

Employer Provided Parking Benefits

Cross References

- IRC §132(a)(5)
- Ltr. Rul. 2017-0007, March 31, 2017

The cost of parking for an employee who commutes to work is generally not deductible. However, IRC section 132(a)(5) states that gross income does not include any benefit that is a qualified transportation fringe. IRC section 132(f)(1)(C) states that qualified transportation fringes include qualified parking. Qualified parking includes parking provided to employees on or near the business work premises. Parking is provided by an employer if:

- The parking is on property that the employer owns or leases,
- The employer pays for the parking, or
- The employer reimburses the employee for parking expenses.

If the employer chooses to reimburse the employee for qualified parking expenses, the employer can do so either by providing the reimbursements in addition to the employee's regular wage, or the employer can provide the reimbursements in place of pay. Reimbursements provided in place of pay are called compensation reduction arrangements. Under compensation reduction arrangements, the employer permits the employees to elect to reduce their taxable compensation in order to receive tax-free reimbursements for parking expenses that the employees have actually incurred.

In a recent IRS Letter Ruling, employees asked the IRS whether amounts deducted from their wages for parking qualified to be excluded from their taxable income as qualified parking benefits.

The employer implemented a parking policy at a location whereby the employer contracted for secure parking for its employees in a parking facility near work. The employer pays the parking vendor directly for the parking spots. Employees who wish to use the secure parking must agree, in writing, to reimburse the employer by having the monthly parking fee deducted from their paycheck in the month prior to using the parking. The employees cannot get a refund of the withheld funds if they do not use the parking. The cost of the parking is less than the statutory limit for qualified parking benefits (\$255 per month for tax years 2016 and 2017).

The employees are not given the option of choosing between taxable cash compensation and parking. Accordingly, the employer does not exclude the cost of the parking from the taxable wages of those employees who have elected to use the parking. Instead, the employer simply deducts the cost of the parking from the employee's after-tax wages.

The IRS Letter Ruling state that arrangements where an employer purchases parking spots from a parking vendor and then, in turn, permits employees who wish to use the parking spots to pay the employer for the parking spots using the employees' own after-tax compensation do not meet the definition of qualified parking benefits under IRC section 132(a)(5). Therefore, the amounts deducted from the employee's wages for parking are not excludable from taxable income.