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For employees who live a fair distance from work, commuting can be costly and time-consuming, not to mention a hassle. At least employers may provide some relief by offering certain tax-free transportation benefits. The three main benefits – the statutory tax exclusions for mass transit passes, commuter highway vehicle expenses and qualified parking fees — were recently enhanced by the Protecting Americans from Tax Hikes (PATH) Act. Here's a brief rundown of the rules.

- 1. Mass transit passes:** A transit pass includes any pass, token, fare card, voucher or similar item entitling a person to ride free of charge or at a reduced rate on mass transit or in a vehicle seating at least six adults (not including the driver) if a person in the business of transporting persons for pay or hire operates it. Mass transit may be publicly or privately operated and includes transportation by bus, rail or ferry.
- 2. Commuter highway vehicle expenses:** A commuter highway vehicle is any highway vehicle that seats at least six adults (not including the driver). It must be reasonably expected that at least 80% of the vehicle mileage will be for transporting employees between their homes and workplaces with employees occupying at least one-half the vehicle's seats (not including the driver's seat).
- 3. Qualified parking fees:** This includes employer-provided parking for employees on or near the business premises. It also covers fees for parking on or near the location from which employees commute to work using mass transit, commuter highway vehicles or carpools (e.g., at the lot for a train station). However, it doesn't cover parking at or near the employee's home.

How much can be excluded from tax? Prior to the PATH Act, the maximum tax-free

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Under the new law, the parity in these three benefits is permanent. What's more, the law includes a provision for annual inflation indexing, beginning in 2016. The maximum monthly benefit for this year is \$255.

Finally, employers in areas where it's possible to bike to work can reimburse their employees tax-free for up to \$20 per month for bicycle "commuting" expenses. The payments are allowed for reasonable costs such as purchasing the bicycle and other equipment, repairs and storage. However, if an employee takes advantage of this tax break, he or she isn't eligible for any of the other three transportation benefits.

Employers may want to survey employees to see what the optimal benefits are for their situation. By providing one or more the statutory transportation benefits, both morale and productivity are likely to rise.

Benefits • IRS

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