



BEST
Workplaces
for CommutersSM

Parking Cash Out:

Implementing Commuter Benefits
as One of the Nation's
Best Workplaces for CommutersSM

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Parking Cash Out: Implementing Commuter Benefits as One of the Nation's Best Workplaces for CommutersSM

- ▶ Employers offering free or subsidized parking to employees can implement parking cash out. Under a parking cash out program, an employer gives employees a choice to keep a parking space at work, or to accept a cash payment and give up the parking space.
- ▶ Parking cash out programs are one of the most effective means to encourage employees not to drive alone to work. Cash out programs are an effective means of allocating scarce parking or managing a growing demand for more parking.
- ▶ Parking cash out programs benefit employees because they allow employees choose whether or not to continue driving alone. Employees perceive these programs as fair since nobody is forced to stop driving or give up free parking, but those who do are rewarded financially.
- ▶ Although any employer who pays for parking can implement parking cash out, it works best for employers who lease, rather than own, parking.
- ▶ Parking cash out is one of the primary benefits under the Best Workplaces for CommutersSM program. Employers must offer at least one of three primary benefits to their employees in order to receive the Best Workplaces for CommutersSM designation (the other two are transit or vanpool benefits and telework). Under the option outlined in this publication, the employer agrees to provide at least \$30 per month for parking cash out.

This document is one in a series of briefing papers designed to help employers implement commuter benefits to achieve the Best Workplaces for CommutersSM designation.

The U.S. Environmental Protection Agency (EPA) and the U.S. Department of Transportation (DOT) have established a voluntary National Standard of Excellence for employer-provided commuter benefits. Commuter benefits help American workers get to and from work in ways that cut air pollution and global warming pollution, improve public health, improve employee recruiting and retention, improve employee job satisfaction, and reduce expenses and taxes for employers and employees. Employers that meet the program's National Standard of Excellence are recognized as Best Workplaces for CommutersSM and agree to:

- ▶ Centralize commute options information so that it is easy for employees to access and use.
- ▶ Promote the availability of commuter benefits to employees.
- ▶ Provide access to an emergency ride home (ERH) program.
- ▶ Provide one or more of the following primary commuter benefits:
 - ✓ Transit subsidy of at least \$30 per month
 - ✓ Vanpool subsidy of at least \$30 per month
 - ✓ Cash in lieu of free parking worth at least \$30 per month
 - ✓ Telework program that reduces commute trips by at least 6 percent
 - ✓ Other option proposed by employer and agreed to by EPA. These services must reduce the rate at which employees drive to work alone and be perceived by employees as a significant workplace benefit
- ▶ Provide three or more of the following additional commuter benefits:
 - ✓ Active membership in a Transportation Management Association (TMA) or participation in a voluntary regional air quality management program (e.g., Spare the Air, Air Awareness, SEQL, Clean Air Coalition) or another employer-based commuter program
 - ✓ Active membership in a local ozone awareness program, in which you agree to notify employees of expected poor air quality and suggest ways that they might minimize polluting behaviors
 - ✓ Ridesharing or carpool matching, either in-house or

through a local or regional agency

- ✓ Pre-tax transit benefits
 - ✓ Pre-tax vanpool benefits
 - ✓ Parking cash out less than \$30 per month or less than 75 percent of the actual parking benefit
 - ✓ Shuttles from transit stations, either employer-provided or through a local TMA or similar service provider
 - ✓ Provision of intelligent (i.e., real-time) commuting information
 - ✓ Preferred parking for carpools and vanpools
 - ✓ Reduced parking costs for carpools and vanpools
 - ✓ Employer-run vanpools or subscription bus programs
 - ✓ Employer-assisted vanpools
 - ✓ Employer-provided membership in a carsharing program (visit <www.carsharing.net> to learn more)
 - ✓ Secure bicycle parking, showers, and lockers
 - ✓ Electric bicycle recharging stations
 - ✓ Employee commuting awards programs
 - ✓ Compressed work schedules
 - ✓ Telework (less than 6 percent of commute trips on a monthly basis)
 - ✓ Lunchtime shuttle
 - ✓ Proximate commute (where employees work at locations closer to their homes)
 - ✓ Incentives to encourage employees to live closer to work
 - ✓ Incentives to encourage employees to use alternative transportation (e.g., additional vacation time)
 - ✓ On-site amenities (e.g., convenience mart, dry cleaning, etc.)
 - ✓ Concierge services
 - ✓ Other options proposed by employers
- ▶ In addition, employers commit to ensuring that within 18 months of applying, at least 14 percent of commute trips are taken using a mode other than driving alone.

Disclaimer

EPA provides this briefing as a service to employers participating in the Best Workplaces for CommutersSM. Information about private service providers is intended for informational purposes and does not imply endorsement by EPA or the federal government.

The information presented here does not constitute official tax guidance or a ruling by the U.S. government. Taxpayers are urged to consult with the Internal Revenue Service of the U.S. Department of Treasury or a tax professional for specific guidance related to the federal tax law.

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Parking Cash Out: A Summary

Parking cash out is a commuter benefit in which an employer offers employees the option to accept taxable cash income instead of a free or subsidized parking space at work.

The idea behind parking cash out is simple: given a choice of cash or a parking space, many people would prefer to receive cash. Most employers in the U.S. provide free or subsidized parking to their employees.¹ This practice encourages employees to drive to work alone, thereby increasing traffic congestion and air pollution. Given the option to take cash instead of the parking space, many employees will take the cash and choose to carpool, take transit, or walk or bike to work. The benefits are substantial: employees receive broader and more equitable commuter benefits, traffic and emissions decrease, and the employer may be able to reduce parking costs.

Also sometimes called a “pay me not to drive” program or a “cash instead of parking” program, parking cash out encourages alternatives to driving alone to work without taking away the existing parking benefit. It has long been recognized that free or subsidized employer-provided parking is a major incentive to drive to work alone, yet many companies are reluctant to eliminate the benefit. Under a parking cash out program, employees may keep their tax-free parking subsidy or accept additional income. Employees who elect to accept the cash income pay taxes on it, but can use the money as they choose. Some people use the cash for transit fares or vanpooling, while others save the money by carpooling or bicycling or walking to work. Employees who wish to continue driving to work still receive the original free or subsidized parking and do not pay any taxes on it.

Brief History

The idea of parking cash out originated with Professor Donald Shoup at the University of California, Los Angeles. In 1992, the state of California enacted legislation requiring many employers who subsidize their employee parking to offer a parking cash out option.² The law was not enforced, however, because of conflicts with federal tax law.

Until 1998, federal tax law prohibited an employer from pro-

viding an option of cash income or a tax-exempt parking benefit. If an employer chose to give an employee the option of cash in lieu of a parking space, then all parking provided by the employer lost its tax exempt status—both the employer and employee would be required to pay taxes on the value of the parking subsidy.

The Taxpayer Relief Act of 1997 amended the federal tax code to allow employers the option to offer taxable cash instead of a tax-exempt parking space. Since the act went into effect in 1998, the option of parking cash out has been available to employers nationwide.

Employer Benefits

Offering parking cash out can benefit an employer in many ways.

Reduced Parking Costs and Better Parking Management

Parking spaces, particularly in urban areas, are costly. Employers provide an estimated 85 million free parking spaces for commuters—spaces with a net worth of nearly \$31.5 billion. Employers can save a substantial amount of money by reducing the number of parking spaces required; one study estimates that annual per space costs vary between \$360 and \$2,000.³

Parking cash out can:

- ▶ Reduce the need for employee parking and costs associated with leasing parking space.
- ▶ Reduce the maintenance costs of parking areas.
- ▶ Allow businesses to convert employee parking spaces to customer parking spots.
- ▶ Allow businesses to convert parking spaces into revenue-producing activities.
- ▶ Eliminate the need for new parking construction.

Parking cash out allows employers to save on the extensive cost of supplying parking to employees. For certain types of businesses, converting employee parking to customer parking can make businesses more accessible to paying customers.

¹ It is estimated that nearly three-fourth of all firms in the U.S. provide free parking for their employees, with employers providing 85 million free parking spaces for commuters nationwide. Free parking creates a major incentive to drive to work. About 95 percent of all commuters who drive to work receive free parking, and most auto commuters park free even in the central business districts of large cities. (Shoup and Breinholt, 1997).

² California Health & Safety Code Section 4385

³ Victoria Transport Policy Institute, *Online TDM Encyclopedia*, available at www.vtpi.org/tdm. Costs are based on land, construction, and operations costs for suburban and urban locations, and for surface, structured, and underground parking

Fairness and Employee Satisfaction

Parking cash out benefits go beyond just monetary benefits. Expanding employee options not only increases potential income but also promotes employee choice and equity throughout the workplace. Employees praise parking cash out for its fairness and claim that it better serves everyone's needs. Employers that have implemented cash out programs also have overwhelmingly positive experiences (Shoup, 1997a), as shown by the comments below:

- ▶ The employees think it's fair.
- ▶ [Cashing out] has been really positive.
- ▶ Since we moved to cash out, we've always received a good response.
- ▶ I would definitely recommend [cashing out]. We've always found that cash works. Cash is always a good incentive.
- ▶ [Cashing out] has been a really good experience. People really like it.
- ▶ People like the idea, they like the cash in hand, and it does add to their paycheck.
- ▶ [Employees] love it. The ones that qualify love it. And the ones who drive alone don't care because they get free parking.
- ▶ Compared to the previous policy, I think [cashing out] is fairer.
- ▶ If we decided to scratch the program, we would probably end up with at least fifty or sixty more employee cars, with no place to park.
- ▶ Cash works very well for us.

The positive response to cash out may be ascribed to the fact that it is a simple variation on a traditional benefit. According to Shoup (1997a):

Parking is a traditional part of most employers' benefit package, and cashing out can logically relate to the parking benefit. Cashing out can be a normal operating procedure for any business because it treats all employees equally in terms of an important fringe benefit. Therefore, once established, cashing out is likely to become a permanent feature of the employers' benefit package.

Parking cash out offers businesses an attractive way to increase employee choice and satisfaction through a simple

variation on a benefit the business already offers. As described above, employers consistently remark that the cash out option helps to recruit and retain employees. Further, by equalizing benefits, companies provide a more equitable compensation package for all employees. Together, these features may help to reduce recruitment and retention costs for the company.

Tax Considerations

Although the idea of parking cash out is very simple, and in most cases implementation is straightforward, employers should review with their tax advisor possible tax implications for all parties.

This section reviews some tax considerations associated with employer-paid parking and parking cash out, and highlights changes in tax law with respect to parking cash out.

Cash is Taxable, Parking Remains Tax-Free

Under a parking cash out program, cash offered instead of parking is taxable as regular compensation. It is treated the same way as the rest of an employee's pay: the employer incurs payroll taxes on it, and the employee incurs all regular income taxes on it. For employees who choose to keep the free parking (those who do not take the cash), there is no tax impact. Qualified parking remains a tax-free transportation fringe benefit.

Until recently, this was not the case. Prior to 1998, the Internal Revenue Code (IRC) prohibited tax-free parking from being offered in lieu of taxable cash. The IRC stated that employer-paid parking would be tax-free only if "provided in addition to (and not in lieu of) any compensation otherwise payable to the employee." If an employer offered cash instead of parking to their employees, then parking would lose its tax-free status for all employees. Employees who saw no change in their benefits (i.e., they continued to park for free) would see an increase in taxes. The tax code thus created a major barrier to offering employees a choice of parking or cash.

Changes in the tax code associated with the Taxpayer Relief Act of 1997 removed this barrier to parking cash out.⁴ Starting in 1998, employers have been able to offer their employees the choice of taxable compensation or a tax-exempt parking benefit.

⁴ Pub. L. No. 105-34 (111 Stat. 948)

“Parking cash out” typically means offering cash in lieu of a parking space, and cash income is taxable. As a result, firms that cash out generally will see an increase in their payroll taxes associated with the cash that is provided to employees in lieu of parking. (Note that other cost savings may offset the increase in payroll taxes. See Employer Benefits above.) In order to minimize adverse tax impacts, employers can offer tax-exempt transit passes and vanpool vouchers (these benefits are currently tax exempt up to \$105 per month for each employee), and may choose to do so in lieu of a parking space. Employers that want to provide employees with flexible commuter benefits often elect to offer tax-free transit or vanpool benefits, or a combination of cash and transit and vanpool benefits.

Increased Revenues for Government
Parking cash out has the potential to increase tax revenue for the federal government and state and local governments that impose income taxes. Shoup and Willson (1992b) calculated the potential tax revenues associated with parking cash out nationally using 1990 employee Census data. Of 110 million nonagricultural civilian employees, 90 percent are auto commuters. If the average cost of providing parking is \$30 a month and 20 percent of commuters opted for the taxable cash back option, taxable income would increase by \$6.1 billion per year. At a marginal tax rate of 20 percent, revenues would increase upward of \$1.2 billion per year. This revenue increase would be the result of voluntary employee choice, with no change in tax rates. State and local governments in areas where average parking costs far exceed \$30 could see substantial revenue gains.

Employee Benefits

Employees benefit from parking cash out because it gives them the option of receiving extra money instead of a benefit.⁵ If employees are willing to carpool, use transit, or walk or bicycle to work, they come out ahead financially with parking cash out. Because there is no detrimental effect on employees who continue to drive alone, both employees who drive alone and those who do not perceive the program as fair.

When Parking Cash Out Makes Sense

Any employer that makes subsidized parking available for employees in off-street lots and garages can offer parking cash out. Most parking arrangements for employers that subsidize parking fall into three categories:

- ▶ employer-owned parking.
- ▶ bundled lease parking (arrangements where the cost of parking is built into the building rent).
- ▶ unbundled lease parking (arrangements where parking is paid separately from rent).

The effectiveness of parking cash out depends on the type of parking arrangement employers have, as well as on parking demand. Parking cash out tends to be most effective in the situations described below.

Leased Parking

Parking cash out works best for employers who lease their parking separately from their building and can let go of unused parking without penalty from the lessor. The employer simply leases fewer spaces and transfers the money to employees who do not use the parking subsidy.

Parking cash out is most easily applied by, but is not limited to, employers with unbundled lease parking. These employers can adopt a parking cash out arrangement for their employees at any time. For every employee that accepts the cash out offer, the employer can reduce the number of spaces leased.

Employers with bundled parking and office leases may adopt parking cash out, but they may be unable to immediately reduce their parking costs when fewer employees drive to work. The employer would likely attempt to renegotiate the arrangement to separate parking costs from office space costs so the company can reduce parking costs as employees sign up for cash instead of parking.

Scarcity of Employer-Owned Parking

Employers that own their own parking are the least likely to see immediate parking cost savings from a cash out program. They also may find it somewhat more difficult than other employers to value their parking for the purposes of cash out.

On the other hand, if parking lots are full and the employer

⁵ Note, however, that there is no requirement that an employer offer employees exactly the value of the parking space. The employer may offer any amount, either more or less than the actual value or cost of the space. At least one firm in the Shoup survey offered substantially more than the cost of a space, in part to provide true equity by offsetting the tax bite on the cash out cash.

is considering building, leasing, or acquiring additional parking, parking cash out can be very attractive regardless of the current parking lease or ownership situation. Rather than building and maintaining or otherwise acquiring additional parking, it may be much less expensive to offer employees cash for not parking. Cash out can also be an opportunity to increase parking spaces for customers, again regardless of lease or ownership arrangements.

Parking cash out also works for employers that own parking and can rent that parking to an outside party or convert it into revenue producing space. In that case, the employer takes any revenue and transfers the money to employees who do not use the parking subsidy. Whenever parking is tight—regardless of parking lease or ownership—an employer may want to offer cash out to avoid having to build or acquire additional parking.

Downtown Employers

Parking cash out will generally be most popular with employees where parking is expensive and the cash option is especially valuable, such as central business districts and other dense urban areas. Transportation alternatives, like transit and high-occupancy vehicle (HOV) lanes, offer their best services to downtown work sites, making it easier to stop driving. In addition, downtown locations typically provide the option of paying for daily parking. This is an important consideration since an employee may wish to accept the cash out offer and take transit, carpool, bicycle or walk to work most days but still have the option to drive to work occasionally if the need arises.

Employers in downtown locations are also most likely to see a direct benefit from reducing the number of employees parking at work. Downtown parking garages are expensive, and parking cash out is most appealing to employers when parking is in short supply and expensive. Downtown parking is also typically sold or leased space by space, making it relatively easy for employers to shift spending between parking, other tax-exempt commuter benefits, and salary.

Suburban Employers

Suburban employers are not usually thought of as obvious cash out candidates because they tend to own or lease parking in large blocks and almost always provide it free of charge to employees. However, suburban employers also have many reasons to consider parking cash out:

- ▶ To limit the cost of acquiring new parking.
- ▶ To offer customers more parking spaces.
- ▶ To reduce maintenance and plowing costs.

- ▶ To offer employees more compensation choices.
- ▶ To address regional congestion or air quality concerns.

A successful parking cash out program could "retire" enough parking spaces to allow land to be put to other uses. Rather than supplying more space for parking, an employer could use the land for additional office space or rent out space to another company. Past successes redeveloping suburban mall properties into denser retail environments suggest that there is a market for freed-up parking lot land. If the employer owns the parking, the employer will need to have controlled entry points for parking (e.g., parking gates) to ensure that employees do not take the cash and continue to drive to work and park.

Although suburban work sites are often inadequately served by transit, that need not be a barrier to suburban cash out. Studies show that when offered an array of commuter benefit choices, three-quarters of those who leave their cars opt for carpooling and telework. The appeal of parking cash out is not solely dependent on the quality of public transit service to the work site. In fact, the flexibility of providing cash allows employees to choose whatever way makes the most sense for them to get to work.

Smaller Employers

Although firms of all sizes can implement parking cash out, small employers are an important market for cash out. Small firms are much more likely to lease their parking spaces compared to large firms (small firms lease 30 percent of the parking spaces they offer free to employees, while large firms lease only 12 percent of the parking spaces they offer free). Since leased parking spaces are most amenable to being converted into cash, small firms are an important market for cash out. Moreover, small employers may also be able to implement changes in parking policies most easily.

Implementation Issues and Costs

Implementation and administration of parking cash out can be very simple, and usually require only ensuring that the payroll system accounts for the fact that some employees will elect to take additional taxable cash. Generally any complexities associated with this change pose a one-time challenge only.

Low Administrative Requirements

Parking cash out places far fewer administrative burdens on an employer than many other transportation demand management strategies, and produces higher response rates. The

pure form of cash out (e.g., choice of free parking or extra income), for example, imposes no administrative burden in terms of distributing transit and vanpool vouchers.

Added Payroll Costs and Payments to Non-Drivers

There are two potential costs to the employer: additional payroll taxes, and cash out payments to employees who have not been driving to work. Because the parking cash out benefit paid to employees is considered additional salary, the employer's payroll taxes will increase. In order to offset this cost, the employer could lessen the cash payment by the amount of the increased payroll tax. For example, if the parking space is valued at \$100, instead of paying the employee \$100 and incurring an additional \$10 in payroll tax, the employer could pay the employee \$90 and put the remaining \$10 toward tax payment.

The employer may also have additional costs associated with the cash that is paid to employees who were already commuting to work by alternative means. For most employers with free parking, this figure is small. A study of cash out programs implemented by firms in California found that the increase in employer costs was roughly equivalent to the reduction in parking costs. (Shoup, 1997a)

Combining Parking Cash Out with Transit Benefits

To offset the additional payroll taxes, employers may wish to implement a transit/vanpool benefits program along with parking cash out. For example, suppose an employer values parking spaces at \$115 each. Under straight parking cash out, the employer would offer each employee \$115 in return for not driving. The employer would have to pay payroll taxes on that \$115 increment for every employee that takes the offer, and each of those employees would have to pay taxes on the \$115.

However, the employer could offer each employee \$105 in transit/vanpool benefits, and the remaining \$10 in cash. In this case, the employer would pay payroll taxes only on the \$10 increment, since transit/vanpool benefits are not taxable up to \$105. Likewise, each employee would pay taxes only on the \$10 increment. For more information, see the separate briefing papers on Transit/Vanpool Benefits and Commuter Tax Benefits.

Percentage of Employees Likely to Participate

According to case studies and research, parking cash out tends to reduce driving to work by 20 percent or more. An employer implementing parking cash out should probably

expect to see a reduction in solo driving to work of 20 percent, and likely more over time. Absolute targets would depend on starting points. Among eight firms surveyed by Shoup, the solo-driver share fell from 76 percent to 63 percent after cashing out. The firms' 76 percent starting point mirrored the average national mode split for work trips in 1990, but that average hides wide variation; at many firms the drive-alone rate is either 100 percent or close to it.

Guide to Implementation

To implement a parking cash out program, an organization will typically go through the following steps:

1) Analyze Current Parking Conditions and Policies

A first step for any employer will be to examine current parking conditions and parking benefit policies. Key questions to ask include:

- ▶ Does the employer currently provide free or subsidized parking to all of its employees or only at certain office locations? (For example, some companies provide free parking to employees at their suburban offices but not at downtown locations).
- ▶ What are current parking ownership/lease arrangements? Does the organization own all of its parking? Does it lease parking? Will it be able to reduce the number of parking spaces it leases without penalty?
- ▶ If the company owns the parking, does it have controlled entry points? Could it easily be converted to controlled entry?
- ▶ How tight is parking? And how expensive is it? Would it benefit the company to reduce the amount of parking it provides to employees?

Understanding current parking arrangements enables employers to develop the most appropriate options for their own circumstances. It helps in identifying the potential costs and cost savings of parking cash out and in selecting the commuter benefit program that is most beneficial to employees and the organization.

2) Determine How to Structure a Commuter Benefits Program

Human Resources staff may wish to meet with employees and management to discuss potential ways to structure the commuter benefits program. The program that is selected

usually depends on the unique circumstances of the company and its existing parking arrangements. Typical program options include:

- ▶ Provide employees with the option to accept the choice between taxable cash or a parking space at work (the arrangement typically associated with the term “parking cash out”). This option may be most amenable to employees in semi-urban or suburban locations where carpooling, transit, walking and bicycling are viable options and where parking is tight.
- ▶ Provide employees with the option to accept tax-free transit or vanpool benefits, taxable cash, or a combination of both, in lieu of parking at work. In locations with extensive transit or vanpooling, the employer may want to set up a program in which employees are given the option of a tax-free transit/vanpool benefit, taxable cash, or free parking. That way, employees who wish to use transit or vanpools can receive a tax-free benefit, and those who wish to carpool, bicycle, or walk to work can choose to accept taxable income. For example, the employer might provide the employee with the option of free parking, a tax-free \$105 transit/vanpool benefit, or \$105 in cash each month. Under such a situation, parking may still be subsidized more than other commute options; for example, if parking costs \$150 per month, a solo driver receives a higher subsidy than a transit rider.
- ▶ Provide employees with a “commute allowance” that provides an equivalent commuter benefit for all employees. Under this option, the employer might provide all employees with a \$100 commute allowance, which can be used toward parking, tax-free transit or vanpool benefits, or taken as taxable cash income.

In each case, the employer will need to determine program structure, such as:

- ▶ How much cash to offer in lieu of the parking space (e.g., the full value of parking or a lower amount)? If a commute allowance is offered, at what level should it be set?
- ▶ Will employees in all offices receive the same cash option or should different cash options be offered in different locations? (e.g., if parking is more expensive at certain offices, should the cash out offer reflect the higher parking costs?)
- ▶ Who will be eligible for the program: only employees who currently use parking or all employees?
- ▶ At what point will employees be able to change their elections? Monthly, quarterly, or on some other basis?

3) Obtain Senior Management Approval

Senior management will need to approve the policy change.

4) Work with Payroll to Set up Appropriate Payroll Codes

The payroll system will need to be set up to account for the fact that employees will have the option to elect to accept taxable cash (or a tax-free transit or vanpool benefit) in lieu of free parking. The specific actions that need to be made will depend on the type of cash out program implemented, the payroll system used, and whether payroll is outsourced.

5) Develop Process for Employees to Elect their Commuter Benefit

The Human Resources Department will need to set up a procedure for employees to elect their commuter benefit. Again, this will depend on the type of commuter benefit program that is implemented, as well as individual organizational considerations, such as the size of the company and number of offices. An organization might allow employees to select whether they want to cash out via a form submitted to the HR Department or via an election over an intranet system. Employers may also want to provide written information about the benefit in an Employee Manual or Benefits Guide.

6) Publicize and Implement the Parking Cash Out Program

Once parking cash out procedures are in place, the program should be marketed to employees. Some ways to ensure that employees are aware of parking cash out include the following:

- ✓ Company orientation for new employees.
- ✓ Advertisements in places seen frequently by employees (cafeteria, garage, elevators, etc).
- ✓ Distribution of program brochures.
- ✓ Company newsletters.
- ✓ Voicemail or e-mail broadcast.
- ✓ Special promotional days.
- ✓ Awards or prize drawings to recognize employees using transit or carpools.
- ✓ Inserts to paychecks.
- ✓ Company Web site or intranet.

Because parking cash out is not a well-known arrangement, many employees may have questions about it. Employers should ensure that employees have access to information to answer their questions. This could include written materials, as well as a benefits coordinator to whom employees can go with questions.

Employer Questions and Answers

An employer's human resources administrator or business manager, among others, might ask the following common questions when considering a parking cash out program:

What has been the reaction of employers and their employees to parking cash out?

Very positive. Cash out gives employees choice, which is viewed by them as a real benefit. In a study of California employers that have implemented parking cash out, program administrators characterized the program as "a really good experience," "recommended," "fairer," and "loved by employees." Employers consistently remarked that the cash out option is an added fringe benefit that helps to recruit and retain employees. One employer commented, "Employees are grateful and thankful and more motivated. So that's a plus for the company." (Shoup, 1997a, b)

How difficult and costly is it to administer the program?

A study of firms that have implemented cash out programs generally found negligible implementation costs. The study found that cash out programs are simple to organize and implement and that their ongoing administration poses no extra cost to the firm. Asked whether administering the payroll taxes on cash subsidies was a problem, firms uniformly responded that it was not. One representative estimated that she spent only two minutes per employee per month administering the firm's cash out program. (Shoup, 1997a,b)

If I offer my employees a choice of a free parking space or its cash value under parking cash out, do I pay payroll taxes on the cash?

Yes. If the employee opts for cash instead of parking, the employer pays payroll taxes and the employee pays income and payroll taxes on the cash. For tax purposes, this cash is the same as all other regular salary. Employers who want a parking cash out offer to be entirely cost neutral should offer slightly less than the value of the parking as a cash stipend in order to cover their additional payroll taxes.

Employees who opt for the parking do not pay income and payroll taxes on the value of the parking and employers do not pay payroll taxes on the value of the parking, even though the employee has the choice to convert the parking benefit to regular, taxable salary. This recent change to the law makes parking cash out a much more attractive option than it was in the past.

Is there a way to avoid or reduce the additional payroll taxes on the cash out?

There is no way to avoid paying payroll taxes on cash income that is provided to employees in lieu of a parking space. Employers, however, can minimize adverse tax implications by offering tax-free transit or vanpool benefits (currently capped at \$105 per month). Employers can offer any combination of cash and transit and vanpool benefits. A cash out offer could consist of a tax-free transit voucher and the rest in taxable cash. An employee receiving a \$150 cash out offer could either accept a) the whole cash out in cash, in which case both employer and employee pay applicable federal tax on the full amount or b) accept a transit or vanpool benefit up to \$105 tax free and the rest in taxable cash. The balance of \$150 minus the \$105 tax-free benefit would leave \$45 in income subject to employer and employee taxes.

What are the cost implications of implementing parking cash out for my company?

The total financial implications of a cash out program depend on the specific conditions of a company, including existing parking arrangements, needs for additional parking, and current travel patterns of employees.

Many companies may be able to cover the direct cost of offering cash to employees by reducing the amount of parking they lease. For example, an employer who leases parking stalls for \$200 per month and charges employees \$50 per month could pay \$150 per month in cash to employees who vacate spots and then reduce the lease cost by the number of vacated stalls. Instead of paying \$150 for a spot (\$200 for the lease minus the \$50 charge to employees), the employer pays the vacating employee the \$150. The only additional cost is the payroll taxes on the \$150 income.

In many instances, employers will incur a cost due to the cash out offer, particularly if the company cannot immediately reduce the amount it pays for parking. Moreover, payroll taxes will increase with the program, since the employer pays payroll taxes on cash provided to employees. If a firm offers all employees a parking subsidy or its cash equivalent, it will also end up paying commuters who are already ridesharing or taking transit (i.e., commuters who are not relinquishing a parking spot). In most cases, this will be a small percentage of total employees; 95 percent of employees who receive free parking at work drive to work. Still, the company should be aware of these costs.

It is important to note that additional costs may be more than offset by other significant cost savings. Employers interviewed for case studies consistently remarked that the cash

out helps to recruit and retain employees: “Employees are grateful and thankful and more motivated. So that’s a plus for the company.” (Shoup, 1997a, b) By equalizing benefits, companies provide a more equitable compensation package for all employees, which may provide them a competitive edge in a tight labor market. In addition, for employees who personally support environmental goals, such benefits may make the company more attractive than one that simply offers free parking and does not address other commute modes. Together, these features may help to reduce recruitment and retention costs for the company.

If I implement a parking cash out benefit, am I required to offer the full value of the parking to my employees as taxable income?

An employer may offer to cash out a parking space in any amount. The tax code says nothing about the value of a cash out offer. A firm may “value” a parking space at any amount.

An employer might value the cash out offer slightly below the cost of paying for a parking space to cover the cost of payroll taxes. For example, if the employer pays \$150 per month per employee parking space, then the employer might offer the employee approximately \$135 instead of \$150 in taxable income in lieu of the parking space. The employer’s contribution to Social Security and Medicare would approximate \$11 on the \$135 cash, for a total cost of \$146. By reducing the offer to slightly below the cost of the space, the employer does not incur costs over the original cost of the space. The employer reports the \$135 expense as salary to the employee, and both pay their share of federal taxes. On the other hand, a company might cash out a space at above market rates, for several reasons: to increase employee response in order to increase customer parking, to avoid the need for expensive or time-consuming new construction, and/or to level the parking/non-parking playing field by offsetting the tax bite on the cash out cash. At least one firm in California implemented cash out at substantially above market rates.⁶

If I currently give my employees transit passes tax-free, will starting a parking cash out program affect the tax free status of current transit passes?

No. Changes in tax code resulting from the Transportation Equity Act for the 21st Century (TEA-21) allow employers to offer any combination of parking, transit, or vanpool benefits (up to the specified limits), either in addition to present compensation or in lieu of compensation, tax free. Section 132(f)(4) of the Internal Revenue Code now says:

No amount shall be included in the gross income of an employee solely because the employee may choose between any qualified transportation fringe and compensation which would otherwise be includable in gross income of such employee.

Does my entire company (or organization or agency) need to participate? What if we have multiple work sites?

The entire organization does not need to participate in a parking cash out program. It is up to your organization to decide what works best for you. A company may decide to implement a parking cash out program at only certain work sites, if desired. Sites with limited parking or expensive parking might be most interested in the cash out option. Other organizations may feel that it is important to implement one benefit package for employees regardless of where they work. It is up to the individual organization to decide what works best.

If I offer parking cash out, what happens if an employee takes the cash instead of the parking, but continues to drive to work, parking elsewhere?

From a tax perspective, this situation creates no problem. The cash in lieu of parking does not depend, for tax purposes, on a particular travel mode. Some employers, however, institute parking cash out explicitly in order to reduce driving to work, and may wish to discourage employees from taking the cash incentive and continuing to drive. In areas where parking cash out works best at reducing driving, such as areas where parking is costly, there is unlikely to be free parking near the work site that the employee can use instead of the employer-provided parking. In other cases, employers offer parking cash out to increase employee choice and/or to reduce the need for parking onsite. An employee who voluntarily begins using more distant parking may both save money and help implement the employer’s objectives.

I don’t currently provide free or subsidized employee parking. Does parking cash out help me?

The goal of parking cash out is to encourage alternatives to driving alone. Since you do not currently subsidize parking, this is not an issue for you. Recent changes in tax law regarding commuter benefits may provide you with other options that may be beneficial for your employees. If you are not already doing so, you may consider a program to allow employees to pay for transit, vanpools, or parking through a pre-tax payroll deduction. You could also implement a program to directly provide employees with transit or vanpool benefits or taxable cash incentives for carpooling, bicycling, or walking to work.

⁶ The firm offered a parking subsidy of \$100 per month or \$150 in cash. (Shoup, 1997a).

Do any state or local governments offer any incentives for doing this?

Yes. The State of Maryland offers a 50 percent tax credit up to \$30 per employee per month for costs associated with providing employees a cash-in-lieu-of-parking program. Delaware, Connecticut, Oregon, and New Jersey also provide tax credits to eligible companies that implement commuter transportation benefit plans, which could include parking cash out. Each state tax credit is different, so employers are encouraged to inquire about the requirements of tax credit programs that may apply to them.

Employer Case Studies

Because of the state's parking cash out legislation, California employers have been at the forefront of implementing this benefit. Experience with parking cash out has been limited, however, for a number of reasons. Most importantly, tax laws prohibited employers from offering cash in lieu of tax-free parking prior to 1998. Even now, tax law still favors parking since cash income provided to employees for commuting is taxable while parking is tax-free (up to \$200 per month).

As a result of this aspect of tax law, many organizations have implemented variations on the cash out concept. For example, since cash income is taxable, many companies have found that it is beneficial to provide transit/vanpool benefits, which are a tax-deductible fringe benefit for the employer, rather than cash. Other firms have implemented "commuter allowance" programs or financial incentives for alternatives to driving that provide more equal benefits for all commute options. When considered broadly, parking cash out has been put into effect in many ways in various parts of the country.

The examples listed below show some of the many ways in which organizations can implement cash out.

City of Pleasanton, California

Suburban Pleasanton initiated a daily form of parking cash out in January 1994. The City offers \$2 per day to employees who use a commute alternative instead of driving to work alone. All city employees are eligible to participate with no minimum days required. The program has resulted in annual savings of 20,625 trips, which translates into 12,375 gallons of fuel and 123 tons of CO₂. In 1993, the year before the program was implemented, only 28 employees were commuting to work using alternative modes. Average participation in 2004 was 57 employees per month representing a steady rise in the last ten years.

CALIBRE—Alexandria, Virginia

CALIBRE provides taxable cash incentives to employees who commute to work via carpools or vanpools that are not eligible for the company's transit subsidy program. Employees who carpool with other employees to one of the company's facilities will each receive \$32.50 per month in taxable income and must agree to accept a shared company provided parking benefit in lieu of an individual company provided parking benefit. Employees who work at a CALIBRE facility and who do not require any parking will receive \$65 per month in taxable income and must agree to waive their right to a company provided parking benefit.

Services that Support Implementation

Emergency Ride Home Programs

One of the barriers that prevents some employees from taking transit, ridesharing, walking or bicycling to work is the fear that they will not be able to get home quickly in the event of an personal emergency, such as picking up a sick child from school, or working unscheduled overtime.

Emergency Ride Home (ERH) programs provide commuters who regularly carpool, vanpool, bike, walk or take transit to work with a reliable ride home when an unexpected emergency arises. ERH programs are designed to rescue commuters who are worried about how they will get home when an emergency arises. Knowing there is a ride home in case of emergency gives many people the security to take commuting options like transit and carpools with confidence.

Individual employers may establish ERH programs. Usually the employer will pay for the employee's ride home via taxi or rental car when transit or vanpool services are unavailable. Some MPOs and local governments have also established regional or countywide ERH programs for employees that register for the program. ERH programs tend to be low-cost ways to encourage transit use, especially if a company only "fills in" coverage for areas not covered under a broader regional program. For example, a regional transit agency may provide an emergency ride home for monthly passholders, so a company would have to provide ERH only for carpools. More detailed information about ERH is available in a separate briefing paper, Emergency Ride Home Programs.

Associations and Contacts

This section includes information on experts that employers might wish to utilize for expertise in understanding, promoting, or providing technical information on parking cash out. Individual employers are directed to contact EPA and their local MPOs, transit agencies, TMAs/TMOs, or other groups that may be able to assist in developing a cash out program.

Regional Organizations and Transit Agencies

Many regional and local governments provide services to help employers implement parking cash out programs. Metropolitan planning organizations (MPOs), city and county transportation agencies, transportation management associations (TMAs), and transportation management organizations (TMOs) throughout the U.S. provide assistance to employers in starting and maintaining transportation demand management programs like parking cash out. They often provide information to employers about options to reduce driving to work, implementation issues, and local programs that support employer initiatives. The appropriate MPO can be located through the Association for Metropolitan Planning Organizations (202-457-0710 x19); a list of MPOs with Web pages is available at <www.ampo.org/mposnet_old.html>.

State and Local Governments

A few state and local governments have also developed programs that either promote or mandate certain employers implementing parking cash out. They may provide valuable information on implementation issues and marketing approaches. These include:

State of California, Parking Cash Out Legislation
California Air Resources Board
916-327-2980
cashout@arb.ca.gov
<www.arb.ca.gov/planning/tsaq/cashout/cashout.htm>

King County Metro, Commute Trip Reduction (CTR) law
206-684-4444
employer.services@metrokc.gov
<<http://transit.metrokc.gov/prog/employer/ctr-law.htm>>

City of Santa Monica, Mandatory Parking Cash Out Program
Contact: Jackie Brooks, 310-458-8956
<<http://santa-monica.org/planning/transportation/abouttransmanagementtmo.html>>

Downtown Minneapolis TMO
612-370-3987
<www.mplstmo.org>

Information on Tax Considerations

The Internal Revenue Code that governs employer-provided commuter benefits is found at 26 USC Section 132(f), and is available on the web at: <www.irs.gov> or <tmi.cob.fsu.edu/act/f_benefit.htm>.

For more information relating to qualified transportation fringes in Section 132(f), visit the Internal Revenue Service (IRS) website at www.irs.gov. This site contains useful information for employers regarding the tax treatment of fringe benefits. Some publications available from the IRS that may be useful include:

- ▶ Publication 15a, Employer's Supplemental Tax Guide - Section 6. Employee Fringe Benefits
www.irs.gov/prod/forms_pubs/pubs/p15a08.htm
- ▶ Publication 15b, Employer's Tax Guide to Fringe Benefits - Transportation (Commuting) Benefits
www.irs.gov/prod/forms_pubs/pubs/p15b0215.htm
- ▶ Final Regulation Concerning Qualified Transportation Fringe Benefits (Issued January 11, 2001)
frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2001_register&docid=01-294-filed.pdf

For more information relating to qualified transportation fringes in Section 132(f), send a written request to:

Freedom of Information Reading Room
PO Box 795
Ben Franklin Station
Washington DC, 20044

Or contact Patricia Holtzworth at the IRS at 202-622-6040.

Best Workplaces for CommutersSM

For more information on Best Workplaces for CommutersSM, contact the BWC information request line at 888-856-3131, or visit <www.bwc.gov>.

Emissions and Transportation Benefits

Parking cash out has great potential to reduce vehicle travel and emissions of air pollutants and greenhouse gases. Case studies of firms that have implemented cash out programs

show that *firms cashing out take the equivalent of 1 out of 8 of their employees' commuting cars off the road.*

Benefits at Individual Employment Sites

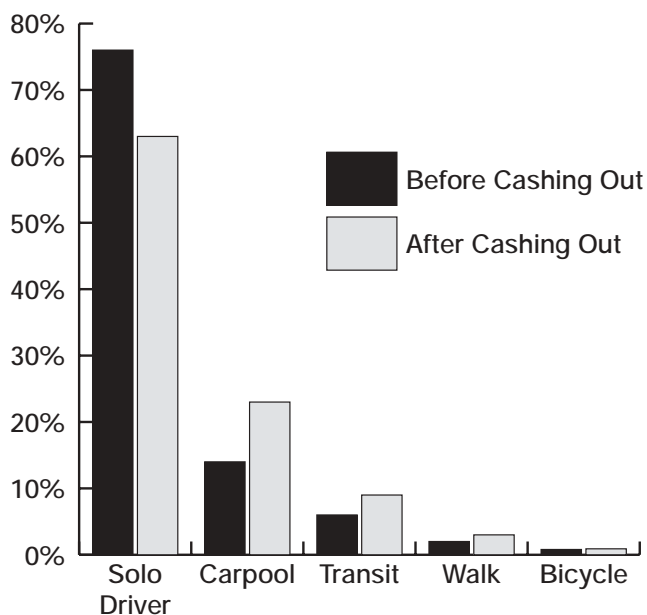
Monitored cash out programs show substantial reductions in single occupancy commuting. These reductions, in turn, reduce automobile emissions, congestion, and parking problems. An analysis of eight California firms implementing cash out by Shoup (1997 a, b) provides the best data on the effects of parking cash out:

Significant decrease in solo driving

As shown in the accompanying chart:

- ▶ Solo driving dropped 17 percent: from 76 to 63 percent of employees.
- ▶ Carpooling increased by 64 percent: from 14 to 23 percent of employees.
- ▶ Transit use rose by 50 percent: from 6 to 9 percent of employees.
- ▶ Combined bicycling and walking rose one-third: from 3 to 4 percent of employees.

Commuter Mode Shares:
Before and After Cashing Out



Significant decrease in miles driven⁷

- ▶ An average 2.6 fewer miles per employee per workday among all employees offered cash out (not just employees

accepting the offer).

- ▶ This resulted in an average 12 percent fewer vehicle miles traveled (VMT) per year per employee. This reduction is equivalent to removing one of every eight cars driven to work.

Emission reductions per employee per year tracked VMT reductions: a 12 percent reduction in vehicle emissions from commutes.⁸

The results from these case studies confirm estimates from previous research based on parking pricing at workplaces. A summary of seven studies comparing either: (1) commuting behavior before and after employer-paid parking was eliminated; or (2) the commuting behavior of matched samples of commuters with and without employer-paid parking, found that when commuters paid for parking, they drove an average of 53 cars to work per 100 employees. When commuters parked free, they drove an average of 72 cars per 100 employees, suggesting a likely 26 percent drop when free parking begins to have a price attached. (Shoup, 1995)

Although parking cash out aims to “level the playing field” by eliminating the subsidy for solo drivers, it does not achieve this goal entirely: “cashing out reduces but does not eliminate the tax subsidy for solo driving because commuters must pay income taxes on the in-lieu cash. When commuters are offered the cash option, income taxation reduces the after-tax opportunity cost of taking a free parking space.” (Shoup, 1997a) However, we can expect to see impacts rise over time. Shoup (1997a) again explains:

Cashing out is a new practice, and few firms have sufficient years of experience to provide evidence of longer-term effects. Because seven of the eight case studies examined commuters’ responses after only one or two years of cashing out, the longer-term reductions in vehicle use may be underestimated. For one firm, records are available for three years after the cash out program began, however, and the solo-driver share fell in each of the following three years.

The firms’ representatives offered two practical explanations for this longer-term decline in solo driving. First, new employees who have not already made their commuting choices are more willing to try ridesharing if they can take cash in lieu of free parking. Second, when cashing out is available, word of mouth spreads the idea among fellow workers. Those who have taken the cash describe the deal to others, and more begin to try it.

⁷ VMT determined by multiplying the number of vehicle trips to work by the average round-trip distance.

⁸ Calculated by multiplying reductions in vehicle trips and VMT by emissions created per trip.

Substantial Regional and National Potential

Given that most employers provide free parking to their employees, there is large potential for parking cash out to produce significant regional and national reductions in vehicle travel, air pollution, and greenhouse gases. The extent of these impacts will depend on the number of employers that actually adopt cash out programs. Nationally, parking cash out could reduce VMT by between 5 billion miles and 24.9 billion vehicle miles by 2007, depending on adoption rates - a 0.8 to 4.2 percent reduction in commute VMT. Since most reductions in travel are expected in urban areas, the percent reduction in commute VMT in large metropolitan areas would likely be larger, with commensurate congestion benefits.⁹ Shoup (1997a) estimates that full national parking cash out “could reduce the equivalent of all vehicle travel and vehicle emissions for commuting by 800,000 households.”

Studies have shown that increasing the price of parking is one of the most effective ways to reduce driving. Parking cash out can also be effective since it creates an “opportunity cost” of driving to work—the foregone income—without actually increasing the price of parking.

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For More Information

This guidance document and other information about Best Workplaces for CommutersSM are available at www.bwc.gov or by calling the BWC information request line at (888) 856-3131.

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