



# Qualified transportation fringe benefits

## Deduction disallowance due to the TCJA

Employers are no longer able to deduct expenditures relating to qualified transportation fringe benefits provided to their employees. The tax rules for deducting parking-related expenses paid or incurred after December 31, 2017 have changed significantly for both taxable and tax-exempt entities.

The Tax Cuts and Jobs Act (TCJA) made several sweeping changes to Section 274 of the Internal Revenue Code (IRC), curtailing many common fringe benefit deductions for taxable entities as well as similar provisions for tax-exempt entities. In particular, the TCJA reduces and/or eliminates deductions for qualified transportation fringe (QTF) benefits for expenses paid or incurred after December 31, 2017 (irrespective of the tax year).

QTF benefits, defined by IRC Section 132(f), include:

-  Transportation in a commuter highway vehicle between an employee's residence and place of employment
-  Any transit pass or, starting 2026, qualified bicycle commuting reimbursement
-  Qualified parking.

While the exclusion from gross income is still available for employees (up to the monthly statutory limits), **employers must disallow their deduction for any expense related to providing QTF benefits.**

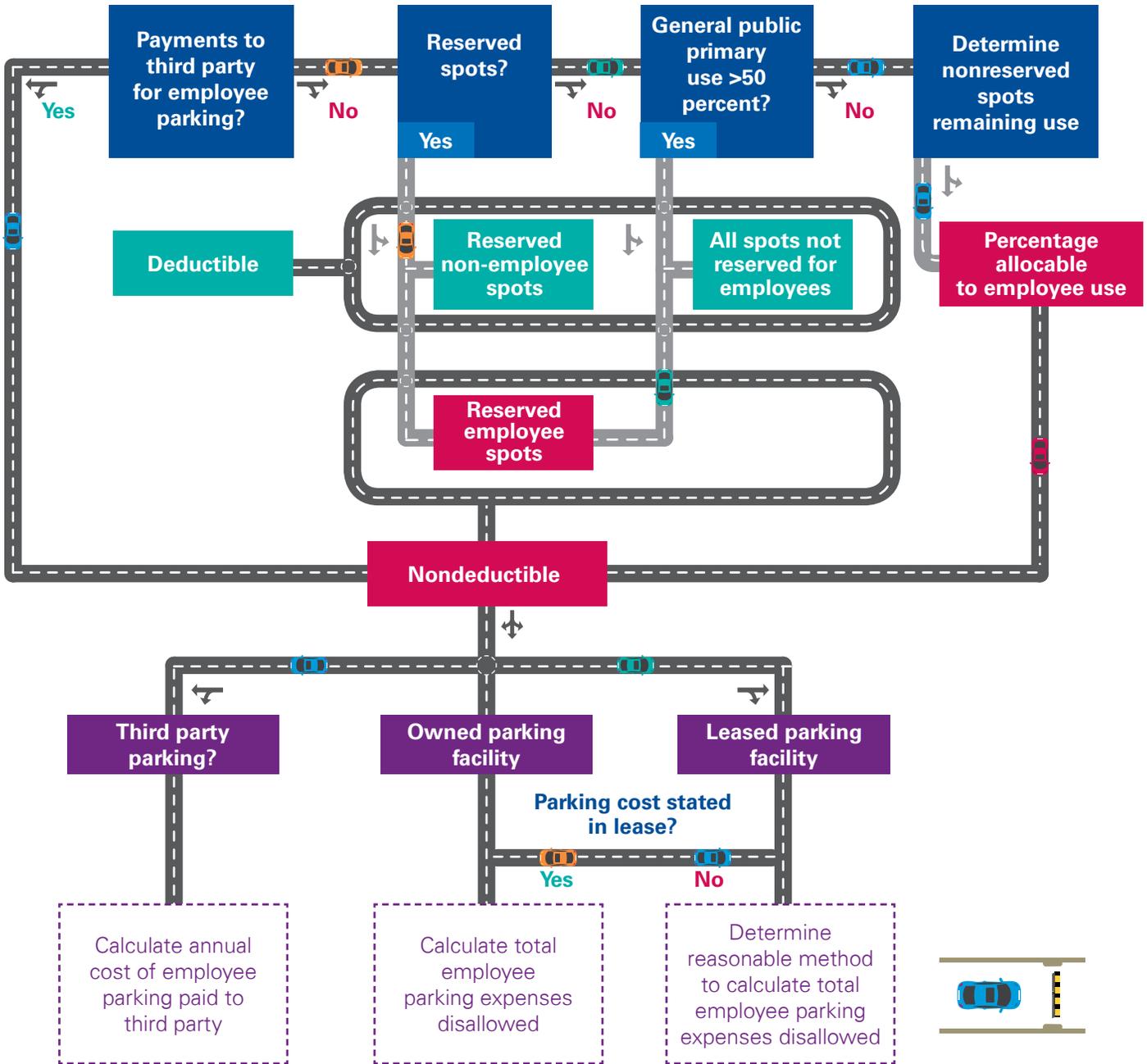
**Does the QTF expenditure disallowance apply to me? If the answer is YES to any of the below questions, the QTF deduction disallowance may apply:**

-  Do you provide qualified parking to your employees in an owned or a leased facility (i.e., office building, warehouse, retail center, etc.)?
-  Are your employees able to elect to use pretax wages for qualified parking or other qualified transportation?
-  Do you administer parking through a "cafeteria plan" and make payments to third parties on behalf of your employees?

Employers subject to the QTF disallowance need to identify and analyze expenses associated with providing parking to their employees, regardless of whether or not employees pay for parking or whether there is a value associated with the parking.

**IRS Notice 2018-99 – Parking expenses for QTFs under IRC Sections 274(a)(4) and 512(a)(7)**

IRS Notice 2018-99 provides initial guidance on the potential limitations and increased unrelated business taxable income (UBTI) related to qualified parking expenses. Until the IRS issues further guidance, employers may use any reasonable method to calculate their QTF disallowance and/or the safe harbor described in Notice 2018-99 (summarized below):



**“Total parking expenses”** under Notice 2018-99 include, but are not limited to the following:

- Repairs, maintenance, utility costs, insurance, property taxes, interest, snow and ice removal, leaf removal, trash removal, cleaning, landscape costs, parking lot attendant expenses, security, and rent or lease payments or a portion thereof (if not broken out separately)
- Does not include depreciation or items related to property next to the parking facility (e.g., street landscaping or street lighting).

## How KPMG can help

KPMG's cross-functional team includes tax specialists, data analysts, and economists. KPMG uses data analytics and technology-enabled methodologies to perform tax analysis more efficiently through our fully integrated approach. Our team's approach includes the following steps:



Employ technology-driven solutions and data analytics to identify embedded parking-related expenses and lease provisions



Determine the proper tax treatment of QTF-related expenses



Assess areas of potential opportunity relating to fully deductible exclusions or tax planning strategies to help reduce the QTF disallowance or parking UBTI increase



Mitigate risk by identifying potential tracking and reporting exposures



Design and help implement changes to tax processes to track QTF-related expenses and enhance processes for the future



Drive efficiencies by performing a full employee fringe benefit analysis for QTF and meals and entertainment expenses



Help entities control spending through analysis of entity-wide policies



Prepare a final deliverable that supports calculations and positions.



# Contact us

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