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How to Benefit from Transportation-Related Fringe Benefits

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You can take advantage of relatively generous transportation-related fringe benefits for commuting to work. Congress by offering such incentives has sought to lessen our dependence on foreign oil and protect the environment. Such incentives include monthly tax-free fringe benefits for using mass transit and bicycle. Ironically, Congress has provided fringe benefits for parking, too. Let us educate ourselves about these transportation-related fringe benefits.

SOME BASICS

1. TAX-FREE EMPLOYER PROVIDED BENEFITS

These employer-provided benefits are not includible in your taxable income. This means if the employer provides you with monthly allowance for such transportation, to the extent allowed by the law, you do not have to pay federal, state, social security or Medicare taxes on such allowance.

2. SALARY REDUCTION ARRANGEMENT

If your employer is not offering you such fringe benefits, you might succeed in convincing your employer to allow you to set aside part of your salary for paying such work-related transportation costs. This is called salary reduction arrangement. The money you put aside with permission from your employer is also tax free. In fact, the salary reduction arrangement allows you to pay for such commuting costs with pretax dollars. It is important to note the salary reduction arrangement is not as profitable as when your employer pays you since some of your own salary is being put aside. Nonetheless, in the whole scheme of things, this arrangement is better than nothing.

TAX BREAKS: TRANSPORTATION-RELATED FRINGE BENEFITS

1. Mass Transit Allowance

Mass transit passes for buses, subways and trains are tax free up to \$230 per month through the end of 2010. If Congress does not act, tax-free mass transit monthly allowance will be around \$120 as of 2011.

This is interesting to note that if you are in the 25% tax bracket, you could save up to \$900 in federal state social security or medicare taxes by taking advantage of such tax breaks.

2. Bicycle Allowance

Your employer could give you up to \$20 per month tax free for purchasing, repairing and storing the bicycle you regularly use for commuting to work. This paltry amount would be worth more to cyclists.

3. Parking Allowance

Your employer could give you up to \$230 parking allowance each month tax free. The parking allowance is in addition to the mass transit allowance you could get every month from your employer tax free. This means if you are in 25% tax bracket, you could get up to \$1,800 every year tax free.

Remember, even if your employer does not provide for such fringe benefits, take advantage of salary reduction arrangement.

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