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The Tax Cut and Jobs Act: Tax Treatment of Transportation Benefits Changes Under New Law

Background

Qualified Transportation Fringe Benefits include benefits such as employer-provided parking, transit passes, and vanpool benefits. The Tax Cut and Jobs Act signed on December 22, 2017, changes the tax treatment for certain employer-provided transportation benefits. This alert will provide an overview of these changes. More detailed guidance is expected to be issued over the next several months.

Not Changing in 2018

- **Employee exclusion mostly preserved.** Most Qualified Transportation Fringe Benefits will continue to be excluded from employee income. This means the value of the benefit will not appear as taxable income on the employee's Form W-2. The only exception is for bicycle reimbursements which we will cover in more detail below.
- **Employee pre-tax elections still available.** Employers may continue to allow employees to contribute a portion of their wages towards a Qualified Transportation Fringe Benefit, such as a transit or parking pass, on a pre-tax basis (up to $260/month for each benefit in 2018). Note that pre-tax elections have never been allowed for Qualified Bicycle Reimbursements.

New in 2018

- **Employer deduction lost for Qualified Transportation Fringe Benefits.** In 2018, the employer may no longer deduct the value of a Qualified Transportation Fringe Benefit that it provides to an employee. This is true whether the benefit is provided directly to employees or as part of a voluntary pre-tax election program. The rationale for this change is that with a lower corporate tax rate, employers no longer need the individual specific deductions when determining their corporate income tax liability.
- **Similar treatment for tax-exempt entities.** Tax-exempt entities are affected by similar changes. Under the new law, certain tax-exempt employers are required to include Qualified Transportation Fringe expenses in their unrelated business taxable income.
- **No deduction for other transportation programs except for safety of an employee.** The new law also eliminates the employer deduction for any expenses incurred for other transportation programs that pay for or reimburse the cost of employee travel between work and home unless necessary to ensure the safety of the employee.

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Qualified Bicycle Reimbursements

Qualified Bicycle Reimbursements get special treatment. Employers may deduct the costs of Qualified Bicycle Reimbursements provided to their employees, and tax-exempt employers are not required to include the costs of these programs in their unrelated business taxable income. Beginning in 2018, the value of Qualified Bicycle Reimbursements will be included in employee income for both federal income tax and employment tax purposes. This is a change from prior law, which allowed a reimbursement of $20 per month on a tax-free basis.

Employer Considerations

Here's the checklist for employers who offer transportation fringe benefits in 2018.

- **Payroll Systems.** The only employers who may need to revise payroll systems immediately are those who offer Qualified Bicycle Reimbursements. This benefit becomes taxable for payments made on or after January 1, 2018. No payroll systems changes will be required for other Qualified Transportation Fringe Benefits, which remain excluded from an employee's taxable income.
- **Review state and local laws.** Some State and local governments have been actively requiring employers to provide transportation benefits. It would be wise to monitor developments in this area carefully in 2018 and beyond because we expect the new tax law to prompt additional State and local initiatives, including tax changes.
- **Understand financial impact of the new law.** The new law will have finance people asking questions about the loss of corporate deductions for Qualified Transportation Fringe Benefits. Remember that the deduction has been eliminated because the corporate tax rate has gone down. It may be appropriate to consider new corporate tax rates when reviewing the cost of these transportation benefits.
- **Review the plan design for possible changes.** There will be some creative thinking and design changes in the coming months. Any changes should be reflected in appropriate employee documents and communications.

This alert was prepared for Woodruff-Sawyer by Benefit Comply.
