

# Executive Summary

The federal government provides subsidies through the tax code for employer-provided and employer-paid automobile parking, transit passes, and some other commuter expenses, but it does so in ways that run counter to the nation's overall transportation goals.

Ultimately, the effect of the tax benefit for commuter parking is to **subsidize traffic congestion** by putting roughly 820,000 more cars on America's most congested roads in its most congested cities at the most congested times of day. It **delivers the greatest benefits to those who need them least**, typically upper-income Americans, and **costs \$7.3 billion in reduced tax revenue** that must be made up through cuts in government programs, a higher deficit, or increases in taxes on other Americans.

The tax benefit for commuter transit only weakly counteracts the negative impact of the parking tax benefit. The transit tax benefit reaches too few people, and the drop in its value compared to that of the parking tax benefit at the beginning of 2014 limits its potential to get cars off the road.

We estimate that the parking and transit tax benefits together account for an estimated \$8.6 billion total in forgone federal and state income tax and payroll tax revenue each year. The high cost and significant transportation impact of commuter tax benefits demand that the federal government undertake a detailed evaluation of the benefits and initiate reforms to ensure that they support, rather than hinder, achievement of the nation's transportation policy goals and fiscal priorities.

## Commuter Tax Benefits

Currently, employers may offer their employees several commuting benefits that are excluded from the calculation of an employee's taxable income:

- Employer-provided or employer-paid parking at or near the workplace valued at up to \$250 per month
- Employer-paid transit passes or vanpool benefits valued at up to \$130 per month
- Employer-paid bicycle commuting expenses of up to \$20 per month

These tax-advantaged parking and transit benefits reduce the taxes paid by participating employers and employees. The parking and transit benefits may be provided either as a supplement to an employee's pay or in place of salary or wages. Workers may claim both the parking and transit benefits in the same month, but may not combine the bicycle commuting benefit with any other benefits.

on the road at the times and places of maximum congestion.

- The parking tax benefit represents a \$7.3 billion subsidy to a subset of automobile commuters in the form of avoided federal income and payroll tax payments and state income taxes. The federal income tax revenue avoided from the parking tax exemption alone would have been enough to offset nearly two-thirds of the \$6.1 billion in federal general tax revenue infused into the Highway Trust Fund in 2012.
- As a result of the method the Internal Revenue Service uses to calculate the market value of parking, only about a third of American workers receive any tax savings at all from the parking tax benefit. Those beneficiaries tend to work in areas where parking is most expensive (such as downtown business districts), with those in higher-income tax brackets receiving the greatest benefits.
- Most automobile commuters receive no savings from the parking tax benefit, as they work in areas where free parking is abundant and has no market value. These commuters are net losers under the nation's current parking tax benefit policy, as they must endure higher taxes or reduced government services to subsidize parking for a minority of commuters in other areas and often must endure increased congestion as a result.

## Findings

**The parking tax benefit subsidizes traffic congestion and is costly.**

- The parking tax benefit adds approximately 820,000 automobile commuters to the roads, traveling more than 4.6 billion additional miles per year. Because the parking tax benefit delivers the biggest savings to those working in dense employment centers such as downtowns, and because commuting tends to disproportionately occur during the most congested times of day, the parking tax benefit has the effect of increasing the number of cars

**The transit benefit reduces congestion—delivering a return on investment to society—but reaches too few people to counteract the negative impact of the parking tax subsidy.**

- The transit tax benefit is used by an estimated 2.7 million commuters, or about 2 percent of U.S. workers. Transit benefits are only available through employer-based transit benefits programs, which most employers—particularly smaller firms—do not offer.
- The transit benefit removes only about a tenth as many vehicles from the road as are added by the parking benefit.

- Like the parking tax benefit, the transit tax benefit disproportionately aids those with higher incomes who work for large employers in dense downtown districts. Lower-income workers are less than one-fifth as likely to have access to subsidized transit benefits through the workplace as higher-income workers. The transit benefit is also worth less to lower-income workers than higher-income workers because the value of the tax benefit increases along with a worker's marginal income tax rate.
- The expiration of “parity” between the tax benefits available to transit commuters and car commuters in early 2014—the two benefits were previously capped at equal amounts for several years before the transit subsidy was cut by nearly half—has reduced the value of the transit benefit as a tool for encouraging commuters to leave their cars at home. In areas such as those surrounding New York, Washington, D.C., and San Francisco, where the cost of many monthly commuter rail passes well exceeds the current \$130/month cap on tax-free transit benefits, the reduction in transit benefits significantly reduces the incentive for commuters to take transit, further exacerbating congestion.

**The tax benefits for commuter parking and transit have not been subject to regular and detailed evaluation for their effects on transportation policy.**

- Congress never articulated a clear transportation policy purpose for the commuter parking tax benefit. However, the commuter parking benefit clearly works contrary to important national transportation policy priorities, such as curbing congestion and reducing pollution.
- Like many tax expenditures, commuter tax benefits are not subject to regular and detailed evaluation, as they do not require annual authorization by Congress (though the provision creating parity between the parking and transit benefits was temporary and subject to periodic renewal).

## Recommendations

**Given the findings above, the current structure of commuter benefits is due for an update. Specifically, the government should:**

# Eliminate the parking tax benefit.

Eliminating the parking tax benefit would stop encouraging workers to drive to work in single-occupancy cars during rush hour in our most congested cities—a practice that contradicts the nation's transportation policy objectives. Eliminating the parking tax benefit would only affect a small segment of the American workforce. The revenue gained by eliminating the parking benefit could also be used to help close the gap in the Highway Trust Fund, invest in transportation infrastructure, or achieve other public policy goals.

# Make federal support for transit more effective.

Many transit users currently receive no transit tax benefit, either because their employers do not have a workplace transit benefits program or because they use transit for purposes other than getting to and from work. In addition, the current transit benefits program provides greater rewards for higher-income transit commuters than for middle-income or working-class users. To resolve these problems, the federal government should explore possible replacements for the current transit tax benefit—such as refundable tax credits for household transit expenditures—that deliver financial support to a broader range of transit-system users while making the system more equitable. The federal government should also examine the costs and benefits of shifting the amount of money currently expended on transit commuter tax benefits to other programs designed to expand transit ridership.

# Improve and expand the current transit tax benefit.

Should Congress choose to maintain the current framework of commuter tax benefits, it is essential that the transit benefit be expanded and improved in order to provide an effective counterweight to the parking benefit. Specifically, the government should:

- Increase the maximum value of the transit tax benefit. *At minimum*, parity should be restored between the transit and parking tax benefits—one congressional proposal would reestablish parity at \$220 per month, a level that is between the current parking and transit benefit caps.
- Require employers that offer tax-free parking to their employees to also offer transit benefits or empower their workers to “cash out” the value of the subsidized parking they receive from their employers by converting it to cash income.
- Expand the scope of commuter tax benefits to include benefits for bikesharing and carsharing and to provide parallel benefits for workers who carpool. The federal government should also retool the program to recognize the increasing number of multimodal commutes by allowing workers to combine benefits within certain limits.