

State of California

**M E M O R A N D U M**

TO: PERSONNEL MANAGEMENT LIAISONS      DATE: May 1, 2000  
REFERENCE CODE: 2000-024

**THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:**

Personnel Officers  
Employee Relations Officers  
Accounting Officers

FROM: Department of Personnel Administration  
Policy and Operations Division

SUBJECT: Pre-Tax Parking

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The Department of Personnel Administration (DPA) has established a pre-tax parking deduction program for eligible State employees in all bargaining units. This program is also available to all eligible exempt and excluded employees.

This payroll program must comply with the Internal Revenue Service (IRS) requirements. Thus, to be eligible for a pre-tax, qualified parking deduction, the State must meet specific conditions (see program details and the definition of qualified parking, below). Key to this program is a payroll deduction to be used for parking, which meets these conditions.

**Background**

The United States (U.S.) Congress recently authorized pre-tax parking deductions through the Taxpayer Relief and Transportation Equity Acts. These laws provide authority and establish program requirements. The Department of the Treasury, IRS, governs this program through IRS Code Section 132, "Qualified Transportation Fringe Benefits."

These tax law changes allow eligible State employees to pay for "qualified" parking using pre-tax dollars. This provides savings for eligible employees in the program because neither income tax nor other payroll taxes are withheld on these funds. As described in this memorandum, the program begins on July 1, 2000 (June 2000, Pay Period).

### **Statutory Limits**

In accordance with the IRS Law and Rules, the program operated by the State of California applies to parking deductions made through the State Uniform Payroll System. IRS Code Section 132(f) limits the value of "qualified parking" that may be excluded from an employee's gross income to \$175 per month for a pre-tax parking deduction. Employees paying more than \$175 per month for "qualified" parking may have a pre-tax parking deduction up to the \$175 per month pre-tax maximum and a post-tax parking deduction for the balance of their total parking cost.

### **Questions and Answers**

#### What is qualified parking?

According to IRS rules, "qualified parking" is parking provided to an employee by an employer: (a) on or near the employer's business premises; or (b) at a location from which the employee commutes to work by carpool, commuter highway vehicle, mass transit facilities, transportation provided by any person in the business of transporting persons for compensation or hire, or by any other means. However, parking on or near property used by the employee for a residential purpose is not "qualified parking."

#### When does the IRS deem that the employer has provided parking?

According to the IRS, parking is "provided" by an employer if: (1) the employer pays for the parking; (2) the employer reimburses the employee for parking expenses; or (3) the parking is on property that the employer owns or leases.

#### Based on IRS definitions, which employees can participate in this program?

In light of the foregoing, an eligible State employee must be on payroll deduction for parking in one of the following: (1) existing or future deduction for State-owned parking (e.g., General Services Parking); (2) existing or future parking fees paid by the department and reimbursed by the employee to the department through payroll deduction; or (3) future "Third Party Parking Vendor" deductions, if the parking vendor enrolls with the State Controllers Office (SCO) for the employee parking payroll

deduction and the employee completes and processes the appropriate payroll deduction form.

The State of California will establish a "Third Party Administrator Program" for any employee who cannot establish a pre-tax deduction under the foregoing processes. It is anticipated that this will occur in the second half of 2000.

It should be noted that the "Third Party Parking Vendor" and the "Third Party Administrator Program" are different and separate. The first is a parking lot deduction and the latter is a record keeper function where an employee can elect to place money into an account on a pretax basis through payroll deduction and later be reimbursed for eligible parking expenses. Receipts will be required.

This sounds like a "phased in approach," so what is the timing of these Phases?

The first deductions under the pre-tax arrangement are scheduled to become effective with the June payroll warrant (July 1, 2000). These first deductions are either General Services parking or State leased parking arrangements which SCO will "roll over" to pre-tax deductions. No action on the part of employees or departments is required for the deductions.

For the Third Party Parking Vendor Program, DPA will coordinate vendor enrollments including instructions on how vendors may enroll with the SCO for the parking deduction program. DPA will provide assistance to departments as necessary.

The Third Party Administrator Program will be completed after the Third Party Parking Vendor Program is "up and running." We anticipate that this final phase will be completed no later than January 1, 2001, and earlier, if feasible.

What is required for an employee to participate?

For those currently using SCO payroll deduction for parking, no further action will be necessary. SCO will "convert" existing parking deductions to "pre-tax" deductions. DPA will also issue a letter to all eligible employees with existing parking deductions, notifying them of this change.

Can employees enroll with new payroll deductions for qualified parking?

Yes, under some circumstances this is possible. Employees who meet the criteria for a pre-tax deduction by virtue of their parking arrangements but do not currently have a deduction may enroll for a deduction if their appointing authority can approve and process the deduction request. See the definition of "qualified parking" and "employer provided parking," above. DPA will provide assistance to departments in accomplishing these actions.

Will my W-2 show the reduced amount of taxable income?

Yes, at the end of the tax year, SCO will report taxable income as usual and will exclude from gross taxable income the amount of qualified pre-tax parking amount.

Can an employee elect to NOT participate?

Yes, an employee may elect to not participate in this program (IRS Rule). Using U.S. mail, DPA will notify employees with a current parking deduction of the June payroll, pre-tax rollover, and the opt-out provision. Additionally, State employees may cancel payroll deductions using normal payroll change processes or choose to not authorize parking deductions initially.

In the near future, SCO staff will be issuing separate payroll instructions. Questions regarding the pre-tax parking program may be directed to Robert Clifford, Personnel Program Manager.



Bob Painter  
Policy Manager