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Compliance Alert

Tax Reform Law Affects Employer-sponsored Commuter Benefits Starting in 2018

January 1, 2018

Quick Facts:

- Starting in 2018, the federal business tax deduction for qualified mass transit and parking benefits is eliminated.
- Work-related transit and parking expense benefits continue to be non-taxable to employees.
- Tax-free reimbursement for bicycle commuting expenses is suspended.
- The changes are unlikely to affect or significantly complicate employer compliance with state or local commuter ordinances.

The federal Tax Cuts and Jobs Act (the Act), which Congress passed on December 20, 2017, will change the tax treatment of mass transit, parking, and bicycle benefits starting January 1, 2018. These changes will apply for the next eight years – until January 1, 2026.

Qualified transportation benefits

The Act eliminates the federal business tax deduction for qualified mass transit and parking benefits, except for specific expenses related to ensuring an employee's safety. However, work-related transit and parking expense benefits provided through employer-sponsored commuter benefit programs will continue to be non-taxable to employees.

Bicycle commuting expenses

The Act suspends tax-free reimbursement for qualified bicycle commuting expenses for the next eight years. Thus, employees who receive payments or reimbursements for bicycle purchases, improvements, repair, or storage through their employer-sponsored commuter benefits will now pay federal taxes on such payments and reimbursements.

Commuter ordinance compliance

The above changes are unlikely to affect or significantly complicate employer compliance with state or local commuter ordinances, since the federal tax changes leave intact the most common ordinance compliance requirement – that employers allow employees to pay for qualified transit and parking expenses on a pretax basis.

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Impact on employers

Many employers that sponsor commuter transit programs will likely continue to provide them, even without a corresponding business tax deduction. Employees who use mass transit to get to work or pay to park for work purposes value these programs. Thus, employers may decide that the positive employee morale stemming from these programs outweighs losing the federal tax deduction. In addition, the reduction in the overall federal corporate tax rate may offset the loss of any deductions.

Finally, various states could revise their tax codes to reflect the federal changes, but any state tax law changes are unlikely for 2018.

EPIC Employee Benefits Compliance Services

For further information on this or any other topics, please contact your EPIC benefits consulting team.