

Affordable Transit, Affordable New York

Guaranteeing the Transit Tax Break for Employees and Businesses

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EXECUTIVE SUMMARY: TAX SAVINGS FOR RIDERS AND BUSINESSES

Federal tax law allows workers to pay for up to \$130 per month of their public transit costs before taxes, the same way they pay for health insurance premiums or retirement contributions. This means big savings for transit riders: the average New Yorker who makes the city's median income and buys a \$112 monthly Metrocard through an employer-provided commuter benefits program could save \$443 a year.

Employers save, too: companies don't pay taxes on the money their employees spend pre-tax on public transit because employee gross taxable income is reduced. **Businesses can save about \$103 per year in tax liability** for every employee who buys monthly Metrocards through the company's commuter benefit program.

But only New Yorkers whose employers offer transit benefits have access to these savings. If an employer decides not to offer transit benefits, there is no way for their employees to participate—because of federal law, workers cannot sign up for the program on their own. It is estimated that more than a million eligible New Yorkers do not have transit benefits **simply because** their employers do not offer them.

An average New Yorker who buys monthly Metrocards through a transit benefits program could save

\$443 every year.

Employers who offer the benefit can save

\$103

per employee every year.

But currently,

1 million

people who live and work in New York don't have access to transit benefits.

Requiring businesses with 20+ employees to offer transit benefits would make them available to up to

605,000

more New Yorkers, and would keep more than

\$85 million

in New York City's economy each year.

New Yorkers don't need to continue losing out on transit benefits. There is a simple, proven way the City can help hundreds of thousands of New Yorkers save money, decrease tax liability for businesses and keep tens of millions of dollars in the local economy: by guaranteeing that companies with 20 or more employees offer transit benefits. A transit benefits guarantee could give an additional 605,000 New Yorkers access to these savings and keep at least an additional \$85 million in the local economy.

TRANSIT BENEFITS: GOOD FOR NEW YORK'S WORKERS

New Yorkers rely on public transit: Each weekday, New Yorkers take more than 7.8 million rides on the bus and subway. And when one of New York's train and bus riders pays out-of-pocket at a MTA booth or vending machine, they've likely had to pay income tax on the money they use. For instance, an average New Yorker buying a \$112 monthly transit pass has already spent around \$36 in federal income tax on that money before it even made it into their paycheck.

Fortunately, there is a federal program that lets commuters hold on to that money. The federal transit benefit program (IRC Sec. 132 (f)) lets transit users save hundreds of dollars per year by paying for transit fare through their employers on a pre-tax basis, the same way people pay premiums on employer-provided health insurance or for certain retirement contributions. An employee at a business offering transit benefits can set aside up to \$130 of their paycheck toward their transit costs each month, reducing their gross taxable income by the amount they set aside.

This means that a New Yorker making the median wage and buying \$112 monthly transit passes will save \$443 per year.² A New Yorker spending more per month—for instance, commuting by express bus—can sign up for the maximum benefit amount of \$130 per month and save \$514 per year³ These numbers are averages based on New York City's median wage; each transit rider's own savings depend on his or her earnings, tax filings, and transit usage. Not surprisingly, the program is popular: it is estimated that around 750,000 transit riders who both live and work in New York currently take advantage of transit benefits.⁴

1 "Subway and Bus Ridership," New York Metropolitan Transportation Authority. http://web.mta.info/nyct/facts/ridership/index.htm

2 Savings estimates derived from the TransitChek benefits calculator. http://pages.transitchek.com/calculatesavings/english/index230cap.html

3 Such results are typical, but actual savings will vary and depends on the cost of transit options, the specifics of one's tax status, and other such factors.

4 All aggregate figures in this report reflect the population of individuals who are both employed *and* reside in New York City, or relevant subsets thereof. Estimates including additional *non*-residents of New York City who use or would be eligible for transit benefits (not included in this analysis) would be significantly larger.

GOOD FOR NEW YORK'S EMPLOYERS

The program is popular with employers, too. Not only does it allow them to offer employees a money-saving benefit for free, but it saves employers hundreds of dollars a year too by reducing their payroll tax burden. For every dollar an employee spends on pre-tax transit benefits, an employer can save up to 7.65¢ in avoided federal payroll tax. This means that an employee making the median New York City salary and regularly buying monthly public transit passes using transit benefits will **save their employer about** \$103 every year.

Enrolling in and administering transit benefits is easy for employers: many payroll and benefits vendors will take care of almost the entire process, integrating transit benefits with tax compliance and payroll management services. Metrocards can then be mailed to the employer or directly to employees, or fare money can be deposited into electronic accounts with special transit debit cards that can be used at MTA vending machines.

GOOD FOR NEW YORK CITY'S ECONOMY

In addition to bringing tax savings to employers and employees, transit benefits also benefit New York City's economy. Money saved by both employers and employees is retained in the local economy: for the sake of simplicity, if we assume that all 750,000 New Yorkers currently receiving transit benefits buy monthly passes, then each year they keep about \$420 million in the local economy.⁵

Commuter benefits also help the city's transit system by increasing the number of New Yorkers using public transportation: a 2004 study by the Transportation Research Board of the National Academies found that New York City workplaces that offer transit benefits saw a 16% increase in the number of employees using public transit to get to work, and

The number would be lower if people buy only partial fares, and higher if they take full advantage of the legal maximum benefit of \$130 monthly; that detailed data on usage is proprietary and not publicly available

24% increase in overall transit use.⁶ This increase means the MTA collects more fares, while the number of single-occupant commuter vehicles on New York City's roads decreases.

GUARANTEEING AND EXPANDING ACCESS TO BENEFITS

Unfortunately, while transit benefits are hugely beneficial to employees, employers, and the city as a whole, many New Yorkers still don't have access to these benefits. Only employees whose employers decide to offer transit benefits can get access to them. Hundreds of thousands of New Yorkers are getting shortchanged, and millions of dollars are needlessly leaving New York City's economy. Even those transit riders who use transit benefits today can't rely on them in the future, because there is no guarantee they will have access to benefits if they change jobs, or if their current employer decides to stop offering the program.

There is a simple step that can be taken, however, to extend transit benefits to hundreds of thousands of New Yorkers, protect the benefits of millions more, and keep tens of millions of dollars in New Yorkers' paychecks. It's a policy that has been successfully implemented elsewhere, and has earned the support of transportation, civic, and business organizations alike:

The City of New York should require all businesses with 20 employees or more to offer commuter benefits to their employees.

OUR ANALYSIS: IMPACT OF THE PROPOSED BILL

The Riders Alliance has compiled and analyzed data from the US Census, the MTA, non-profit organization TransitCenter, and industry experts from a number of companies that administer transit benefits in order to estimate the impact of guaranteeing transit benefits to New Yorkers working at companies with 20 or more employees.

TCRP Report 107: Analyzing the Effectiveness of Commuter Benefits Programs, Appendix C. Transportation Research Board of the National Academies, October 2005. http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_webdoc_27.pdf

Little direct data exists on the availability and usage of transit benefits in New York City. There are no direct, public sources of data, for instance, on how many businesses currently offer transit benefits, and how many employees to whom they are available utilize them, nor is it known, either on average or in aggregate, how much is spent through the program. Some survey-based research has been done in recent years to determine transit benefits availability at companies of different sizes. That research had a small sample size, and aggregated data between multiple major US cities, making precise New York City-specific calculations challenging.

Nonetheless, by analyzing statistical data about the current availability and utilization of transit benefits, and combining a number of resources detailing the distribution of employees at New York City businesses of different sizes, we have generated a forecast that generates, with as high a level of accuracy as possible given the resources available, a picture of the likely economic benefit to the employees and employers of New York City.

Our analysis shows that such a regulation will have immediate, meaningful benefits for New York City, extending access to transit benefits to as many as 605,000 more New Yorkers. Based on previous experience, more than 150,000 newly eligible New Yorkers would choose to take advantage of transit benefits, keeping at least \$85 million from leaving the local economy. The requirement would also protect the benefits available to 2.7 million New Yorkers in all, guaranteeing that the benefits offered by their employers would never go away.⁷

It should be noted that, in addition to federal tax savings, part of the money commuters save comes from state and city taxes. We estimate that at least \$6 million would come from reduced New York City tax revenues, and at least \$10 million would come from reduced state tax revenue. In exchange for these reductions, however, not only would tens of millions of dollars be saved each year by New Yorkers, but it would also enter the

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⁷ See "Usage projections" in the Appendix.

economy in a way that directly encourages increased use of—and spending toward—public transit.

METHODOLOGY

SCOPE

For this analysis, we conservatively decided only to include workers who both live and work in New York City. An expansion of transit benefits would also benefit individuals who commute into New York City, individuals who live in a household where a family member can newly access transit benefits, and the broader regional economy—all of which are in addition to the estimates included in this report.

CALCULATIONS

In order to estimate the number of individuals who would newly be able to access transit benefits, as well as the average savings per person, average savings for employers, and projected total amount of money saved in New York City, we extrapolated from data provided by the U.S. Census, the MTA, the nonprofit TransitCenter, and transit benefits providers who calculate savings estimates free of charge for prospective customers. We then used this data to estimate how many individuals are currently at companies with more than 20 employees who do not have access to benefits and would gain them under the proposed regulation. From this, we were able to extrapolate the likely economic impact of extending benefits to these employees.

Please see www.ridersny.org/transitbenefits for a detailed methodology that walks through each of these calculations.

PRIOR EXPERIENCE: TRANSIT BENEFITS GUARANTEE IS ALREADY A PROVEN SUCCESS

In requiring employers with 20 or more employees to offer transit benefits, the City of New York will be supporting a program that is not only popular in the New York area, but was, in fact, created in the first place to address New York's transportation challenges. In 1987, the Port Authority of New York and New Jersey launched TransitChek, the first program in the nation to allow employers to provide transit vouchers to their employees as a tax-free subsidy.

This program and others like it were instantly and immensely popular, seeing not only rapid growth within New York City, but also expansion to other cities in the Northeast and eventually nationwide.⁸

Seeing the value that pre-tax transit benefits provide to employees, employers, and the local economy, some cities have begun to require that businesses with more than twenty employees offer these benefits. In 2009, San Francisco passed such a requirement with the strong support of civic, environmental, and business groups. The San Francisco Chamber of Commerce, for instance, declared,

"While the Chamber generally opposes mandates on business, the city's newest requirement that businesses with 20 or more employees working in San Francisco establish a program to promote the use of public transit can be an economic benefit. In addition to helping to reduce greenhouse gas emissions by getting people out of cars and onto transit, the law can be a money-saver for businesses."

TransitChek in the New York and Philadelphia Areas," US Department of Transportation, October 1995. http://ntl.bts.gov/lib/5000/5500/5567/6961.pdf

⁹ Transit Ordinance Toolbox, hosted by Edenred. http://www.transitbenefitordinance.com/FAQs.html

San Francisco's program is so popular that other cities in the region opted to adopt similar requirement for their businesses. Richmond and Berkeley, also in California, require companies of 10 or more employees to provide the benefit. And in March of 2014, the Bay Area Air Quality Management District adopted a regulation mandating that, in all nine Bay Area counties, a region with a population of 7.2 million people, 10 businesses with 50 employees or more must offer transit benefits to their employees. 11

CONCLUSION: GUARANTEE TRANSIT BENEFITS IN NYC

New York City should act quickly to guarantee transit benefits to workers at businesses with 20 or more employees. New York's economy is needlessly losing money it could be holding onto by passing this requirement. Meanwhile, public transit costs are going up for riders: the MTA has two fare increases scheduled in the next three years that would raise costs for regular transit users by \$110 a year. 12 Passing this requirement is a measure the City can take now to make transit more affordable for hundreds of thousands of New Yorkers.

Additionally, the impact of increasing participation in the transit benefits program will be felt far beyond the city limits. This analysis only considers those individuals who live *and* work in New York City, but hundreds of thousands of non-residents commute into the city to work. Those who work at companies with 20 or more employees would have transit benefits guaranteed to them as well, encouraging regional transit use and keeping even more money in the regional economy.

¹⁰ The Bay Area Census, MTC-ABAG Library. http://www.bayareacensus.ca.gov/bayarea.htm

[&]quot;Transit bucks for commuters coming to Bay Area workers by Sept. 30," Denis Cuff, *Contra Costa Times,* March 26, 2014. http://www.mercurynews.com/ci_25425889/new-commuter-benefit-coming-bay-area-workers-by

^{12 &}quot;M.T.A. Sees Smaller Fare Increases in '15 and '17," Matt Flegenheimer, *The New York Times*, November 13, 2013. http://www.nytimes.com/2013/11/14/nyregion/mta-sees-smaller-rise-for-its-fares-in-15-and-17.html?_r=0

Two 4% increases, as reported, would be an aggregate increase of 8.16%. An 8.16% increase on a \$112 monthly transit pass would be an increase of \$9.14 per month, or \$109.67 per year, which we have rounded to the nearest dollar.

The impact of such an expansion would be felt nationally, too. In January of 2014, the United States Congress let the maximum allowable monthly pre-tax benefit fall from \$245 to \$130 while keeping it at the higher level for parking, functionally favoring car drivers over transit riders.¹³ This decision negatively impacts those New York City businesses with employees commuting into the city via commuter rail whose monthly transit expenditures are well beyond the current benefit cap.

Expanding the number of people who receive transit benefits can send a powerful message to Washington that transit benefits are a program worth investing in—and should the cap be restored to \$245, it would mean tens of millions more dollars staying in the hands of New York City businesses and employees.

For the sake of New York's employers, employees, transit system, and the local economy, New York City should act now to expand and protect transit benefits.

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[&]quot;Tax benefits for mass transit commuters set to drop," Jia Lynn Yang and T. Rees Shapiro,
http://www.washingtonpost.com/business/economy/tax-benefits-for-mass-transit-commuters-set-to-drop/2013/12/26/77e1d348-6e5a-11e3-aecc-85cb037b7236_story.html