



U.S. Department  
of Transportation  
**Federal Transit  
Administration**

400 Seventh St., S.W.  
Washington, D.C. 20590

## **TRANSIT BENEFITS**

[26 USC 132 (f); TEA-21 Section 9010]

### Program Purpose

Under previous tax law, the Internal Revenue Code allowed employers to provide employees with qualified transportation fringe benefits that are excluded from gross income (i.e., not taxable to the recipient). Qualified benefits including parking (up to \$175 per month) and transit and vanpool benefits (up to \$65 per month combined). Parking benefits are excludable from gross income even when provided in lieu of other compensation payable to an employee (i.e., purchased with pretax dollars). Transit passes and vanpool benefits are excludable only if provided in addition to, and not in lieu of, any compensation otherwise payable to an employee.

### Eligibility

The Transportation Equity Act for the 21<sup>st</sup> Century modifies some of the above provisions in the Internal Revenue Code to help level the playing field between parking benefits and transit/vanpool benefits. The principal changes are that 1) the limit on nontaxable transit and vanpool benefits is increased from \$65 to \$100 per month for taxable years beginning after December 31, 2001; and, 2) transit and vanpool benefits may be offered in lieu of compensation payable to an employee for taxable years beginning after December 31, 1997. This gives transit and vanpool benefits the same tax treatment as parking benefits are given under the Taxpayer Relief Act of 1997. All benefits are indexed for inflation and can change on an annual basis. For calendar year 2000, the tax free monthly limit for transit and vanpools is \$65 and \$175 for parking.

As a result of these changes, employers (for taxable years beginning after December 31, 1997) will be able to offer employees several options for qualified transportation fringe benefits. These benefits are not, however, permitted to be part of "cafeteria" plans or flexible spending accounts. Employers can offer any combination of these benefits (up to the specified limits), either in addition to present compensation or in lieu of compensation, tax free. Employers can also choose to offer a parking cash out program whereby employees may choose to cash out the value of employer-provided parking, forego parking, and receive the taxable cash value of the parking, or receive a tax-free transit or vanpool benefit of up to \$65 per month.

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