

What's Happened with My Tax-Free Transportation Fringe Benefits?

Over the years, Congress has established some nice tax breaks for transportation-related employee fringe benefits to encourage taxpayers to be more ecology-minded when commuting to work.

But, the Tax Cuts and Jobs Act ("TCJA") changed the landscape for these tax-favored fringe benefits, and not in a good way for individual taxpayers. As a result, your employer may have pulled the plug on some of these benefits.

Here's how the TCJA changed transportation-related benefits.

No More Deductions for Employers

The transportation fringe benefits explained in this article are still tax-free to you, within limits. If your employer continues to provide them, you won't owe any federal or state (if applicable) income tax, Social Security tax, or Medicare tax on the value of these benefits. So far, so good.

What the TCJA did do is permanently eliminate employer deductions for these benefits for 2018 and beyond. Thus, it wouldn't be surprising if your company ceases to provide these fringes because it can no longer deduct the cost. However, you may still be able to derive some tax savings.

Mass Transit Passes

For 2019, employer-provided mass transit passes for train, subways, and bus systems are tax-free up to a monthly limit of \$265. If your company still provides this benefit, sign up for it.

If your company doesn't offer this benefit because it can't deduct the cost, it may offer a salary-reduction arrangement. This lets you put aside up to \$265 a month from your 2019 salary to pay for transit passes with your own money.

That way, you buy the passes with before-tax dollars. Say, for example, you set aside the maximum \$265 a month. If you're in the 24% federal income tax bracket, you could save \$763 a year in federal income, Social Security, and Medicare taxes. You might reap some state income tax savings too.

Here's the rub. Since the passage of the TCJA, your company is now unable to deduct the money you set aside. But it may continue to offer a salary-reduction arrangement because you're covering the cost with your own money. Your employer only loses the right to deduct the amount you set aside.

Parking Allowances

For 2019, employer-provided parking allowances are also tax-free up to \$265 a month in addition to the tax-free \$265 a month for transit passes. So, you could get a tax-free total of \$530 a month to pay for the train and the park and ride at the station. Or you can simply drive to work and get \$265 in tax-free bucks to help cover parking near the office.

Once again, if your company eliminates this benefit because it cannot deduct the cost, it may offer a salary-reduction arrangement. Suppose you set aside up to \$265 a month and pay for parking with your own before-tax dollars. If you sock away the maximum total of \$530 a month for passes and parking, you could save \$1,526 a year in federal taxes if you're in the 24% tax bracket. You may get state income tax savings as well. Not bad for turning in a form to the company.

The same scenario applies to money that you set aside for transit passes. While your company has lost the ability to deduct the amount you saved for transit passes, it may offer a salary-reduction plan because you're covering the cost with your own money.

Employer Reimbursement for Job-Related Moving Expenses

Before the TCJA, your employer could cover qualified job-related moving expenses by reimbursing you or by paying the expenses directly to the third party in question. Either way, the benefit was free of federal income taxes to you. However, the TCJA eliminates this tax-free treatment for tax years 2018 through 2025, unless you're an active-duty member of the Armed Forces and are making a permanent change of station.

The good news: Your company may still provide this benefit because it can continue to deduct the cost. If so, you come out ahead even though the reimbursement is treated as additional taxable salary. And your company might even be willing to "gross up" what it pays to cover the additional taxes you'll owe.

One more thing: If you pay job-related moving expenses yourself, no deductions are available for tax years through 2025, unless you're an active duty member of the Armed Forces and are permanently changing your station.

Take Advantage of Opportunities

If your company still pays for transportation-related fringe benefits, take advantage. If not, you may be able to sign up for a salary-reduction arrangement that trims your taxes. The higher your tax bracket, the more you can save with such an arrangement. As for moving expense reimbursements from your employer, a taxable reimbursement is still much better than no reimbursement.

If you have questions about these benefits or want more information, contact your tax advisor.

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