

Impact of Tax Reform on the Pre-Tax Transit Benefit

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- ▶ What is the Pre-Tax Transit Benefit?
- ▶ Impact of Tax Code Changes
- ▶ NYC Commuter Benefit Law
- ▶ Impact on Marketplace to Date

What is the Pre-tax Transit Benefit?

- ▶ IRS provision that saves employees up to 40% on their transit expenses
- ▶ Allows employees to exclude up to \$260/month in transit expenses from their taxable income
- ▶ Free of federal, NYS, NYC and FICA payroll taxes
- ▶ An estimated 1 million NYMTC commuters take advantage of the benefit
 - ▶ Estimated tax subsidy of \$500 million
- Employers must offer the benefit for employees to be eligible
- In the past, there was no cost to the employer to offer the benefit
- However, federal tax reform has created a significant disincentive

Impact of Tax Code Changes

Before Tax Reform

▶ Employees

- ▶ Up to \$260/month free of federal, NYS, NYC and FICA payroll taxes
- ▶ Save up to \$1,200/year

▶ Employers

- ▶ Save 7.65% FICA payroll tax
- ▶ Fully deductible as a wage expense for Federal, NYS and NYC business income taxes

After Tax Reform

□ Employees

- NO CHANGE
- Save up to \$1,200/year

□ Employers

- Save 7.65% FICA payroll tax
- Loss of business expense deduction for wages designated as “qualified transportation expenses” for federal, NYS and NYC business income taxes.

Cost to Businesses of Loss of Deduction

▶ Federal business income tax rate	21%
▶ NYS business income tax rate	6.5%
▶ NYC business income tax rate	8.55%
▶ Incremental MTA tax	1.1%
▶ TOTAL	37.15%



Example: LIRR Rider

- ▶ Typical LIRR rider who deducts maximum \$260/month
 - ▶ Total wages excluded: \$3,120
 - ▶ Tax savings up to \$1200

- ▶ Cost to Employer (after Tax Reform)
 - ▶ Loss of business deduction \$3120
 - ▶ Increased taxes: \$1159



In effect, the full cost of the pre-tax transit subsidy has been transferred from government to business.

Impact on Non-Profit Organizations

- ▶ Non-profit organization will also be affected (including hospitals and universities as qualified transportation benefits have become taxable as unrelated business taxable income (UBTI) of the organization.

▶ Federal UBTI tax:	21%
▶ NYS UBTI Tax:	9%
▶ Total	30%

And non-profits did not benefit from a decrease in the business rate to offset this new expense.



NYC Commuter Benefit Law

- Mandates that companies with 20 or more employees in NYC offer the pre-tax transit benefit or be subject to penalties.

However...

- The penalty is on \$250/month or \$3K per year.



Impact on Marketplace to Date

- Outcry from non-profit sector
 - Several bills have been introduced at the federal and NYS levels to roll back the UBTI tax changes related to qualified transportation benefits.
- So far, minimal noise from the business community



Questions?

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