



FAQ for the Transportation Benefits Equity Amendment Act of 2017

The Transportation Benefits Equity Amendment Act of 2017 (Bill 22-175) would require employers with 20 or more employees that provide parking benefits to offer the option to instead receive an equivalently-valued transit benefit or taxable cash. The bill would incentivize more walk, bike, and transit commutes, and reduce driving.

Q. How much congestion relief can we get by flexing parking benefits to cash for workers who prefer to walk or bicycle to their jobs?

Employers offering workers cash instead of a parking space could reduce rush hour vehicles on the road in DC by over 10%, and congestion by even more.ⁱ

Q. Who benefits from reduced congestion?

Businesses benefit from increased accessibility; drivers, bus riders, and buses are less delayed and have more predictable travel times; and reduced street congestion makes safer streets and less stressful commutes for all users.

Q. How is this congestion reduction approach better than others?

Two key congestion tools for managing travel demand are congestion charges, like in London's downtown zone, and parking taxes on free or subsidized parking. In contrast to these charges, flexible commuter benefits cost an employer little or nothing while incentivizing their "clean commuting" employees. Flexing commuter benefits to non-driving modes can significantly reduce travel demand, achieving many of the same benefits as parking taxes or congestion charges.

Q. Would people who drive and park really switch to commuting another way?

Yes. We know that offering free parking or transit benefits significantly affects how many employees will drive or take transit. When workers' commutes aren't subsidized, a little over half of commuters drive to DC jobs. If the employer gives employees free parking, the number of car commuters jumps to 85%. Likewise, when employers offer a transit benefit, transit usage among workers grows from only one third to 68%. So, economic incentives play a big role in how many people drive or take transit to work.

Q. Do employees currently receiving a parking benefit have to give it up?

No, an employee who wants to continue to use their employer-provided parking benefit may do so.

Q. Why are parking or transit commuter benefits tax-free and walk and bike commutes not?

The IRS treats parking and transit benefits as tax-free fringe benefits up to \$255/month. The IRS does not allow tax-free commuter benefits for walk or bicycle commutes. The exception is a small benefit for biking if provided by the employer for \$20/month. But the benefit cannot be combined with a tax-free transit or parking benefit. Thus, for walk and bike commuters, taxable cash, equivalent to the value of a parking space, is one of the best benefits they can receive to level the playing field of employer-provided commuter benefits.

Q. If 18% of DC residents are already walking and biking to work, why would you expect even more to opt in if an employer "cashed-out" a parking benefit?

Just as more people drive or ride transit when their commute is subsidized, more people will walk or bike if offered cash for doing so. However, walk and bike commuters have an extra incentive -- health. Workers who commute by a means other than driving alone cite saving money as their top reason for their commute choice. But for those

FOR MORE INFORMATION
email cheryl@smartergrowth.net

who walk and bike, while they also cite saving money, they identify the health benefits as their top reason by far for choosing an active commute.ⁱⁱ Boosting the economic incentive will motivate additional walk and bike commuters who were already considering the health benefits of a more active commute.

Q. What if an employer is still obligated to pay for parking spaces under a lease agreement, but some employees want to swap the parking space for taxable cash or a transit benefit? What if the employer owns the parking spaces?

It is not until after the lease on the parking spaces expires that the employer would be obligated to offer alternative commute benefits to eligible employees. Prior to lease negotiations, an employer would ask employees to update their commuter preferences, enabling the employer to adjust the number of parking spaces required to be leased. In the case of employer-owned parking, the bill does not require the employer to offer employees the equivalent value of the parking spaces until 12 months after the law goes into effect, providing the employer time to sublet or otherwise repurpose parking that would no longer be demanded.

Q. Are there any new costs for employers with this requirement to offer taxable cash instead of parking as a fringe transportation benefit?

Not necessarily, and in no case, would employers be required to pay additional costs. First, employers that do not provide free or subsidized parking are not affected by this bill. For employers that provide a parking benefit, the employer would be liable for the 7.65% FICA payroll tax on any taxable benefit that would result from an employee choosing to use some of the value of the parking benefit as increased income. However, the employer always determines how much it spends on commuter benefits, and could adjust the level of benefit to maintain costs at their current level. This bill simply requires that benefits be equalized across modes rather than favor parking over other modes.

Example: If an employer provides a tax-free parking benefit of \$200/month that an employee would prefer to take entirely as taxable cash, the taxable cash cost to an employer would include an additional \$15.30 in FICA payroll tax, for a total cost of \$215.30. However, an employer would be free to adjust commuter benefits to maintain the same total cost by slightly lowering the benefit level while equalizing benefits across modes.

To equalize the cost of taxable cash and the parking benefit to the employer, the employer could choose to offer a slightly lower parking benefit of \$185 instead of \$200, where employees who drive and park would need to contribute \$15 each month toward their own parking. The \$185 can then be used as taxable cash or as a parking or transit benefit (or as a transit benefit plus taxable cash if transit costs less than \$185 per month). This way, the employer's budget for transportation benefits would be unchanged as a result of the FICA tax.

Q. Is it easy for an employer to administer a taxable cash benefit in lieu of a transportation fringe benefit?

Yes. If an employee opts to receive cash instead of the value of a parking space offered by the employer, the employer would increase the employee's wages by the amount of the commuter benefit.

This bill builds on [DC's Commuter Benefits Law](#) which requires all employers with 20 or more employees to provide workers with the option to use their own pre-tax money to pay for transit. The small modifications employers were required to make to their payroll systems to administer pre-tax benefits also make for easy administration of a flexible parking benefit that employees can swap for a tax-free transit benefit, taxable cash, or a combination of the two.

If an employee opts for transit, the fringe benefit would be switched from parking to transit, and any left-over money from the parking benefit would be provided as increased wages to the employee. The employee would be able to receive all of the transit benefit as tax-free, which the employer's payroll system could easily accommodate as it is required to already offer pre-tax transit benefits.

FOR MORE INFORMATION
email cheryl@smartergrowth.net

Offering taxable cash in lieu of a benefit is already a common practice for health benefits when an employee opts to not take the employer-provided benefit because he or she is covered by a spouse's health insurance. In this case, the employer provides the taxable cash in lieu of the amount that the employer would have spent on subsidizing the worker's health insurance.

Commuter benefits can be combined in various ways. Individually, parking and transit commuter benefits are tax-free up to \$255 each. They can be combined for a total of up to \$510 per month tax-free. Tax-free benefits can also be combined with taxable cash. (However, the \$20/month bike benefit provided by employers is ineligible to be combined with parking and transit benefits.)

Example: Instead of using a \$200/month parking benefit, an employee wants to ride transit some days and bike or walk on others. The employee may opt to receive 3 days a week of transit fares and taxable cash for the remainder. The chart below illustrates how this would cost the employer an additional \$11.28 in taxable cash benefits. If the employer only wishes to spend \$200 per eligible employee, it can slightly reduce the benefit to keep the same level of expenditure.

Combined commute benefits scenario for flexing a \$200/month parking benefit

Commute: 3 days Metro, 2 days biking or walking	Monthly commute benefit	Employee benefit	Employer cost
Pre-tax benefits (Metro = \$4.30/day x 12 days)	\$51.60	\$51.60	\$51.60
Taxable cash in lieu of parking or transit* (remainder of unused \$200 benefit)	\$148.40	\$88.15 (after FICA, fed & local taxes)	\$159.68 (FICA = \$11.28)
Total value	\$200.00	\$164.80	\$211.28

*FICA is 7.65% for employer. Tax assumptions for employee wages includes 25% federal income, 8% DC state, 7.65% FICA.

Another example showing a sample pay stub for pre-tax Metro benefit – “PTX MET CK”.

EARNINGS	RATE	HOURS	THIS PERIOD	YEAR TO DATE	TAXES / DEDUCTIONS	THIS PERIOD	YEAR TO DATE
REGULAR	26.11	80.00	2088.80	26717.98	FEDERAL W/H	268.92	3967.35
SPBON				500.00	SOCIAL SECURITY W/H	126.55	1817.46
Pub Reward				600.00	MEDICARE W/H	29.59	425.05
SALHOLIDY				615.84	DISTRICT OF COLUMBIA W	125.55	1825.14
SALSCKHRS				308.60	MED PRETX	39.39	551.46
SALVACTKN				1481.98	DEN PRETX	5.23	73.22
LIFE 50K+			0.18	2.41	LTD	1.98	27.62
					401K	208.88	2912.44
					PTX MET CK	3.22	288.22
					LIFE 50K+	0.18	2.41

	GROSS PAY	TAXES	DEDUCTIONS	NET PAY
CUR	2088.98	550.61	258.88	1279.49
YTD	30226.81	8035.00	3855.37	18336.44

VAC BAL	56.00	VAC/SICK Balances for the Period Ending : 28-JUN-2002	
SICK BAL	61.84		

Source: Michael Grant, ICF, “Employer-Based Commuter Benefits Programs: How They Work and Their Impacts,” February 9, 2017.

http://www.smartergrowth.net/wp-content/uploads/2017/02/Employer_Based_Commuter_Benefits_Programs_M_Grant_ICF.pdf

¹ This number is derived from the 10-12% decrease in drive-alone commute trips and vehicle miles traveled (VMT) from parking-cash out implementation, according to research by Donald Shoup, 1997, “Evaluating the Effects of California’s Parking Cash-out Law: Eight Case Studies,” Transport Policy, Vol. 4, No. 4, 1997, pp. 201-216. <http://shoup.bol.ucla.edu/Parking%20Cash%20Out%20Report.pdf>. Reduced vehicle trips and VMT translate into a larger reduction in traffic congestion ranging from 1.4 to 10 times due to the disproportionate effects of small reductions in vehicles on the road in reducing congestion. See: INRIX, “The Impact of Fuel Prices on Consumer Behavior and Traffic Congestion,” Kirkland, WA, October 22, 2008; and Todd Litman, 2017, “Congestion Reduction Strategies,” specifically see “Pricing Impacts on Traffic Congestion,” Victoria Transport Institute. <http://www.vtpi.org/tdm/tdm96.htm>

ⁱⁱ 2016 State of the Commute Survey - Commuter Connections Technical Report, Washington Metropolitan Council of Governments, June 30, 2016. <https://www.mwcog.org/file.aspx?D=QeYnH%2bWler%2fV%2fTihscUi%2fmgQOMfESSFijgDzAjKSPS4%3d&A=22ydW3xOSxfrxTt1jI6miZe65Zpj2mp6MVZ XAVHPls%3d>