BEST Workplaces for Commuters℠

Transit and Vanpool Benefits:

Implementing Commuter Benefits as One of the Nation's Best Workplaces for Commuters℠

United States Environmental Protection Agency
Office of Air and Radiation
November 2005

Transit and Vanpool Benefits

Implementing Commuter Benefits as One of the Nation's Best Workplaces for Commuters℠

- Employers can provide up to $105 per month in tax-free transit/vanpool benefits to employees. The employer does not pay payroll taxes on the benefit, and employees do not pay income or payroll taxes on it. As a result, giving an employee $105 in transit/vanpool benefits is less expensive for an employer than raising the employee's salary by $105, and the employee takes more home.

- Transit/vanpool benefits may be provided in a variety of ways: through regional voucher programs, transit passes, or cash reimbursement (in certain circumstances).

- Providing transit/vanpool benefits is one of the primary benefits employers participating in Best Workplaces for Commuters℠ can offer employees. Employers must offer at least one of three primary benefits to their employees to be recognized as one of the Best Workplaces for Commuters℠ (the other two are parking cash-out and telework). Under this option, the employer agrees to provide at least $30 per month in transit/vanpool benefits for any employee (or the full monthly commuting expense if it is less than $30 per month).

This document is one in a series of briefing papers designed to help employers that are Best Workplaces for Commuters℠ implement commuter benefits.

The U.S. Environmental Protection Agency (EPA) and the U.S. Department of Transportation (DOT) have established a voluntary *National Standard of Excellence* for employer-provided commuter benefits. Commuter benefits help American workers get to and from work in ways that cut air and global warming pollution, improve public health, increase worker productivity, and reduce expenses and taxes for employers and employees. Employers that agree to meet the *National Standard of Excellence* are recognized as Best Workplaces for Commuters℠ and agree to:

- ▶ Centralize commute options information so that it is easy for employees to access and use
- ▶ Promote the availability of commuter benefits to employees
- ▶ Provide access to an emergency ride home (ERH) program
- ▶ Provide one or more of the following primary commuter benefits:
  - ✓ Vanpool or transit benefits of at least $30 per month
  - ✓ Parking cash-out of at least $30 per month
  - ✓ Telework program that reduces commute trips by 6 percent
  - ✓ Other option proposed by employer and agreed to by EPA. These services must reduce the rate at which employees drive to work alone and be perceived by employees as a significant workplace benefit. Options may include things like vacation time for carpoolers and comprehensive shuttle services.
- ▶ Provide three or more of the following additional commuter benefits:
  - ✓ Active membership in a Transportation Management Association (TMA) or similar organization or participation in a regional air quality initiative
  - ✓ Membership in a local ozone awareness program
  - ✓ Ridesharing or carpool matching, either in-house or through a local or regional agency
  - ✓ Pre-tax transit or vanpool benefits
  - ✓ Parking cash-out less than $30 per month or less than 75 percent of the actual parking benefit
  - ✓ Shuttles from transit stations, either employer-provided or through a local agency
  - ✓ Parking at park-and-ride lots or vanpool staging areas
  - ✓ Preferred parking for carpools and vanpools
  - ✓ Employer-run vanpools or bus programs
  - ✓ Employer-assisted vanpools
  - ✓ Secured bicycle parking, showers, and lockers
  - ✓ Electric bicycle recharging stations
  - ✓ Employee commuting awards programs
  - ✓ Discounts/coupons for bicycles and walking shoes
  - ✓ Compressed work schedules
  - ✓ Teleworking
  - ✓ Lunchtime shuttle
  - ✓ Proximate commute (working closer to home)
  - ✓ Incentives to encourage employees to live closer to work
  - ✓ On-site amenities (e.g., dry cleaning)
  - ✓ Concierge services
  - ✓ Participation/membership in a carsharing program
  - ✓ Other options proposed by employer
- ▶ In addition, employers commit to ensuring that within 18 months of applying, single occupancy vehicle trips are reduced by at least 14 percent.

Disclaimer

EPA provides this briefing as a service to employers participating in the Best Workplaces for Commuters℠. Information about private service providers is intended for informational purposes and does not imply endorsement by EPA or the federal government.

The information presented here does not constitute official tax guidance or a ruling by the U.S. government. Taxpayers are urged to consult with the Internal Revenue Service of the U.S. Department of Treasury or a tax professional for specific guidance related to the federal tax law.

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Transit and Vanpool Benefits: A Summary

Transit/vanpool benefits are qualified transportation fringe benefits that employers provide to their employees to help them commute to work using transit or vanpools.[1] In most cases, the employer purchases a transit pass or a transit/vanpool voucher and gives it to the employee. In some cases, the employer may reimburse employees in cash for transit expenses.[2] Although this paper uses the general term "transit pass," a pass could be an unlimited ride pass, tokens, tickets, or farecards.[3] Passes are generally issued by a single transit agency only for use on its services. On the other hand, a transit/vanpool voucher can be exchanged by the employee for a transit pass, tokens, or tickets on multiple transit services, or payment of vanpool charges. Vouchers cannot be exchanged for cash; they must be redeemed by designated transit agencies or vanpool operators.

Federal tax code allows employers to offer up to $105 per month ($1,260 per year) in transit/vanpool benefits tax free.

To qualify with the transit or vanpool benefit as a primary benefit, an employer must contribute at least $30 per month. If the monthly commuting expense for employees is less than $30 per month (e.g., $25/month), the employer is only required to contribute that amount per month ($25/month instead of $30). Some employers allow employees to purchase the transit or vanpool benefit using pre-tax dollars (frequently called a pre-tax transit or vanpool benefit). While this option does take advantage of some of the tax benefits of transit and vanpool benefits, it does not provide either the full value of transit or vanpool benefits to the employees or the employers. It is therefore not considered a "primary benefit" by the Best Workplaces for Commuters℠ program.

Employer-provided transit/vanpool benefits make it less expensive and easier to use transit or vanpools to commute to work, and are usually popular with employees. In recent years, programs encouraging distribution of transit passes by employers have become increasingly popular. Employers tend to view the programs as a low-cost way to provide employees with a very desirable benefit. Since transit/vanpool benefits are tax-free transportation fringes, employers can save money on payroll taxes when they offer these programs.

The employer is not limited to providing a transit/vanpool benefit of $105 per month. However, if, for any month, an employer provides an employee with a qualified transportation fringe benefit that exceeds the statutory tax-free limit, the excess value must be included in the employee's gross income for income and employment tax purposes. A brief history of recent changes in tax legislation that have affected transit benefits is provided in Appendix C.

Employer Benefits

An employer can benefit in several ways by offering transit/vanpool benefits.

Transit/vanpool benefits can improve employee morale and make an organization a more desirable place to work, which in turn can:

- Reduce employee absenteeism and stress
- Reduce employee turnover
- Support recruiting and retention goals

A Department of Transportation (DOT) survey of employers offering TransitChek® in the New York and Philadelphia areas found overwhelming positive response by employers and employees:

- More than 70 percent of the TransitChek® users in the first two surveys said they developed more positive opinions of their employers because of TransitChek®. Favorable comments from respondents included that the program gave transit a favorable image, increased their usage of transit, was simple and easy to use, and helped to defray transit costs and fare increases.
- When asked to characterize the relative importance of TransitChek® as an employee benefit, 48 percent [of employers] viewed it as "very important," 40 percent said it was "somewhat important," 12 percent chose "of limited importance," and only 1 percent said that it was "not important at all."
- All of the organizations reported TransitChek® was very popular among their employees, and the companies themselves viewed it positively, in general.

[1] *For more information on vanpools, see the separate briefing paper on Vanpool Programs.*
[2] *The employer may provide transit benefits through a cash reimbursement plan only if the voucher providers charge a fee that exceeds one percent of the cost of the vouchers. See Implementation Issues and Costs section.*
[3] *Although the IRS regulations include "voucher" within their definition of "transit pass," because of the operational differences this briefing paper defines them separately.*

One state agency, prevented from raising employee salaries by state legislation, appreciated TransitChek® as a means to give employees a tax-free benefit equivalent to a greater value in pretax salary dollars (DOT, 1995). Reaction to university programs mirrors these positive reactions, even to improving recruitment and retention.

UPASS has the ability to attract and retain students at University of Wisconsin-Milwaukee (UWM). Participants in focus group discussions mentioned the UPASS could attract potential students to UWM. Spring 1995 survey results indicate 15 percent of respondents said the UPASS would have a major impact on their decision to attend UWM in future semesters while 21 percent indicated the UPASS would have a minor impact. (Meyer and Beimborn, 1996)

Cost Savings

Offering transit/vanpool benefits can be a very low-cost way to provide employees with an additional benefit. Transit/vanpool benefits provide the employer with lower payroll taxes compared to offering an equivalent salary increase. Offering a pre-tax deduction option can actually save a company money since the company does not pay payroll taxes on the amount of income reserved by the employee. Employees also pay less in income taxes and social security taxes. However, in some cases, voucher providers charge fees, which may reduce the cost savings to employers. Moreover, reducing the number of employees driving to work can result in reduced needs for employee parking. Parking is expensive to build or lease, particularly in urban areas. As a result, transit/vanpool benefits often provide a low-cost way to avoid the large expense associated with securing additional parking. Unlike parking, which is a long-term decision (leases are typically negotiated on an infrequent basis, and the decision to construct new parking has long-term implications), transit/vanpool benefits can be implemented and adjusted quickly.

Tax Considerations

Tax provisions that allow transit/vanpool benefits to be taken as a tax-free fringe benefit offer substantial financial savings for both employers and employees.[4]

Transit/vanpool benefits may be provided tax-free to employees up to $105 per month. Tax benefits accrue to businesses and employees whether the employer pays for the benefits or the employee pays for it through a pre-tax salary deduction, as shown in Figure 1.

Figure 1: Tax Savings for Employers and Employees

Option	Employer Tax Benefit	Employee Tax Benefit
Employers give their employees up to $105/month to commute via transit or vanpool.	Employer saves payroll taxes (7.65%) compared to offering taxable salary.	Employee receives up to $105/month tax-free. The employee does not pay any taxes on the value of the benefit.
Employers allow employees to use pre-tax income to pay for transit.	Employer saves on payroll taxes (7.65% savings). No payroll taxes are paid on the income that is reserved by the employee.	Employee saves on income tax and payroll taxes. The amount of income reserved for transit/vanpooling (up to $105/month) is no longer treated as taxable salary.

Employer-Paid Benefits

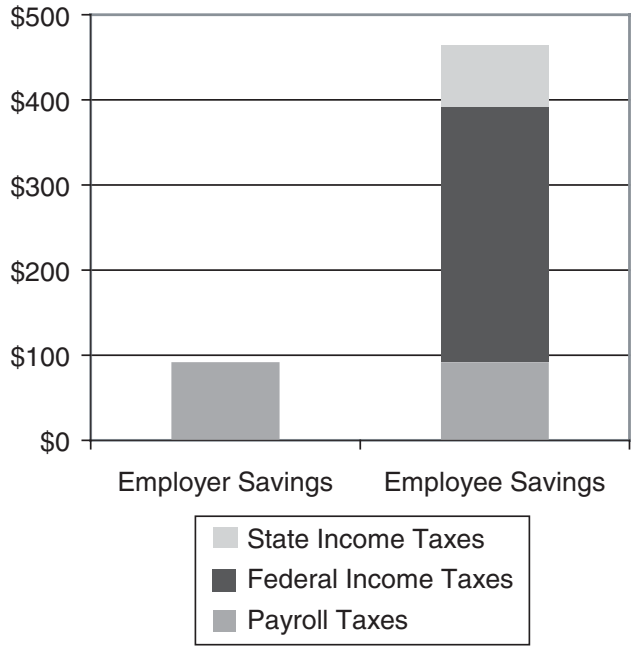
If the employer pays for the transit/vanpool benefit, the value of the benefit is tax-free to the employee, as well as free of employer payroll taxes. As a result, providing transit/vanpool benefits is a low-cost way to provide employees with an additional benefit, and saves considerable money compared to an increase in taxable salary.

For example, as shown in Figure 2, by providing a $105 per month ($1,260 per year) transit/vanpool benefit rather than an increase in salary, the employer saves $96.39 per year in payroll taxes ($1,260 times 7.65 percent FICA).

Meanwhile, the employee saves about $487 in taxes compared to receiving taxable income (based on a 25 percent federal income tax, 6 percent state income tax, and 7.65 percent FICA). With taxable salary, over 40 percent of the salary increase is never seen by the employee. In contrast, the employee receives the full $1,260 per year ($105 per month) in transit/vanpool benefits paid by the employer.

Note that some transit voucher providers charge an administrative fee for ordering the vouchers, which would slightly increase the cost to the employer. On the other hand, some transit agencies offer discounts for purchasing transit passes in bulk, which would lower the cost. Some states and localities also offer tax credits, further lowering the cost to the employer. The employee takes home the full $1,260 benefit, tax-free.[5] To net an increase in after-tax income of $1,260 would require a salary increase of over $2,050.

Figure 2: Sample Tax Savings from Offering $1,260 Commuter Benefit Rather than Salary



Under federal tax law, an employee who pays to park at a qualified parking area (like a transit station) and then takes mass transit or a commuter highway vehicle to work can receive a combination of transit/vanpool and qualified parking benefits, up to a combined benefit of $305 per month ($105 for the transit/vanpool benefit and $200 per month for parking) or a maximum of $3,660 per year.

[4] *Employers should review with their tax advisor the tax implications for themselves and their employees.*
[5] *Some transit systems add value when fares are purchased in larger increments, resulting in a larger employee benefit.*

Employee Pre-Tax Salary Deduction

If the employer does not pay for the fringe benefit, but deducts the pass and/or parking cost from an employee's pre-tax income:

- The employer sees a reduction in payroll taxes.
- The employee does not pay federal income, payroll, and possibly state income taxes on the deducted amount.

Employers do not pay any payroll (FICA) taxes on the amount of income that is reserved by the employee from taxable income. FICA consists of Social Security and Medicare taxes paid on wages. For tax year 2004, employers and employees pay equal amounts: 6.2 percent of wages up to $87,900 per year per employee for Social Security and 1.45 percent of total wages for Medicare (no salary limit). As a result, for every dollar that an employee reserves for a pre-tax transportation fringe benefit, the employer saves about $7.65 (for employees making less than $87,900 per year).[6] An employee who reserves $105 per month for transit or vanpools will save over $96 per year for the employer in reduced FICA taxes. If an employee reserved the full $205 per month for qualified parking, employer tax savings would be $183.60 per year.

Employees also receive substantial tax savings. An employee in the 25 percent federal tax bracket who reduces his or her pre-tax income by $105 per month to pay for transit or vanpooling expenses could save $315 per year in federal income taxes and an additional $96.39 in payroll taxes. Employees could also save on state income taxes that piggyback on the federal tax definitions of compensation. For example, in a state with a 6 percent income tax, employees could save another $75.60 in taxes. In total, an employee could save $487 each year. This brings the real transit cost to the employee down from $105 per month to $64.41 per month, a savings of 35 percent.

As either a salary substitute or additional benefit, transit benefits provide more value for less money than cash.

Some states tax transit benefits as regular income for employees. Employers should consult with their tax departments to review the tax treatment of transportation benefits, particularly if they operate in multiple states.

Examples of Tax Benefits

Detailed examples of how to calculate tax benefits are contained in a separate Benefit Brief–Commuter Tax Benefits. This briefing paper can be found on the BWC Web site.

Employee Benefits

Employee Cost Savings

Employees who ride transit or use vanpools save money with these benefits. If the employer pays the full benefit, the employee's transportation expenses are considerably reduced. If the employee pays the benefits, s/he still receives a reduction in transportation costs, since the taxable salary is reduced by the amount of the benefit, thus resulting in a lower tax assessment.

Increased Employee Satisfaction

Employees view transit/vanpool benefits extremely favorably. Transit/vanpool benefits can:

- Lower employee commute stress
- Provide additional choices to employees
- Heighten employee appreciation of employer
- Help make benefits plans more employee friendly and environmentally friendly

When Transit/Vanpool Benefits Make Sense

Any employer with a commuting workforce can offer transit/vanpool benefits. There are certain conditions, however, that make it easier or more beneficial for an employer to implement such programs.

Locations with Access to Transit or High-Occupancy Vehicle Lanes

Transit passes and vanpool programs can be implemented in all types of locations, including both urban and suburban areas. Transit programs, however, will generally be most effective in locations where transit options are readily available and with frequent service. These conditions are typically the case in central business districts and other dense urban areas, although certain suburban areas may also fit into this group.

Vanpooling can work well in more suburban areas not well served by fixed route transit. The availability of high-occupancy vehicle (HOV) lanes and park-and-ride facilities make vanpooling more appealing to employees.

[6] *For employees earning over $87,900 per year, there would be less savings to the employer because Social Security taxes are not paid on any salary above $87,900 (in 2004; salary limits change annually). Medicare taxes have no salary limit.*

Locations with Limited or Expensive Parking and Long Commutes

Constrained parking tends to increase the desirability and improve the effectiveness of transit/vanpool benefits since employees may wish to avoid driving under these conditions. Employees with long commutes are often most interested in vanpooling since they can use the time that would have been spent driving more productively, or to rest or talk to co-workers. Such factors as employee work hours matching transit schedules and a supportive employer attitude toward vanpooling can also have important effects on the success of programs. (FHWA, 1993)

Employers with Recruitment or Retention Issues

In a tight labor market, employers can make themselves more attractive to employees by offering commuter benefits.

Implementation and Costs

Employers must address various administrative issues in implementing a transit/vanpool benefits program. Although all employers must spend some staff time setting up the program, the larger the employer the more complex and potentially challenging the issues. Small and medium employers, especially those with only one worksite, tend to find these benefits fairly straightforward to implement and administer.

Because transit/vanpool benefits are a tax-deductible business expense, they can often be provided at relatively little cost to an employee and with relatively little administrative burden. As noted earlier, implementing an employee "pre-tax" payroll deduction program can actually result in total tax bill reductions for a company, but this is not as valuable to employees.

Fewer Administrative Requirements than Flexible Spending Accounts

Transportation fringe benefit programs have considerably fewer administrative requirements than IRS Section 125 Flexible Spending Accounts (FSAs) for health care and dependent care expenses. What sets transportation fringe benefits apart from other pre-tax programs like flexible spending accounts is the ease of use and exemption from the usual pre-tax program restrictions. There are no complicated plan filings or forms to fill out, no "use it or lose it" rules, no irrevocable elections, and no mandatory enrollment dates.

In particular:

- Nondiscrimination rules that apply to flexible spending accounts do not apply to transportation benefits. An employer can offer transportation benefits to any group of employees without concern about disproportionate use by the highly compensated.
- Unlike FSAs, salary reduction elections do not need to be made before the beginning of the plan year. The employer may allow elections for transportation benefits to be made before any period during which the employee will receive the benefits. For example, an election period may be for a calendar month, providing greater flexibility for employees.
- Unlike FSAs, transportation benefits are not subject to Form 5500 annual reporting.

Costs and Corporate Cash Flow

The primary cost of employer-based transit benefits programs is the contribution to the employee's transit cost. Although providing transit/vanpool benefits costs a company less than providing additional salary (due to payroll tax savings), cash flow associated with purchasing transit passes or vouchers can be an issue for some companies. For example, some transit agencies and voucher providers recommend that employers purchase vouchers for three months at a time, rather than one. Although advance purchase may not be required, the voucher provider or transit agency may give financial incentives for advance purchase, such as lower shipping charges or automatic re-ordering. In addition, voucher providers generally charge a small administrative fee. Ongoing direct administrative costs tend to be small, depending upon the number of participating employees and the number of vouchers or passes distributed. According to David Judd, vice president of Commuter Check, internal research shows that for many small companies, administration takes only a few hours per month. (Judd, 2001)

Although no written rules are required by tax law, a company will typically want to set up program administrative guidelines. The guidelines will address issues such as: How do employees elect the benefits? How often will voucher distribution take place? How often can employees change their pre-tax elections? Can an employee return the vouchers for taxable cash if they do not use them? Setting up program procedures often entails initial start-up time, but can ultimately save administrative costs by ensuring a clear, consistent set of procedures.

Some employers may encounter payroll difficulties combining a partial employer-provided transit/vanpool subsidy with a pre-tax election. For example, at the University of California–Berkeley, staff and faculty are given a choice between reserving pre-tax salary to purchase transit/vanpool

passes and participating in the university's subsidy program. Employees cannot combine the benefits.

Distribution of Passes or Vouchers

Logistics and security are important concerns with pass/voucher distribution. Transit passes and vouchers generally do not contain identifying characteristics that clearly show they belong to a specific person. As a result, the employer must match the transit vouchers they receive from the transit agency with the elections made by individual employees. The process can be further complicated if the employer payroll operation is centralized but facilities are spread throughout a region or the country. In general, distribution is probably a greater problem for large companies with multiple sites, and not much of a problem for small employers with a single site.

Employers have responded in several ways. Some employers have employees pick up passes or vouchers in person from a designated contact person. Other employers send passes or vouchers directly to employees' homes to simplify the process. Some employers use a cash reimbursement system to avoid having to distribute vouchers altogether; however, there are regulations specifying when cash reimbursement can be used, depending on whether vouchers are "readily available" (described further below). Some commercial services also offer a service in which they send passes or vouchers directly to employees' homes, saving the employer distribution efforts; most often, a fee is charged for this service. There is no one best way–each employer must choose a solution that fits.

Dealing with Multiple Transit Agencies

Dealing with multiple transit systems can be a challenge for employers, whether the employer has multiple work sites or the region is served by several transit agencies. Within a given region, there may be dozens of individual transit systems, each with different types of transit passes. If an employer needs to distribute different kinds of passes to different employees, this can become a major task.

There are several options for the employer interested in minimizing personnel staff time in program implementation, while handling different transit systems and vanpools. Although this section describes the types of programs available in a general way, see Appendix A for a list of programs arranged by city or region.

▶ **Regional Transit/Vanpool Vouchers:** In most large metropolitan areas, regional transit vouchers are available, which are good for services on multiple transit agencies, including vanpools. These regional vouchers tend to come from either a large regional transit agency or a commercial voucher provider.

✓ **Vouchers from Transit Agencies:** Many large metropolitan areas have simplified the process by creating regional transit vouchers that are good for services with multiple transit agencies, including vanpools. For example, in the Washington, DC metropolitan area, Metrocheks are available through the Washington Metropolitan Area Transit Authority (WMATA). Metrocheks are accepted by over 100 bus, rail, and vanpool services in the DC area. The employee either uses the Metrochek directly on Metrorail or trades the voucher in for a Metro bus pass, another local bus pass, commuter rail tickets, or vanpool pass. Many regional transit services also now have employer coordinators and special program materials for employers to make it easy for employers to start a program. Some transit agencies even provide discounts to employers who order in bulk.

✓ **Commercial Voucher Providers:** In other metropolitan areas, the regional voucher is available from a commercial voucher provider. A commercial voucher provider serves as a middleman between employer and transit agencies, and a clearinghouse for transit agencies; the voucher provider offers transit passes that can be used on any transit system in the region.

Three of the largest commercial voucher providers are: Commuter Check Services Corp., TransitCenter, and Work/Life Benefits. By using these voucher providers, the employer responsibility is limited to only the purchase and distribution of vouchers. The services typically charge an administrative fee. (Garvey, 2000)

✓ **Other Transit/Vanpool/Parking Benefit Services:** In addition to these options, a commercial venture called WageWorks helps employers to set up a commuter benefit program that allows employers to order transit, vanpool, and parking vouchers online. An employer would set up an account with WageWorks. The employees order passes via the Internet and have them sent directly to their homes, without the employer having to worry about distributing vouchers. WageWorks charges an administrative fee.

Using Cash Reimbursement

Cash reimbursement may be used instead of transit/vanpool vouchers only if the voucher provider charges a fee that exceeds 1 percent of the average annual value of the vouchers (excluding per order delivery charges of under $15).

Employers cannot consider internal costs (e.g., distribution costs) to claim that vouchers are not readily available.

Equity Issues

For employers with multiple worksites, especially in different states, there may be equity issues to consider before implementing transit/vanpool benefits. Because transit fares vary so widely, giving the same dollar amount to employees in different locations (or even to those in the same location who use different means of transit) will result in different levels of coverage for employees' transit needs. A $105 benefit would more than cover a $45 monthly bus pass (although the employee would not receive the additional $55 in cash), but commuter rail expenses could easily exceed $105 per month, in which case the employee would have to make up the difference. The other option is to pay a similar proportion of all employees' commuting expenses, although any benefits over $105 would not be tax-free. There is no one correct approach to the issue, but employers served by a variety of transit agencies must take the issue into account.

Guide to Implementation

An employer would need to take a number of steps to implement a transit benefit program. The first two steps below would be the same for any employer; however, once an employer has decided whether to use a voucher system or a cash reimbursement system, the steps diverge. Both possibilities are presented below.

Appendix B contains a flow chart to assist employers with decision-making about the various choices involved in implementing a transit/vanpool benefits program.

1) Determine What Form of Transit/Vanpool Voucher Is Available for Your Location

Many cities and regions already have transit voucher programs through which employers can purchase transit vouchers in bulk for their employees. The largest programs are listed in the Associations and Contacts section that follows, under "Regional and Local Transit Agencies and Other Contacts." For regions not listed here, an employer should contact the local transit agency to determine whether they participate in such a program. At this early stage, employers should also determine how many different transit systems their employees use; in a small city, where all bus services are provided by a single agency, a program might function differently than in the San Francisco Bay Area, with over two dozen transit agencies. This may be a particular difficulty for multi-region employers, especially those whose offices are served by smaller agencies.

2) Determine Whether to Use Voucher/Pass System or Cash Reimbursement System

According to IRS regulations, a cash reimbursement system can be used only if a voucher provider charges a fee for providing the vouchers that exceeds 1 percent of the average cost of the vouchers.

If the employer chooses to implement a voucher system, the following steps would apply:

1) Contact Transit Pass or Voucher Provider

After deciding to participate in a voucher program, the employer could contact a representative from the provider to review program, costs, and logistics. If there are multiple transit agencies, an employer should discuss how this might affect employees' use of the program. Some voucher programs also offer the option of registering online.

2) Determine How Voucher/Pass Program Will Operate

Vouchers or passes may be used either for employees to purchase with pre-tax dollars or as an employer-paid benefit. Employers must decide which of these options better meets their needs. If the employer is paying for the benefit, it must also decide whether it will offer the full $100 to all employees, or whether it will pay a certain percentage of costs.

3) Obtain Senior Management Approval

Senior management would need to approve this type of addition to existing benefits. Because the most effective programs in reducing solo driving are those that are supported by management, if one of the employer's goals is to reduce the percentage of single-occupant vehicles, ongoing management support of the program is critical.

4) Make Appropriate Changes to Payroll System

If the program is designed to allow employees to purchase pre-tax vouchers, payroll procedures must be changed to reflect this new benefit. This may mean setting up new deduction codes, redesigning payroll forms, or working with a third-party payroll vendor to implement the change. An employer must also decide if benefits will be available at any time, or if employees will only be able to enroll during certain election times, and how employees will enroll (via printed forms, electronically, or through some other means). If there will be different denomina-

tions of transit vouchers available, this should be reflected in enrollment procedures. At this point, employers should also decide how vouchers or passes will be distributed—on a monthly, quarterly, or annual basis— and whether they will be mailed to employees or picked up at a central point at specified times.

5) Enroll in Voucher or Pass Program

Employers must enroll with the voucher or pass provider. Providers may have minimum order levels; they may also make recommendations as to how many vouchers or passes should be ordered (usually 5 percent above anticipated demand). It generally takes several weeks before the employer obtains the vouchers or passes. Employers should ensure that employees receive their vouchers or passes within a reasonable time after beginning to make deductions.

In a voucher program, the employer should decide what denominations make sense. For example, if the main transit provider is a bus service, and a monthly pass costs $40, the employer would want to order both $10 and $30 vouchers. A $30 voucher would leave the employee to pay the remaining $10, while two $30 vouchers would mean a waste of $20, since riders cannot redeem the extra voucher amount for cash. Voucher providers may have denominations specific to the city and transit agency.

6) Publicize the Program to Employees

Employers should communicate the new benefits to employees. Information about the benefits should also be incorporated into orientation sessions, company benefits literature and internal communications.

7) Enroll Employees

Once the benefit is set up and announced with a start date, the employer should be prepared for a large one-time influx of new enrollees. For onsite distribution, employers should arrange to have sufficient vouchers or passes on hand at the site, and ensure that personnel understand the distribution procedures.

8) Set Up a System for Continuing Distribution

Once the initial enrollment period has passed, employers should ensure that the system continues to operate smoothly. This includes continuing publicity of the program, monitoring program usage, ordering new vouchers or passes on a regular basis, and answering employee questions about the program.

If the employer chooses to implement a cash reimbursement system, the following steps would apply:

1) Determine How Cash Reimbursement Program Will Operate

The employer must decide whether the program will operate as an employee-paid or an employer-paid program. An employee-paid reimbursement program operates like a flexible spending account, in which the employee reserves a specific amount of pre-tax money every month, up to $105. The employee then requests reimbursement, using these funds, for actual transit expenses incurred. An employer-paid program would allow employees to request reimbursement up to $105 per month from the employer. Both types of programs must meet IRS criteria about reimbursement; the employers must implement a "reasonable procedure" to ensure that the employee spent the money on qualified transit expenses. Also, the reimbursement program must operate on a reimbursement basis–the employer cannot reimburse an employee until an expense has actually been incurred.

3) Obtain Senior Management Approval

Senior management would need to approve this type of change in benefits. If the employer wants to reduce the percentage of single-occupant vehicles, ongoing management support of the program is critical. Even more important than management support is management participation–if senior level employees ride transit, employees will be more likely to believe that the company has a serious commitment to the program.

4) Make Appropriate Changes to Payroll System

If the program is designed to allow employees to reserve pre-tax funds to pay for transit, payroll procedures must be changed to reflect this new benefit. This may mean setting up new deduction codes, redesigning payroll forms, or working with a third-party payroll vendor to implement the change. If the program will be employer-paid, any reimbursement procedures the company already has in place will need to include transit reimbursements; this may require adding expense codes or enrolling employees who do not normally request expense reimbursements. An employer must also decide if benefits will be available at any time, or if employees will only be able to enroll during certain election times, and how employees will enroll (via printed forms, electronically, or through some other means). At this point, employers should also decide how often reimbursement will be distributed—on a monthly, quarterly, or annual basis—and how employees will sub-

mit claims for reimbursement (on paper or electronically, and whether receipts or copies of transit passes will be required).

5) **Publicize the Transit Cash Reimbursement Program to Employees**

Employers should communicate the new benefits to employees. Information about the benefits should also be incorporated into orientation sessions, company benefits literature, and internal communications.

6) **Enroll Employees**

Once the benefit is set up and announced with a start date, the employer should be prepared for a large, but one-time influx, of new enrollees, as well as the first batch of requests for reimbursement.

7) **Set Up a System for Continuing Cash Reimbursements**

Once the program has been implemented and any bugs worked out, the employer should ensure that the program continues to operate smoothly. This would include continuing publicity of the program, monitoring program usage, and answering employee questions about the program.

Employer Questions and Answers

These questions might commonly be asked by an employer (e.g., a human resources administrator or business manager) considering a commuter benefits program.

How difficult—and costly—is it to administer a transit/vanpool benefit program?

A study of firms that have implemented transit pass programs generally found negligible implementation costs. The study found that transit programs are in many cases simple to organize and implement and that their ongoing administration poses no extra cost to the firm. Companies interviewed generally felt that the benefits of the program far outweighed the added administrative time necessary to implement the program and distribute vouchers. Some companies hire outside firms to deal with voucher purchase, distribution, and advertisement. Although these companies charge for their services, some companies have found that these extra costs can be less than actual tax savings for both programs where the employer provides vouchers and where employees pay with pre-tax income. (Litman, 1999) However, implementing programs also involve initial start-up costs in terms of staff time needed, which may fall heavily on the human resources section. In addition, some companies have found that the number of people who will be interested in receiving the benefits is too small to justify the time and effort involved.

What are the cost implications of implementing transit/vanpool benefits for my company?

The total financial effects of a benefits program will vary depending on the specific conditions of a company, including existing parking arrangements, location, transit availability, and current travel patterns of employees. If the benefit is paid by employees out of their pre-tax earnings, the employer will incur only administrative costs. If the employer pays for the benefit, costs will be substantially higher, based on the amount of the benefit and the number of employees who participate. In addition, the use of commercial transit voucher providers may entail an administration fee. If the employer pays for the benefit, the cost to the employers will be less than if the employers had increased employees' salaries by an equivalent amount. If the employees pay for the benefits out of pre-tax income, the employer saves on payroll taxes. The payroll tax savings should generally offset the administration fees charged by commercial providers. It is important to note that many of the costs may be more than offset by other significant long-term cost savings. Employers interviewed in case studies consistently remarked that the transit benefits are an added fringe benefit that helps to recruit and retain employees: "It tips the scale in our favor when a recruit is comparing offerings of other companies to ours." (Wells, 1999) Moreover, by equalizing benefits, companies provide a more equitable compensation package for all their employees. Together, these features may help to reduce recruitment and retention costs for the company. In addition, for employees who personally support environmental goals, such benefits may make the company more attractive than one that simply offers free parking and does not address other commute modes.

If I implement a transit/vanpool benefit program, am I required to offer the full value of $105 to my employee?

No. An employer may provide benefits of any amount.

What if a monthly pass costs $125 per month? Am I limited to providing a $105 benefit per month?

No. An employer may provide transit/vanpool benefits of any amount. The tax-free benefit for transit/vanpool benefits, however, is currently limited to $105 per month. As a result, the employee and employer must pay taxes on the value of the benefit that exceeds the $105 statutory limit. For exam-

ple, if the employer provides the employee with a monthly pass valued at $125 per month, $105 is a tax-free fringe benefit, and the excess—$20—must be included in the employee's wages for income and employment tax purposes. Similarly, if the employer offers a pre-tax salary deduction option, the employee may be allowed to purchase a pass with a value of more than $105 per month. Then, $105 per month will be deducted from the employee's wages for income and employment tax purposes. The remaining cost will be included in taxable salary but be used by the employer to purchase the pass.

Do transit passes need to be distributed on a monthly basis? What if I want to provide my employees with annual transit passes?

Transit passes may be distributed up to 12 months in advance. In the case of a pass that is valid for more than one month, such as an annual pass, the value of the pass may be divided by the number of months for which it is valid to determine whether the value of the pass exceeds the statutory monthly limit. For example, an employer may provide employees with transit passes near the beginning of each calendar quarter for that calendar quarter. In this case, an employer may provide employees with transit passes with a value of $315 on March 31 for the calendar quarter covering the months April, May, and June. Since $300 is within the statutory limit (three months times $105 equals $315), the total value is excludable from the employees' wages for income and employment tax purposes.

How are benefits treated if an employee terminates employment and the transit passes cover multiple months?

In general, the value of transit passes provided in advance to an employee for a month in which the individual is not an employee must be included in the employee's wages for income tax purposes. Transit passes distributed in advance to an employee are excludable from wages for employment tax purposes if the employer distributes transit passes to the employee in advance for not more than three months. At the time the passes are distributed, there cannot be an established date that the employee's employment will terminate (for example, if the employee has given notice of retirement) occurring before the beginning of the last month of the period for which the transit passes are provided. Assume the employer distributes transit passes quarterly, and the employee elects to have $315 deducted from salary to cover transit vouchers for April, May, and June. If employment terminates on May 31, and there was not an established date of termination at the time the transit passes were distributed, then the value of the transit passes provided for June ($105) is excludable from the employee's wages for employment tax purposes. However, the value of the transit passes distributed for June ($105) is not excludable from wages for income tax purposes. If the employee's termination date was established at the time the transit passes were provided, then the $105 is included in the employee's wages for both income and employment tax purposes.

Under what circumstances can an employer offer benefits in the form of cash payments rather than using transit vouchers or passes?

The tax code states that transportation reimbursements must be made through vouchers or passes, rather than cash payments, unless the employer can show that vouchers or passes are not "readily available." The January, 2001 IRS regulations define the term "readily available" by stating that only fees charged by transit voucher providers, and non-financial restrictions on vouchers, could be considered in making a determination of voucher availability, not internal administrative costs. Passes are to be considered readily available if an employer can obtain a pass on terms no less favorable than those available to an individual employee, as long as the voucher provider does not charge a fee in excess of 1 percent of the average monthly value of the voucher.

In making a determination of voucher availability, employers cannot consider internal costs, but can include non-financial restrictions, such as whether there are reasonable advance purchase and minimum purchase requirements and whether vouchers can be purchased in appropriate denominations. (Federal Register, 2001) Internal administrative costs that cannot be considered in determining voucher availability include expenses incurred by the employer to distribute the vouches (i.e., if the employer chooses to mail vouchers to employees, the postal fee cannot be considered), any additional security measures that must be taken to safeguard the vouchers, and expenses incurred to advertise the provision of transit vouchers. Non-financial restrictions that can be taken into consideration include the following: if a voucher provider does not make vouchers available for purchase at reasonable intervals, or if a voucher provider fails to provide vouchers within a reasonable period after receiving payment for the voucher.

Must a qualified transportation fringe benefit plan be in writing?

No. The Internal Revenue Code does not require that a transportation fringe benefit be in writing. However, a company may wish to have certain rules and procedures written in order to answer employee questions.

What are the benefits and downsides of using a commercial voucher provider?

Commercial voucher providers can greatly simplify the process of implementing a transit voucher program.

- **Fewer Administrative Requirements Compared to Cash Reimbursement.** Because vouchers can be ordered in bulk, and are generally valid for many months, an employer can order several times per year, instead of processing many reimbursements every month. Commercial voucher providers can set up automatic reminders about reordering. Using a voucher system reduces both the human resources department and employees' administrative requirements, because they do not have to file for reimbursement or handle reimbursement requests. Once the employee has received the voucher, the employer's tasks are completed.
- **Simpler Relations with Transit Agencies.** In areas with multiple transit agencies, employees can generally use vouchers at any provider. Employers do not have to purchase passes from multiple agencies.
- **Customer Friendly**. An account representative may provide a human resources employee with valuable experience about expected employee response to vouchers.
- **Easier for Multi-State Employers.** Employers with locations in two or more states may choose to use commercial voucher providers because of the time and effort involved in administering the program in different states. The main downside is that commercial voucher providers change an administration fee equal to several percent of the total cost of the vouchers supplied. The more employees that enroll, the more expensive the service becomes on an absolute basis.

What is a vanpool?

A vanpool operates like a mini-transit service, with an organized route, schedule and passenger fare charges. Vanpools are comprised of at least six people, plus a driver, and fares depend on the commute distance, the total number of riders, the type of van, company-provided equipment, and incentives or subsidies. Vanpooling tends to appeal particularly to long-distance commuters who can reduce their commute costs and get to work in a stress-free way by sharing the ride with others. Typically, the vanpool driver rides free in exchange for driving, collecting fares, and managing maintenance for the van. Vanpools can be either employer-sponsored, use third-party leases, or be owner-operated. More information on vanpools is contained in a separate briefing paper.

Does an employer need to operate a vanpool to provide vanpool benefits?

No. An employer does not need to own or lease the vans in order to provide a vanpool benefit to employees.

What are the best ways to promote a transit/vanpool benefit program?

An employer has numerous options to inform employees about the benefits. Some of the more frequent methods include, but are not limited to, the following:

- Company orientation meetings for new employees
- Advertisements in places seen frequently by employees (e.g., cafeteria, garage, elevators)
- Distribution of program brochures
- Company newsletters
- Voicemail or e-mail broadcast
- Special promotional days (e.g., a "Pool Day" to encourage carpooling and vanpooling)
- Awards or prize drawings to recognize employees using transit or carpools
- Inserts to paychecks
- Company Web site or Intranet

Do any state or local governments offer any incentives for doing this?

Yes. Several states offer tax incentives for providing transit/vanpool benefits. Maryland offers a 50 percent tax credit up to $30 per employee per month for costs associated with providing transit/vanpool benefits to employees. Minnesota provides a tax credit equal to 30 percent of the difference between what the employer pays for transit/vanpool passes and what employees are charged for the passes. Georgia offers a $25 tax credit for each employee receiving a transportation fringe benefit, as long as the tax credit does not exceed the amount of money spent on the program. Other states, including Delaware, Connecticut, New Jersey, and Oregon, offer tax credits to eligible companies that implement commuter transportation benefit plans, which could include transit/vanpool benefits. State tax credits may reduce the amount of federal tax savings, due to smaller federal deductions for state taxes. Employers should discuss state tax credit implications with a qualified tax advisor. More detailed information on state tax credits is contained in a separate briefing paper, Commuter Tax Benefits.

Employer Case Studies

Both public and private sector employers have implemented successful programs across the United States. Following are examples of employers that have implemented commuter pass programs of varying scales.

Seattle, Washington—Minor & James Medical Clinic

Minor & James Medical Clinic in Seattle provides all of its employees with an Annual Flex Pass, which is good for unlimited free transit rides in King County, Washington. The Annual Flex Pass provides the approximately 340 employees of the clinic with free transportation to work using public transportation. According to Joann Wray, the human resources and transportation director, the Annual Flex Pass is greatly appreciated by employees. The pass normally retails at a cost of $1,746. The program has been in effect since 1997, and about 80 percent of the employees (275 out of 340) take transit to work each day. No parking is provided at the clinic, except for employees who were grandfathered into the program (about 100), and those that are required to work late night hours. Employees like the pass program because it allows them to commute to work for free. Part of what makes the program successful is an emergency ride home program that is paid for by the clinic. The emergency ride home program offers employees the ability to take transit to work with the security of knowing that they will be able to get home quickly in the event of an emergency or special circumstance. (Wray, 2001)

Boston, Massachusetts

A Boston-based Internet startup with about 70 employees gives its employees free passes to use in the Boston subway system. Management's primary goal is to keep the benefits free even as the firm grows to an anticipated 100 employees in the months ahead. The company reports that the program has been very well received and is one tool among many to attract high-quality employees. The pass "really excites people" because it is something tangible they can use right away. To compete, the company wants to make it as easy as possible for employees to commute and avoid parking expenses, which can add up to more than $300 a month in downtown Boston. (Garvey, 2000)

Chicago, Illinois—General Growth Properties

General Growth Properties, a Chicago-based company that manages shopping malls across the country, allows employees to take a payroll deduction of pre-tax dollars to be used for transit vouchers, rather than providing a direct benefit. About 250 of the company's 500 headquarters employees have enrolled in the program managed by General Growth's payroll/accounting department. Given that the company's payroll is handled in-house, the program managers feel that administration of the program on an ongoing basis takes very little extra effort. Setting a limit on when employees can opt in or out of the program makes the program more manageable. Allowing monthly enrollment or other changes would be difficult from an administrative perspective, so General Growth's program limits changes to once a quarter. Under the company's program, General Growth purchases transit vouchers that cover a broad base of the Regional Transit Authority/Chicago Transit Authority's mass transportation options. The vouchers are in different denominations, made out to General Growth and can be used to pay for transportation on any part of the regional system. Vouchers are distributed to employees once a month through the company's security desk. Those enrolled in the plan must show identification and sign for the vouchers. The company does not offer any form of parking benefit.

Portland, Oregon—Intel Corporation

Intel Corporation, with major offices in Arizona, Washington, California, and Oregon, offers a wide range of transit benefits to employees. At its Santa Clara facility, employees receive free Ecopasses for the Valley Transportation Authority light rail system, as well as $30 per month in subsidized metro/bus passes. In Portland, Intel Corporation bought annual bus and light-rail passes from Tri-Met, the local transit authority, at a discounted price. The company received the discount by purchasing passes for all eligible members of its work force. The corporation purchased 10,400 passes and will provide them free of charge to all employees. Under the state's new commute-reduction law, businesses that provide transit passes for their employees receive a 35 percent state tax deduction. According to a 1999 report, 40 percent of Intel's workforce in Arizona and Washington were using community methods other than driving alone to work, as were 32 percent of California employees.

Atlanta, Georgia—Georgia Power– A Southern Company

Between 1997 and 1999, Georgia Power/Southern Company instituted a series of commuter benefits designed to allow their employees to assist in reducing Atlanta's worsening air pollution. One benefit gives employees monthly subsidies for transit, shuttles, or vanpools. In addition, to encourage rail ridership, the company beefed up its MARTA shuttle operations, shortening headways to 10 minutes or less throughout the day. Use of alternative commute modes increased from 300 employees in 1997 to 1,500 employees in 2000, or from 10 percent to 50 percent of all employees. Ridership on the MARTA shuttle was at 11,000 boardings per month in June

2000, up from 6,000 per month in 1997.

Milwaukee, Wisconsin—University of Wisconsin

The UPASS transit pass program at The University of Wisconsin–Milwaukee (UWM) is an innovative transit program developed by the university and the Milwaukee County Transit System (MCTS) in which all UWM students receive an unlimited transit pass as part of their tuition. The pass can be used anytime, anywhere, for any trip purpose throughout Milwaukee County without any additional fare required. Program findings indicate that UPASS has been effective in reducing vehicle trips, increasing transit ridership, and reducing the impact of the automobile on the environment. The UPASS program has influenced modal shifts. Students who drive to UWM declined from a rate of 54 percent prior to UPASS to a rate between 38 percent to 41 percent after the implementation of UPASS. Students choosing to ride MCTS increased from 12 percent prior to UPASS to a rate of 25 percent to 26 percent since the implementation of UPASS. The UPASS program has also increased transit ridership for trips to work, to shopping, and to other locations. Transit mode split for work trips by survey respondents showed nearly a doubling over pre-UPASS semesters from a rate of 8 percent to approximately 15 percent. Surveys indicate a 17 percent to 18 percent increase in transit ridership for these trip purposes compared to pre-UPASS ridership. MCTS on-board ridership counts indicate express service to UWM showed a 75 percent to 136 percent increase compared to ridership counts conducted prior to the UPASS program. The UPASS program reduced vehicle trips to the university, which resulted in a reduction in emissions, fuel consumption, and student dollar savings. The UPASS program resulted in 221,055 fewer vehicle-trips made to UWM during the 1994–1995 academic school year.

Bethesda, Maryland—Calvert Group

The Calvert Group, a socially responsible investment fund located in suburban Washington, DC, offers a commuter benefits program to cover every potential mode, including walking and bicycling. Although Calvert subsidizes employees who drive at a rate of $75/month, persons who ride transit are reimbursed the full value of the transit costs, regardless of provider. Employee turnover dropped from 25 percent to 12 percent after implementation of the program, and Calvert management sees the plan as integral to its recruitment and morale. The company has gained national attention for the quality of its employee programs in national publications such as *Business Week* and *Working Mothers Magazine*.[7]

Los Angeles, California—Transamerica Life Companies

Transamerica Life Companies, an insurance company with approximately 1,000 employees, is located just south of downtown Los Angeles. Los Angeles area companies with over 250 employees are mandated by the South Coast Air Quality Management District to institute trip reduction programs. Transamerica Life's commuter program, which developed over a period of 13 years, includes a vanpool program (leased vans; maintenance, insurance, and administration provided), free parking for vanpools and parking discount for carpools, and a 50 percent transit subsidy (up to $65/month). Employees can purchase transit passes onsite; the Transportation Coordinator sends down a list of participants to the store, and the employee pays the balance of the amount. The company supports these financial elements with a guaranteed ride home program, emergency use of company cars, work hours flexibility, and bike racks and shower/locker facilities. As a result of these measures, approximately 500 employees participate in the transit pass program, and an additional 175 use carpools or vanpools. (FHWA, 1993; Corona, 2001)

Minneapolis, Minnesota—American Express

In 1998, American Express, a major financial services company, became the first Twin Cities employer to take advantage of the Metropass program offered by regional bus service provider Metro Transit. The program allows employers with over 100 employees to obtain reduced-cost monthly bus passes for their employees. For the first year, American Express paid Metro Transit $1.8 million, based on an estimate of the number of employees who would ride the bus. Employees could then purchase monthly bus passes for $25 pre-tax, a significant savings over the usual price of $76. Employees received photo bus passes to reduce the risk of fraud. Of the company's 6,000 employees in Minneapolis, approximately 70 percent use the program. (Pietsch, 2001; U.S. EPA Commuter Choice Case Studies)

Services That Support Implementation

Local Governments and Transit Agencies

Many regional and local government entities provide services to help employers implement commuter benefit programs. Transit agencies, metropolitan planning organizations (MPOs), city and county transportation agencies, transportation management associations (TMAs), and transportation management organizations (TMOs) throughout the United

[7] *Example from: www.bwc.gov/employ/csparking.htm.*

States provide assistance to employers in starting and maintaining transportation demand management programs like transit passes and vanpools. They often provide information to employers about options to reduce driving to work, implementation issues, and local programs that support employer initiatives. Transit agencies often allow employers to purchase deeply discounted transit passes for their employees in an effort to boost ridership and meet environmental goals. Employers that take advantage of these programs should be aware that transit pass costs may rise after a year or two and plan accordingly. One potential solution to this problem might be for a company to carry the cost of transit passes for the initial years, and then share costs with employees later on.

Supporting Services—Emergency Rides Home and Information Provision

One of the barriers that prevents some employees from taking transit or a vanpool to work is the fear that they will not be able to get home quickly in the event of an personal emergency, such as picking up a sick child from school or working unscheduled overtime. Emergency or guaranteed ride home (ERH) programs provide commuters who regularly carpool, vanpool, bike, walk, or take transit to work with a reliable ride home when an unexpected emergency arises. Knowing there is a guaranteed ride home gives employees the security to take commuting options like transit and carpools with confidence.

ERH programs may be established by individual employers; usually the employer will pay for a taxi home in case an employee who takes transit or a vanpool needs to go home at a time when transit services are not available or without the vanpool. Some MPOs and local governments have also established regional or county-wide ERH programs for employees that register for the program. ERH programs tend to be low-cost ways to encourage transit use, especially if a company only "fills in" coverage for areas not covered under a broader regional program. For example, a regional transit agency may provide an emergency ride home for monthly passholders, so a company would have to provide ERH only for carpoolers. Employers can also support transit and vanpooling by providing information on these options to their employees. A bulletin board or display with transit route maps and schedules can often be put up in a human resources office, lounge area, or hallway. Employers can also send periodic reminders to their employees about the availability of benefits through company voicemail or email systems, company newsletters, or an awards program designed to recognize alternative commuters. A supportive attitude toward transit and vanpooling can also help. Supervisors should recognize their vanpoolers' schedule; for example, they should not hold late meetings that would require employees to miss their vanpool.

Associations and Contacts

This section includes information on experts that employers might wish to utilize for expertise in understanding, promoting, or providing technical information on transit/vanpool benefits. (Employers seeking information on implementing vanpool programs should consult the separate briefing paper on vanpool programs.) Individual employers are directed to contact their local MPOs, transit agencies, TMAs/TMOs, or other groups that provide services to support transit/vanpool benefit implementation.

Regional and Local Transit Agency and Government Contacts

Many transit agencies, MPOs, and state and local transportation agencies have programs to support transit/vanpool benefits. An extensive list of regional programs is provided in Appendix A, Regional Transit Benefits Programs. If an area is not listed in Appendix A, the MPO for the region may offer more assistance on locating rideshare programs. The appropriate MPO can be located through the Association for Metropolitan Planning Organizations (202-296-7051); a list of MPOs with Web pages is available at <www.ampo.org/links/mposnet.html>.

Transit/Vanpool Voucher Providers and Other Services (Regional and National)

The following commercial voucher providers sell transit/vanpool vouchers to employers. Depending on the provider, vouchers may be available for multiple regions. These contacts include:

Transit/Vanpool Voucher Providers

Accor Services North America (Work | Life Benefits)
25115 Avenue Stanford, Suite 200
Valencia, CA 91355-4582
661-775-2200
www.wlb.com/En/index.asp

Commuter Check Services, Corp.
David Judd, Vice President of Marketing
401 S. Van Brunt Street
Engelwood, NJ 07631
201-833-9700, Fax: 201-833-8704
www.commutercheck.com

TransitCenter
2901 Sidco Drive
Nashville, TN 37204
800-945-CHEK
inquiries@transitcenter.com
www.transitcenter.com

VPSI
CommuterBucks Program
1220 Rankin Street
Troy, MI 48083-6004
800-826-7433, Fax: 810-597-3501
www.vpsiinc.com

Other Services

WageWorks Inc.
Sheila Villaroman
400 South El Camino Real, Suite 600
San Mateo, CA 94402-1705
Tel: 650-373-2900, Fax: 650-373-2919
www.wageworks.com

Best Workplaces for Commuters℠

For more information on Best Workplaces for Commuters℠, contact the program's information request line at 888 856-3131, or visit <www.bwc.gov>.

Information on Tax Considerations

The Internal Revenue Code that governs employer-provided commuter benefits is found at 26 USC Section 132(f), and is available on the Web at: <uscode.house.gov/usc.htm> or <tmi.cob.fsu.edu/act/f_benefit.htm>

For more information relating to qualified transportation fringes in Section 132(f), visit the Internal Revenue Service (IRS) Web site at <www.irs.gov>. This site contains useful information for employers regarding the tax treatment of fringe benefits. Some publications available from the IRS that may be useful include:

—**Publication 15a, Employer's Supplemental Tax Guide—Section 6. Employee Fringe Benefits**
www.irs.gov/pub/irs-pdf/p15b.pdf

—**Publication 15b, Employer's Tax Guide to Fringe Benefits—Transportation (Commuting) Benefits**
www.irs.gov/pub/irs-pdf/p15b.pdf

—**Final Regulation Concerning Qualified Transportation (Commuting) Fringe Benefits** (Issued January 11, 2001)
frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2001_register&docid=01-294-filed.pdf

For more information relating to qualified commuter benefits in Section 132(f), send a written request to:

Freedom of Information Reading Room
PO Box 795, Ben Franklin Station,
Washington DC, 20044;
or contact Patricia Holtzman at the IRS at 202-622-6040.

Emissions and Transportation Benefits

Transportation benefits can be an effective means of reducing vehicle travel and associated emissions of air pollutants and greenhouse gases, traffic congestion, and parking problems.

Vehicle Trips

Transit pass programs typically produce substantial shifts away from driving to work alone. Studies of programs in New York City, Philadelphia, and San Francisco found an increase in employee transit use for both commuting and non-work trips among those receiving employer-provided transit benefits.[8] On average, employees receiving benefits took 1.7 to 3.2 new transit trips per week, as shown in the following table. (US DOT, 1995; Metropolitan Transportation Commission)

Although most of the employees taking transit benefits already commuted by transit, the surveys suggest that most of the users who increased transit use were previously non-users or infrequent users of transit, and remain irregular users.[9] The largest increases in transit use appear to be in suburban areas, where existing transit share is lower than urban areas. For example, in the Bay Area study, the average increase was 3.03 new transit trips for employees working in San Francisco and 3.74 new transit trips per week for employees working out-

[8] *Metropolitan Transportation Commission. Impact of the Bay Area Commuter Check Program: Results of Employee Survey. Oakland, California. U.S. Department of Transportation, Federal Transit Administration. TransitChek in the New York City and Philadelphia Areas. Prepared by Research and Special Programs Administration. Final Report. October 1995.*

[9] *It is not clear to what extent the level of the subsidy affects the number of new transit trips. One would expect that a higher subsidy would yield greater transit use. The San Francisco study, however, suggests that the level of the transit subsidy has little bearing on the transit ridership effect. No correlation was found between the amount of subsidy received and the number of new transit trips. The 1994 New York survey, however, found that employees receiving $31 or more per month took on average over three times as may additional trips as those receiving $30 or less per month. A comparison of the three New York surveys reveals that the increase in transit commute trips did not change much over time (about 1.1 to 1.2 new transit trips per week), even though the average subsidy in 1994 was about three times as high as in 1990. However, the number of new non-work trips was significantly higher per recipient in 1994, suggesting that the higher subsidy induces more transit trips for non-work purposes.*

Figure 3: Change in Transit Use Due to Employer-Provided Transit Benefits

Region	Type of Trip	% Employees Reporting Increased Transit Use	Average Increase in Transit Trips Per Week Per Employee (Among Employees Receiving Benefit)
San Francisco Bay Area	Commute	34%	2.05
	Non-work	29%	1.19
	Total Trips	N/A	3.24
Philadelphia	Total Trips	N/A	2.5
New York	Commute	11–23%	1.1–1.2
	Non-work	14–22%	0.55–1.7
	Total Trips	N/A	1.7–2.9

side of San Francisco. Correspondingly, the reason the average increase in transit trips was lower in New York than in other regions might be due to New York's already high transit share. In the surveys where respondents were asked about their vehicle use, the percent of respondents reporting a decrease in vehicle/taxi use was nearly equivalent to the percent reporting an increase in transit use. These findings suggest that new transit trips are associated with a reduction in driving trips. Other studies of transit pass programs at individual employers confirm the effects of these programs at reducing vehicle travel. The extensive U-PASS transportation benefit program at the University of Washington (UW) produced remarkable impacts in a short time:

On September 30, 1991, UW, in cooperation with the Municipality of Metropolitan Seattle, implemented U-PASS, one of the most comprehensive transportation demand management programs in the United States. The U-PASS program was developed in response to campus and community concerns for trip reduction and improved commuter services in view of possible impacts from planned campus development. The U-PASS program is a flexible package of transportation benefits offered through a pass that allows UW students, faculty, and staff to choose from a variety of commuting options at a greatly reduced price. After one year of operation,…[v]ehicle trips to campus are down 16 percent, parking lot use has decreased from 91 percent to 78 percent, transit ridership is up 35 percent, carpools have increased 21 percent and the number of vanpools grew from 8 to 20 in less than 9 months. (William and Petrait, 1993)

These gains have persisted over time; between 1990 and 1999, total UW-Seattle ridership grew to 7.2 million trips annually, a 68 percent increase. In the latest (1998) survey, only 25 percent of commuters to campus drove alone, a remarkable accomplishment over a period in which single occupancy vehicle mode share has risen nationwide. (University of Washington, 1999) The identically named program at the University of Wisconsin was similarly successful, moving an estimated 221,055 vehicle trips to transit during the 1994–1995 academic year. (Meyer and Beimborn, 1998)

Emissions

Reducing vehicle miles traveled (VMT) reduces vehicle emissions. The University of Wisconsin U-PASS program found a 20 percent reduction in emissions for trips to the university. (Meyer and Beimborn, 1998) Emissions reductions will generally track reductions in VMT, although if employees drive and then park-and-ride at transit stations, their cold-start emissions will cut into the emissions benefits.

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Appendix A: Regional Transit Benefits Programs

The chart below lists regional transit benefits programs (either pass or voucher programs). Employers located in areas not listed below should contact the MPO for their region to determine if others exist.

Location	Program Name	Type of Program	Telephone	Web Site
Albuquerque, NM	ACT Now		(505) 243-RIDE	www.cabq.gov/transit/actinfo.html
Atlanta, GA	TransCard	Discount Pass	(404) 848-5000	www.itsmarta.com/howto/fares.htm
Austin, TX	Commute Solutions		(512) 389-7400	www.capmetro.org/_2003/special_features/commute_sol.asp
Baltimore, MD	Metrocheks & MTA Commuter Choice MD Vouchers	Voucher	(410) 767-8755	www.mtamaryland.com/fares/metrocheck.cfm
Boston, MA	Commuter Check MBTA Corporate Pass Program	Voucher Pass	(800) 727-9436 (877) 927-7277	www.commutercheck.com/cities/boston.html www.mbta.com
Boulder, CO	ECO Pass	Discount Pass	(303) 441-3266	www.ci.boulder.co.us/goboulder/html/transit/eco_pass
Bremerton, WA		Discount Pass	(360) 377-2877	www.kitsaptransit.org
Buffalo, NY	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/buffalo.html
Chicago, IL	RTA/CTA Transit Benefit Program	Voucher	(800) 531-2828	www.rtachicago.com/infocenter/transitcheck.asp
Cleveland, OH	Commuter Advantage Program	Discount Pass	(216) 566-5100	www.gcrta.org/commutea.asp
Columbus, OH	Pass Programs	DiscountPass/ Voucher	(614) 275-5839	www.cota.com/COTA/Cotaweb/main.xml?intPageID=24&intSectionID=2&SubSubMenu=1
Connecticut (statewide)	Deduct-A-Ride	Voucher	(888) 399-9323	www.deductaride.com
Dallas, TX	DART Employer Services		(214) 747-7433	www.dart.org/riding.asp?zeon=commuterchoice
Denver, CO	ECO Pass Commuter Check	Discount Pass Voucher	(303) 299-2122 (800) 727-9436	www.rtd-denver.com/FaresAndPasses/Passes/Eco_Pass/index.html www.commutercheck.com/cities/denver.html
Des Moines, IA	Employer Support Program	Discount Pass	(515) 283-8111	www.dmmta.com/programs_employer.html
Detroit, MI	TransitChek	Voucher	(313) 223-2100	

Location	Program Name	Type of Program	Telephone	Web Site
Fort Worth, TX	E Pass	Discount Pass	(817) 215-8700	www.the-t.com/epass.html
Harrisburg, PA	Commuter Benefit Program	Voucher	(717) 238-8304	www.cattransit.com
Honolulu, HI	Bonus! Program	Discount Pass	(808) 848-4500	www.thebus.org/Info/thebustaxsavings.asp
Houston, TX	METRO Ride Sponsors	Discount Pass	(713) 739-4000	www.hou-metro.harris.tx.us/services/options/options01.asp
Kansas City, MO	Employer Pass Program	Discount Pass	(816) 346-0274	www.kcata.org/trip_program.html
Los Angeles/ Southern, CA	TransitChek	Voucher	(800) 727-9436	www.132national.com/prog_losangeles.html
Louisville, KY	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/louisville.html
Madison, WI	Commuter Choice Program	Discount Pass	(608) 266-4904	www.ci.madison.wi.us/metro/
Miami, FL	Corporate Metropass Program	Pass	(305) 884- 7567	http://www.miamidade.gov/transit/passes.asp #corporate_metropass_program
Milwaukee, WI	Commuter Value Pass	Discount Pass	(414) 343-1777	www.ridemcts.com/services/business/value_pass.asp
Minneapolis/ St. Paul, MN	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/minnesota.html
New Jersey (statewide)	BusinessPass	Pass	(973) 491-7600	www.njtransit.com/cs_sales_buspass.shtm
New York City, Area	TransitChek	Voucher	(800) 331-CHEK	www.transitcenter.com
Oakland, CA	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/sanFrancisco.html
Omaha, NE	Bus Plus	Pass	(402)341-0800	www.metroareatransit.com
Philadelphia, PA	TransitChek	Discount Pass	(215) 592-1800	www.dvrpc.org/gettransitchek/index.htm
Phoenix, AZ	Bus Card Plus	Pass	(602) 495-7283	www.valleymetro.org/transit/employer.htm
Pittsburgh, PA	EZ Gold	Pass	(412) 442-2000	www.portauthority.org
Portland, OR	Transit Pass Programs	Pass	(503) 962-7670	www.trimet.org/employers/index.htm
Rhode Island	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/rhodeIsland.html
Sacramento, CA	TransitCheck	Voucher	(800) 727-9436	www.132national.com/prog_sacramento.html
Salt Lake City, UT	ECO Pass	Discount Pass	(801) 533-7433	www.utarideshare.com/programs/EcoPass.htm

Location	Program Name	Type of Program	Telephone	Web Site
San Antonio, TX	Business Pass Program	Pass	(210) 362-2370	www.viainfo.net/Shared/BusPass.aspx
San Diego, CA	RideLink		(619) 595-5382	www.ridelink.org/employer_services.html
San Francisco Bay Area, CA	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/sanFrancisco.html
San Jose/ Santa Clara, CA	Eco Pass	Discount Pass	(408) 321-5527	www.vta.org/ecopass/ecopass_corp/eppricing.html
Seattle, WA	Commuter Bonus Employer Commute Services	Voucher	(800) 727-9436 (206) 263-3444	www.132national.com/prog_seattle.html transit.metrokc.gov/prog/employer/empcommute.html
Spokane, WA	Tri-Met Program	Voucher	(509) 456-7277	www.spokanetransit.com/
Tacoma, WA	Commuter Benefit Program		(253) 589-6373	www.piercetransit.org/rideshare/employers.htm
Trenton, NJ	TransitChek	Discount Pass	(215) 592-1800	www.dvrpc.org/gettransitchek/index.htm
Tulsa, OK	Bonus Bucks	Voucher	(918) 585-1195	www.tulsatransit.org/programs/bonus.asp
Virginia (Richmond and Norfolk)	Commuter Check	Voucher	(800) 727-9436	www.commutercheck.com/cities/norfolk.html
Washington, DC SmartBenefits	Metrochek/ Voucher	Discount Pass/	(202) 962-1326	www.wmata.com/bus2bus/smartbenefits/pages/ mchowitworks.html
Wilmington, DE	TransitChek	Discount Pass	(215) 592-1800	www.dvrpc.org/gettransitchek/index.htm

Appendix B: Transit Benefits Decision Chart

An employer wishing to institute transit or vanpool benefits must make a number of decisions about which type of program would best suit the employer's and employees' needs. The chart below lists the main decisions to be made, suggests circumstances in which certain decisions would be preferable, and lists some potential consequences.

Possible Choices	Situations Favoring Decision	Potential Outcomes
Decision: Who pays? Criteria: Cost and tax concerns		
Employer	Employer wants to give raise but is prohibited from doing so Employer wants to give benefit without incurring additional taxes	Higher costs to company but better for employees
Employee	Employer cannot absorb additional costs	Less affordable to employees; may tend to benefit employees who already ride transit or vanpool instead of encouraging new transit or vanpool riders
Split	Employer wants to give an equal benefits to each employee, but encourage employees to make up additional costs Different types of transit and vanpools have widely varying costs	
Decision: How much to pay? Criteria: Cost and tax concerns		
Under $105	Transit or vanpool pass is less than $105 per month	May not cover the full pass cost for all employees
Over $105	Employer wants to encourage transit or vanpool user by paying full costs	Employer and employees will receive tax benefits only up to $105; after that, benefits are taxable
	Transit or vanpools are expensive or employees tend to live far away	
Decision: How to pay? Criteria: How many transit or vanpool agencies are in the region?		
Use transit or vanpool passes	Passes can be easiest to use if there is only one major provider	If more than one provider, may be unnecessarily complicated
Use commercial voucher/ pass providers	In vouchers are available, can minimize employer involvement	More expensive; commercial voucher providers generally charge a fee

Possible Choices	Situations favoring decision	Potential Outcomes
Decision: How to pay? Criteria: How many transit or vanpool agencies are in the region?		
Use commercial voucher/ pass providers	May minimize administrative problems if there are multiple transit agencies	Requires employees to purchase passes themselves
	May be easier with multiple worksites because the voucher provider may be able to distribute vouchers directly to employees' homes	
Provide cash reimbursement	According to IRS regulations, cash reimbursements can only be used if the voucher provider charges a fee in excess of 1% of the average cost of the vouchers	
Decision: How often to provide benefits? Criteria: On what basis are vouchers/passes available? How much administrative effort is involved with distribution or reimbursement? Is it a problem for cash flow if purchases are made in bulk?		
Monthly	Monthly pass available	More work to distribute voucher/passes and process reimbursements
Quarterly	Compromise between frequency and the need to process and pay lump sums	
Annually	Annual transit or vanpool passes available	Employees may lose pass
	Large company or multiple worksites where more frequent distribution of vouchers/passes may be cumbersome	Minimize recurring distribution of passes/vouchers by reducing to once per year

Appendix C: Brief History of Transit/ Vanpool Benefits

Since the 1980s, the tax status of transit/vanpool benefits has changed a number of times. This section briefly describes how their tax treatment has changed.

1984–1992: Transit Passes are *de minimus* benefits; no tax benefits for vanpools; parking tax-free. When the federal tax code provision on transportation fringe benefits was established in 1984 (in the 1984 Tax Reform Act), parking was the only commuter benefit included as a tax-exempt *qualified transportation fringe* benefit. Transit passes could be offered by employers, but were considered *de minimus* fringe benefits rather than traditional fringe benefits. A *de minimus* benefit is a service or item of such small value or provided so infrequently as to make accounting for it impractical or impossible.[10] As a result, transit benefits were allowed to be offered tax-free to employees as long as they were of small value. The initial *de minimus* value was $15 per month, which was later adjusted to $21 per month. If a benefit exceeded this value, it would be taxable in its entirety. Vanpool benefits did not qualify for any tax benefits (they were not included as either a *qualified transportation fringe* or a *de minimus* benefit).

[10] *Examples of* de minimus *benefits include occasional personal use of a company copying machine, occasional parties or picnics, occasional taxi fare for employees working overtime, occasional tickets for entertainment, coffee and donuts, and group-term life insurance provided for a spouse or dependent of the employee with a face amount of $2,000 or less.*

1992: energy policy act allows for tax-free treatment of transit/vanpool benefits. In 1992, Congress passed the Energy Policy Act of 1992 (Pub. L. No. 102-486). This Act expanded the term *qualified transportation fringe* to include transit passes and transportation in commuter highway vehicles (i.e., vanpools) in addition to qualified parking. As a result, it allowed transit passes to be provided to employees tax-free at a higher value than allowed as a *de minimus* fringe. It also allowed the employer, for the first time, to offer vanpool benefits tax-free. The Act imposed a tax-free limit of $60 per month for transit/vanpool benefits and $155 per month for qualified parking, and provided an inflation adjustment to these limits. In 1995, the tax-free limit for transit/vanpool benefits rose to $65 per month. To receive tax-free status, all benefits were required to be offered in addition to (and not in lieu of) salary.

1998: TEA-21 allows pre-tax salary deductions for transportation fringe benefits. The Transportation Equity Act of the 21st Century (TEA-21) of 1998 amended tax law to allow any qualified transportation fringe to be provided to employees in lieu of salary. As a result, employers can now allow employees to reserve some of their pre-tax income to pay for transit or vanpool options. The act also raised the tax-free limit on transit passes and commuter highway vehicle benefits from $100 per month as of 2002. *(For 2005, the tax free limit increased to $105 per month for transit/vanpool benefits and $200 per month for qualified parking.)*

1999: Commuter Choice Initiative launched. Since passage of TEA-21, interest in transit/vanpool benefit programs has increased dramatically. The U.S. government, and many state and local governments, have implemented programs to encourage adoption of transit/vanpool benefits and to lead by example by providing transit/vanpool benefits for government employees. In 1999, the federal government started the Commuter Choice Initiative. As part of this, the Federal Transit Administration released the Commuter Choice Toolkit, and the U.S. Environmental Protection Agency, in collaboration with the U.S. Department of Transportation, initiated the Commuter Choice Leadership Program to honor employers providing commuting benefits to their employees.

2000: Transit/vanpool benefit programs mandated for certain federal agencies. On April 21, 2000, President Clinton signed Executive Order 13150, Federal Workforce Transportation, which set an October 1, 2000 deadline for federal executive branch agencies to implement a transportation fringe benefit program. The EO required all federal agencies in the national capital (Washington, D.C.) region to implement a transit and vanpool pass benefit program, paid for with agency funds. It also required that DOT, the Department of Energy, and EPA implement a nationwide, three-year, transit pass pilot program for all of its employees, not just those working in the national capital region. (Outside the national capital region, employees are permitted to use pre-tax salary to pay for these benefits.) Since the passage of the federal executive order, several states, including Virginia and Georgia, have implemented programs to ensure that certain state employees receive transit/vanpool benefits. Some states, such as Maryland, Georgia, and Minnesota, have also implemented state tax credits to encourage employers to offer transit/vanpool benefits.

2001: Final regulation: qualified transportation fringe benefits. On January 11, 2001, the IRS issued final regulations concerning qualified transportation fringe benefits and their excludability from employees' gross income. The regulations provide rules to ensure that transportation benefits provided to employees are excludable from gross income. These regulations provide clarification regarding under what circumstances transportation fringes may be provided pursuant to a compensation reduction agreement, the ability to carry over excess amounts to subsequent periods, reporting requirements, and use of cash payments rather than transit vouchers or passes.

2002: Best Workplaces for Commuters℠ unveiled. In 2002, EPA and the U.S. Department of Transportation unveiled the Best Workplaces for Commuters℠ list, a list to honor and recognize employers that offer their employees outstanding commuting benefits. Participating companies earn the designation "Best Workplaces for Commuters℠"—a mark of excellence for environmentally and employee-friendly organizations. The program builds on the efforts of many top employers to help get employees to work safely, on time, and free of commute-related stress. It provides the tools, guidance, and promotion necessary to help U.S. employers of any size incorporate commuter benefits into their standard benefits plan, reap financial benefits, and gain national recognition. The list replaces and builds upon the work begun by the Commuter Choice Leadership Initiative to recognize employers who offer their employees outstanding commuting benefits.

For More Information

This guidance document and other information about the Best Workplaces for Commuters℠ program are available at <www.bwc.gov> or by calling the program's information request line at (888) 856-3131.

Acknowledgements

This document was originally prepared for EPA's Office of Transportation and Air Quality under contract 68-W6-0029 by ICF Consulting and updated by Eastern Research Group, Inc. under contract 2W-0693-NBLX. We would like to thank the various reviewers who provided comments and feedback on the document.

EPA 420-S-01-003
Updated November 2005