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Parking expenses not deductible when paid with after-tax dollars

If employees pay their at-work parking expenses with after-tax contributions, can the cost be claimed as a deduction on their federal income tax returns? The IRS confirmed that the deduction is not allowed in a recent Information Letter. (*IRS Information Letter 2017-0007.*)

How parking benefits work

The value of qualified employer-provided parking at or near the workplace is not included in wages subject to federal income tax, federal income tax withholding, Social Security, Medicare or federal unemployment insurance provided that the benefit does not exceed \$255 per month in 2017.

IRS regulations specify three ways that qualified tax-free parking benefits can be provided to employees:

- (1) Parking costs are incurred directly by the employer.
- (2) Employees are reimbursed for their qualified parking costs in addition to regular wages.
- (3) Employees are reimbursed for their qualified parking through an account funded with the employee's own pretax parking contributions (also known as a salary reduction agreement). (*IRC §132(a)(5); IRC §132(f)(1)(C); IRS Reg. §1.132-9(b) Q/A 4.*)

As intended under the Internal Revenue Code, in order to be excluded from taxable income, the parking benefits must be employer provided. Parking that is paid by employees with after-tax dollars fails to meet this essential requirement.

Example 1: Employer A leases parking spaces for its employees near the work place with a value not exceeding \$255 per space, per month. The value need not be included in employees' taxable wages.

Example 2: Upon submission of a receipt, Employer B reimburses employees up to \$255 per month for expenses they incur for parking near the workplace. This reimbursement is excluded from employees' taxable wages.

Example 3: Employer C has established a parking benefit plan whereby employees can contribute, on a pretax basis, up to \$255 per month into a reimbursement fund. Employee Z is paid monthly wages of \$1,000 and contributes \$200 on a pretax basis into his reimbursement account for parking. His net taxable wages for the month are \$800 (\$1,000 monthly wages less pretax parking contribution of \$200). For that same month, Employee C is reimbursed \$200 from this reimbursement account for his substantiated parking expenses. The \$200 is excluded from taxable wages.

Example 4: Employer D leases parking spaces on the work premises for its employees. Employees are required to pay Employer C \$175 per month for their parking spaces, the cost of which is deducted from their pay. Employer D does not offer a reimbursement account for employees, therefore, parking is deducted on an after-tax basis. Employee Y is paid \$1,000 per month and his monthly parking fee of \$175 does not lower the taxable amount because it is deducted on an after-tax basis from wages. In accordance with §132(f)(1)(C), employee Y cannot claim a deduction from gross income on his federal income tax return because his parking was not employer provided.

Ernst & Young LLP observations

Employers that do not offer a salary reduction agreement for employee parking expenses should consider the tax benefits this arrangement can offer. Pretax contributions for parking expenses can provide tax benefits to employees and lower the employer's employment tax costs (e.g., Social Security, Medicare and unemployment insurance) at the same time.

In addition, offering employees parking benefits, such as a salary reduction arrangement, may be required under local law (e.g., [District Columbia](#), [New York City](#) and [San Francisco](#)).

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