

# Employee Benefit ■ Plan Review

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## A Change in the Internal Revenue Code Could Increase Transit Use and Transform Commuter Benefits into an Essential Employee Offering

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Giving back to communities has evolved into a strong corporate value with far-reaching benefits. From corporate donations, to foundations and sponsorships, to responsible practices for product development, companies have proven that there is much more to business than simply turning a profit.

Today more than ever, corporate social responsibility is taking on an increasingly environmental flavor. An ever-growing roster of leading companies—from General Electric to Citigroup and S.C. Johnson—have publicly shared how they are taking steps to curb global warming. The need to address climate change has taken on a heightened degree of urgency as the issue has moved into the public eye, and companies are taking action by altering their business practices, policies, and even their products and services to become more “green” and reduce their impact on the environment.

One simple way that many companies are taking a measurable step towards sustainable practices is by offering a commuter benefits program to their employees and encouraging the use of mass transit and vanpools as an alternative to drive-alone commuting. The program is relatively easy for small and large companies to implement, provides savings that employees can enjoy every day, and has been proven to turn many drivers into transit riders, thus reducing traffic congestion and emissions.

Despite this, the fact remains that the majority of U.S. workers still prefer to drive to work alone. And corporate efforts to increase transit use through commuter benefits programs have historically been hindered by a continuous inequity in the number of tax-free dollars that can be applied to an employee’s commuting costs under the tax

code: Currently, transit riders can receive a tax-free benefit of up to \$110 a month, while those who drive are allowed up to \$215 to pay for parking.

### RECENT BILLS INTRODUCED IN BOTH THE HOUSE AND SENATE RECOGNIZE COMMUTER BENEFITS AS A VALUABLE STEP

Two bills introduced in early 2007 in the U.S. Senate and House of Representatives marked a major step forward by recognizing the potential impact that commuter benefits programs can have on communities by providing a financial incentive to convert more drivers into being mass transit commuters. The bills seek to amend the Internal Revenue Code to increase the tax-free amount that can be used towards transit commuting costs and make it equal to the allowable amount for parking, capping both at a maximum \$200 monthly set-aside. S. 712 was introduced to the U.S. Senate by U.S. Senator Charles Schumer (D-NY) on February 28, 2007, and Representative James McGovern (D-MA) introduced H.R. 1475 on March 12, 2007.

“In finding ways to provide energy solutions and combat global warming, this Congress cannot ignore the role of our nation’s commuting habits. H.R. 1457 addresses these issues and highlights the necessary actions we need to take to increase mass transit usage and reduce congestion,” said Representative McGovern.

### THE ENVIRONMENTAL IMPACT OF COMMUTING EMPLOYEES

Research by the American Public Transportation Association tells us that each year, public transportation

in the U.S. saves more than 855 million gallons of gasoline and reduces annual emission of pollutants by over 80,000 tons. However, the number of cars continues to explode, and is outpacing population growth. From 1980 to 2000, there was a 46 percent increase in the number of registered motor vehicles in the United States, and an 80 percent rise in miles traveled. During the same period, the nation's population grew by only 24 percent.

Traffic congestion is growing not only because of the disproportionate increase between vehicle use and population growth, but also continued under-investment in public transportation, a real estate boom that placed affordable housing farther away, thus extending commuting distances, and the growing global economy, which has caused more freight traffic on roadways.

For 20 years, the Texas Transportation Institute (TTI) has studied congestion in 75 urban areas ranging in size from New York City to regions where the population is in the 100,000+ range. TTI's latest *Urban Mobility Study*, published in 2005, showed that the number of productive hours lost annually by sitting in traffic has increased from 17 in 1984 to a new high of nearly 50 hours. That is, the equivalent of eight business days. And the areas where traffic congestion occurs is widening. According to the report, 34 percent of major roadway systems experienced congestion in 1982 whereas in 2003, the percentage rose to 59 percent.

And yet despite the need to spend longer hours on the road, over 78 percent of commuters still choose to drive to and from work, rather than take mass transit or pursue other alternatives, according to 2000 U.S. Census reports. This reliance on the automobile not only has environmental implications, it also means lost productivity for businesses.

## **ENCOURAGING TRANSIT RIDERSHIP**

More needs to be done to encourage transit ridership. And now Washington recognizes that the law needs to change not only to create an equal savings opportunity for those who choose transit, but also because one car driven between work and home for a year will discharge an alarming 62.5 pounds of carbon monoxide into the air.

"The legislation introduced by Senator Schumer and Congressman McGovern recognizes the need to address congestion in light of global warming and energy issues," said Jon Martz, president of the Association for Commuter Transportation. "The transit benefit has provided employers an opportunity to engage their employees' commuting habits. This applies to not only urban areas, but also to rural areas where commuters often travel many miles to and from their work place."

Amending the IRC to make the commuter benefit equal for transit stands to increase the value of commuter benefits programs to employers and their employees, spurring more employers to offer a program, and more individuals to participate.

## **DO COMMUTER BENEFITS REALLY INCREASE TRANSIT USE?**

Between 1989 and 2004, over 160,000 employees were surveyed along with transit agencies, commuter organizations, and commuter benefits providers nationwide to learn more about the change in transit use after a commuter benefit program was introduced.

The results, published in 2005 by the Transportation Research Board of the National Academies, found that where commuter benefits were available, 26.9 percent of those receiving benefits switched to transit and 32 percent using

transit had previously driven alone to work.

"The data show that in many cases, implementing a commuter benefits program will result in increased transit use by employees, and that a commuter benefits program can be effective in reducing driving to work," said Michael Grant, who was the Project Manager for the report. "An increased savings opportunity would mean a further reduction."

## **HOW WILL WASHINGTON DECIDE?**

Changes in the federal tax code that have helped to increase the limits for commuter benefits in the past have happened as a result of larger legislation, including the Energy Policy Act of 1992, the Taxpayer Relief Act of 1997, and the Transportation Equity Act for the 21st Century, enacted in 1998—all of which have led to the current limits of \$110 a month for transit and \$215 a month for commuter parking.

The same will most likely happen this time around. In fact, at the time of this writing, an energy and global warming package is being discussed in the House of Representatives where H.R. 1475 has the greatest chance of being included.

Recently, Representative McGovern testified before the House Ways and Means Committee on the issue of raising the tax-free cap for transit commuter benefits during a meeting focused on tax energy issues and the tax code.

The interest in commuter-related employee benefits among HR professionals has been growing, and this approach is envisioned as a way to provide savings for commuting employees, especially as gas prices and commuting costs continue to rise. In Washington, sponsors of the bill are optimistic that it will successfully pass before the end of this year.

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With a renewed vitality and focus on increasing transit ridership to reduce emissions that contribute to global warming, one can hope for greener pastures ahead and that more businesses will recognize commuter

benefits as an employee program that benefits everyone. ♻️

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corporation that specializes in tax-free commuter benefits, transit information, and assistance for employees and commuters nationwide.

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