FAIR TREATMENT: COMMUTERS AND TAX REFORM

Prepared by
American Public Transportation Association

ACKNOWLEDGED INDIVIDUALS

Richard A. White, Acting President & CEO; Art Guzzetti, Vice President–Policy, APTA.

AUTHORS

This study was conducted by the American Public Transportation Association (APTA), principal author Darnell Grisby, Director of Policy Development and Research.

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EXECUTIVE SUMMARY

Changes to the tax code are possible with the election of a new administration and new members of Congress. Embedded in the code is a transportation fringe benefit that has positively impacted public transit agencies, employers, commuters, government and the environment. The program has yielded numerous positive outcomes, and continuation of this fringe benefit is advisable.

What is the Transit Benefit and What Are the Benefits to Employees?

The transportation fringe benefit—more commonly referred to as the transit benefit—is an employer-provided benefit that allows employees to cover the costs of their commute via transit and vanpool utilizing pretax earnings basis, up to a monthly cap of $255 (as of 2016). The transit benefit is part of commuter benefits which also allows for employees to use pretax funds to offset the cost of qualified parking (with a separate monthly cap of $255). Under Internal Revenue Code Section 132(f), employees do not pay taxes on transit or parking benefits received if their transit fare or parking is provided through a pretax payroll deduction or provided as a subsidy by their employer. The total annual tax savings can exceed more than $1,100 for a commuter using either the transit or parking benefit.

TAX SAVINGS* FOR EMPLOYEES **Based on an effective tax rate of 25%*	**TRANSIT BENEFIT (Cap of $255 per month)**
Federal Income Tax Savings	$765
FICA Savings	$235
Average State/City Income Tax Savings	$130
Total Annual Tax Savings	**$1,130**

How is the Transit Benefit Administered and What Are the Benefits to Employers?

Only an employer can offer the transit benefit, though it can be offered pretax, as a subsidy or in combination. The transit benefit also provides tax benefits to the employers who offer it. The funds the employer withholds or subsidizes are not subject to payroll taxes. The 7.65 percent the employer saves on payroll taxes is typically more than what it costs the employer to provide the benefit.

TAX SAVINGS* FOR EMPLOYERS (per employee)** ** Based on 25% effective tax bracket and monthly fare of $255* *** Payroll taxes only apply to the first $127,200 of an employee's earnings as of 2017*	**TRANSIT BENEFIT**
Social Security	$190
Medicare	$45
Total Annual Tax Savings	**$235**

What is the role of Public Transit Agencies in the Program?

In August 2016, the American Public Transportation Association (APTA) surveyed public transit agencies on the impact and relevance of the transit benefit to their operations. More than 40 percent of agencies with their own in-house transit benefit program had more than 100 employers involved. That same survey found that 58 percent of responding agencies reported they had more than 10,000 employees enrolled and 19 percent reported they had more than 50,000 commuters enrolled. This is in addition to the thousands of employers and millions of employees that use third party transit benefit providers.

Public transit agencies, in many ways, are the gatekeepers to implementation of the transit benefit. They play three key and interrelated roles: fare collector, in-house provider/processor and marketing agency.

In the August 2016 survey, APTA found that among the responding agencies, the transit benefit represented 1.87 billion trips annually. The survey also found that up to 50 percent—with the most common range being between 20 percent and 30 percent—of all trips were taken with fares purchased through commuter benefits. More than 79 percent of respondents said the transit benefit is important to supporting ridership, and nearly 62 percent of respondents said transit benefits have an impact on ridership levels.

How Do Ridership and Transit Operator Fare Revenue Increase with Transit Benefit Use?

Ridership, of course, translates into fare revenue. In the August survey, 11 public transit agencies representing 830 million trips reported total monthly revenue of $44 million from fares through transit benefit programs. The percentages of total revenue at these agencies derived from commuter benefits ranged between 3 percent and 54 percent; a range of between 12 percent and 16 percent was the most common.

What Would Happen If the Transit Benefit Were Eliminated?

If the transit benefit were eliminated, several impacts are immediately likely:

Ridership Loss

An elimination of the transit benefit would result in roughly a 40 percent effective fare increase for a large number of commuters, as fares would be paid using post-tax earnings which are subject to state and local taxation. The quick and sharp nature of the increase would cause an acute reaction that would differ drastically from other fare increases that are eased in over time, enabling the consumer to adjust and absorb the increase. Most commuters would need to shift their mode of transportation.

Revenue Reduction

The loss in ridership would lead to a reduction in revenue for transit operators. Unlike fare increases, where a small reduction in ridership is offset by a higher fare for those who remain, elimination of the transit benefit would cause a significant drop in transit use and revenue. Public transit agencies would directly bear the impact of the ridership loss without the expectation of compensating or higher revenue. **Without farebox revenue to help offset operating costs or fulfill capital needs, public transit agencies and regional commuter systems would need additional operating subsidies; have to defer or eliminate capital expansion, maintenance and safety projects; and be more reliant on federal funding.**

Congestion Increases

Eliminating the transportation fringe benefit would cause more commuters to drive to work, increasing congestion on the nation's roads. This added congestion would require additional capital expansion and maintenance of the road system. Air quality and energy use would also be affected.

The transit benefit is an effective tool that has been successful in:

- Reducing the effective cost of public transit ridership
- Saving money for middle class Americans and the companies they work for
- Increasing transit ridership particularly in suburban areas where the cost of commuting is highest
- Increasing the revenue, operational efficiency and financial stability of public transit agencies
- Encouraging employers to expand transportation options
- Reducing congestion, which benefits all users of the transportation system
- Deferring and/or eliminating the need for roadway maintenance and costly lane expansion
- Improving air quality
- Conserving energy

Recommendation

APTA recognizes the value brought by transit benefits and strongly recommends they remain a component of the U.S. tax code as Congress deliberates tax reform.