dollar Limitations

The maximum nontaxable benefit in 2013 is $245 per month. The maximum applies separately to each month. *PL 111-312; IRC 132(f); Rev. Proc. 2013-15*

Valuation

Automobile lease valuation, vehicle cents-per-mile rule, or commuting valuation rules (discussed in section 14) may be used in lieu of FMV. If one of these methods is used, the employer must use the same valuation rule to value the use of the commuter vehicle by each employee who shares the use. *Reg. §1.132-9(b), Q&A-21; Reg. §1.61-21(d),(e)&(f)*

Substantiation Requirements

Only *cash reimbursements* by employers for use of a commuter vehicle need to be substantiated with actual proof of the commuter vehicle use by the employee. *Reg. §1.132-9(c)*

Transit Passes

A transit pass is any pass, token, fare card, voucher, or similar item (including an item exchangeable for fare media) entitling a person to transportation**.** The pass must be used for transportation on a public or privately-owned mass transit system, or on transportation provided by a person in the business of transporting people in a vehicle, seating at least six adults, excluding the driver.

Valuation

For transit passes sold at a discount, the discounted price rather than the face amount of the transit pass can be used to figure the exclusion as long as the discount is available to the general public. *Reg. §1.132-9(b)*

Example: 10 tickets cost $17.50 if purchased separately, but a packet of 10 tickets is available to the public for $15, or $1.50 each. Only $15 counts against the annual maximum exclusion.

Example: Each month during 2013, the state health department distributes transit passes with a face amount of $250 to all employees. These same passes can be purchased from the transit system by any individual for $200. Because the value does not exceed the applicable statutory monthly limit of $245 for 2013, no portion of the transit pass is includible as compensation.

Substantiation Requirements

If the employer distributes the transit passes, there are no substantiation requirements. See below for cash reimbursements. *Reg. §1.132-9(b)*

Cash Reimbursements - Special Rule

Cash reimbursements for transit passes are nontaxable **only** if no voucher or similar item is readily available for direct distribution to employees. A voucher is readily available for direct distribution only if an employee can obtain it from a voucher provider that does not impose fare media charges or other restrictions that effectively prevent the employer from obtaining vouchers. *IRC 132(f)(3); Reg. §1.132-9(b), Q-16-19*

Example: Maddy buys a transit pass for $150 each month in 2013. At the end of each month, she presents her used transit pass to her employer and certifies that she purchased and used it during the month. The employer reimburses her $150. Lulu also purchases a monthly transit pass for $150, but presents it to her employer at the beginning of the month and certifies that she purchased it and will use it during the month. Her employer reimburses her at the time she presents the transit pass. In both situations, the employer has established a bona fide reimbursement arrangement for purposes of excluding the $150 reimbursement from the employee's gross income in 2013.

Qualified Parking

Qualified parking is parking provided to employees on or near the business work premises, or parking on or near a location from which employees commute to work by commuter highway vehicle, mass transit, or vanpool. *IRC 132(f)(5)(C)*

The maximum nontaxable value is $245 per month in 2013. *IRC §132(f)(2(B); Rev. Proc. 2013-15*

Qualified Bicycle Commuting Expenses

Employees may exclude reimbursements paid by employers for qualified bicycle commuting expenses. The maximum exclusion is $20 times the number of months the employee uses a bicycle for commuting to work. Allowable expenses include the purchase, maintenance, repair and storage expenses related to bicycle commuting. *IRC 132(f)(1)(D)*

The bicycle commuting expense exclusion cannot be claimed for an employee for any period in which that employee claimed the exclusion for public transit passes or qualified parking is claimed. *IRC 132(f)(1)(F)(iii)(II)*

Dollar Limitations

The maximum nontaxable value per person is limited to the combined value of commuter transportation, transit passes, and bicycle commuting reimbursement for 2013 is $510 per month ($245 commuter transportation + $245 parking + $20 bicycle commuting. *IRC 132(f)(2); Rev. Proc. 2013-15*

Salary Reduction Agreements

A salary reduction agreement is a way to provide QTF benefit pre-tax to employees, without additional cost to the employer. An employee can choose between receiving a fixed amount of taxable cash or QTF for a specified future period. A QTF salary reduction plan need not be in writing; but the election by the employee must be in writing or another permanent form, such as electronically. *IRC §132(f)(4); Regs. 1.1.32-9 Q&A 11-15*

Note: QTFs are prohibited benefits under cafeteria plan rules. You cannot include these benefits as part of a cafeteria plan. *Reg. §1.132-1(b)(2)(i)*

The election under a salary reduction agreement must contain the following:

- Date of the election,
- Amount of compensation to be reduced, and
- Period for which the election is valid.

Limitations

The salary reduction may not exceed the combined applicable statutory monthly limits for QTFs. For the calendar year 2013, the monthly limitation is $490 ($245 parking + $245 transportation). *Rev. Proc. 2013-15*

This election may not be revoked after the employee is able to receive the cash or after the beginning of the period for which the QTF is to be provided. Any unused QTF may not be refunded. However, the unused portion may be carried over to subsequent periods and used to provide QTFs as long as the amount expended does not exceed annual limits.

Negative Election

An employer may allow for an employee to make a negative election to decline participation in a salary reduction plan, if the employee receives adequate notice that a salary reduction will be made and is given adequate opportunity to choose to receive cash compensation instead of the QTF. A negative election means that no response is treated as a "Yes" vote; that is, the employee is presumed to want the QTF and does NOT choose the cash.

Example: Agency Y maintains a QTF benefit arrangement. Employees of Y are paid twice per month, on the 10th and 25th day of the month. Employee Q elects, before the first day of the month, to reduce his compensation in return for QTFs totaling $200 per month through the year (for qualified parking). Because the election was made before he could receive the cash and the election is for a specific period, the arrangement satisfies the requirements for a valid salary reduction.

Example: In the above example, if employee Q revoked his election on the 10th of the month, it would be effective for the second pay period, since the revocation cannot be effective during a current pay period. It must be for a future period.

Effect on Deferred Compensation Plans

Employees participating in a deferred compensation plan are limited to a percentage of their compensation that they may contribute annually. In computing what is considered compensation for purposes of the limitation, an employer may exclude certain fringe benefits, including QTFs. *IRC 314(e) IRC 403(b)(3); IRC 414(s)(2)&(3); IRC 415(c)(3); IRC 125*