

EXPANDING COMMUTER CHOICE TAX BENEFIT OPTIONS

PROBLEM STATEMENT

Currently, federal tax law allows employers to provide tax-free transit and vanpool benefits as an economic incentive to encourage the use of these alternative modes. These benefits are described as *qualified transportation fringe benefits* in Internal Revenue Code Section 132(f). By expanding *qualified transportation fringe benefits* to include other modes, such as carpooling, bicycling, walking, and perhaps even telecommuting, an economic incentive would be provided to further encourage each and every American's ability to reduce traffic congestion, improve air quality, and reduce national reliance on foreign energy sources. Similarly, by creating choice equity, a greater portion of transit and vanpool fares will be fully covered under an increased tax limit, and the irony of a higher benefit for qualified parking would be eliminated. The purpose of this research is to examine how to expand qualified transportation fringe benefits and estimate the impact of that expansion.

OBJECTIVES

The objectives of this study were as follows:

1. Evaluate the current level of use of commuter benefits among employers;
2. Examine the manner by which commuter choice programs can be expanded to provide maximum utility to employers and employees, and the creation of commuter choice equity;
3. Survey and interview employers to understand their reaction to expansion and equity;
4. Estimate the tax revenue impact of those changes; and
5. Develop a set of recommendations for expanding commuter tax benefit programs.

FINDINGS AND CONCLUSIONS

Since policymakers are considering that the Internal Revenue Code Section 132(f) be modified to include as qualified transportation fringe benefits carpooling, bicycling, telecommuting and carsharing, the following are the study's recommendations:

1. Policymakers should consider equalizing the Internal Revenue Code Section 132(f) tax limits for transit and vanpooling with qualified parking. This change would establish equity where the existing inequity seems to employers to be an inconsistent with transportation, environmental, and energy policies to reduce traffic congestion, improve air quality, and reduce dependence on foreign oil.

2. Policymakers should consider freezing only the qualified parking benefit at its current tax-free level (\$190 per month). Annual adjustments due to inflation may increase the gap between parking and transit and vanpools. In addition, freezing the qualified parking benefit would generate revenue and provide a source of funds for offsetting the cost of expanding the definition of qualified transportation fringe benefits and creating commuter choice equity
3. Policymakers should clearly state how each mode is defined.
4. Policymakers should clearly state if and how qualified transportation fringe benefits can be combined to foster program development and ease of implementation for employers

The total cost of both expanding the commuter tax benefits to include new modes (e.g., carpooling, bicycling, and walking) and creating commuter choice equity (increasing the transit and vanpool tax limit to \$190/month) is estimated to range from \$236.3 million to \$390.9 million, depending on either a \$25 or \$50 tax limit for new modes, respectively.

BENEFITS

Since bills have been introduced in both the House of Representatives and the Senate, this report will provide lawmakers with a thorough examination of key issues related to expanding the definition of qualified transportation fringe benefits and creating commuter choice equity. It will also provide them with an estimation of the tax revenue impact of expansion and equity. This research has the potential to support major changes in qualified transportation fringe benefit tax laws that will provide a financial incentive to employers and employees to use alternative modes of transportation that reduce traffic congestion and improve air quality.

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