



# 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 unless an exception applies.

The Tax Cuts and Jobs Act (TCJA) made several sweeping changes to section 274 of the Internal Revenue Code, curtailing many common fringe benefit deductions for taxable entities as well as similar provisions for tax-exempt entities. In particular, the TCJA reduced and/or eliminated 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 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**, unless the expense qualifies for one of the exceptions.

Exception: Parking expenses are deductible under section 274(e)(8) if an employee has paid adequate and full consideration for the parking. Section 274(e)(8) applies even when the employee did not pay, but the parking has a \$0 fair market value. The employer is deemed to meet the exception if the qualified parking is provided in a rural, industrial, or remote area where similar parking is available free of charge to the employer's customers or where nonemployees ordinarily wouldn't pay to park where employer-provided parking is provided.

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

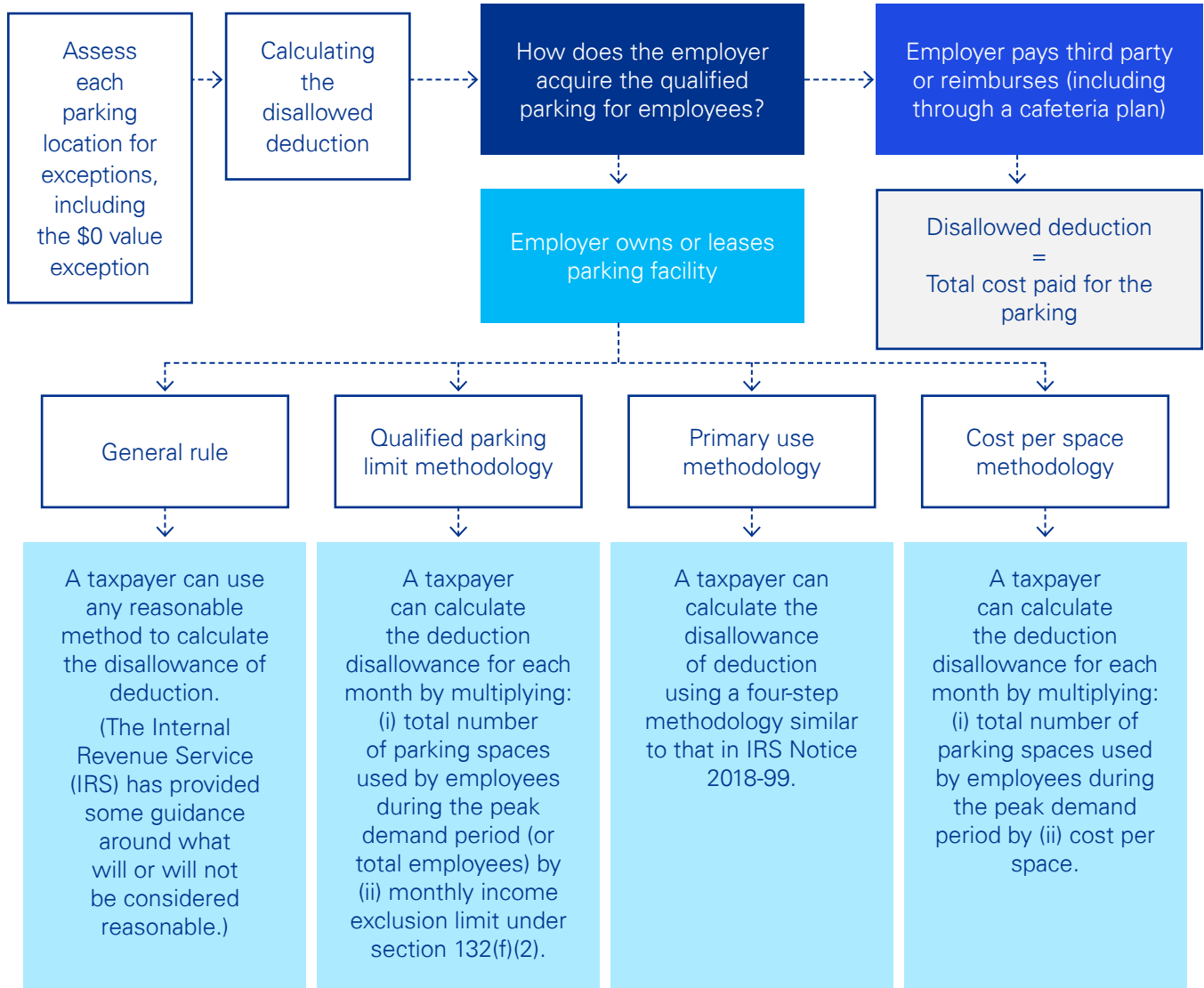
- Do you provide qualified parking to your employees in an owned or a leased facility (i.e., office building, warehouse, retail center, etc.) or pay a third party to provide parking?
- Are your employees able to elect to use pretax wages for qualified parking or other qualified transportation?
- Do you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

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.

## Final regulations – Parking expenses for QTFs under section 274(a)(4)

Final regulations provide guidance on the potential deduction limitations related to qualified parking expenses, including various methods employers may use to determine the amount of any disallowed deduction related to an owned or leased parking facility.

**The final regulations (TD 9939) also clarified that the exception under section 274(e)(8) may apply to parking with a \$0 fair market value, regardless of the expenses paid or incurred. Many taxpayers have not yet analyzed whether parking expenses may be deductible under this exception.**



**“Total parking expenses”** 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

Our 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



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



Determine the proper tax treatment of QTF-related expenses



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



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



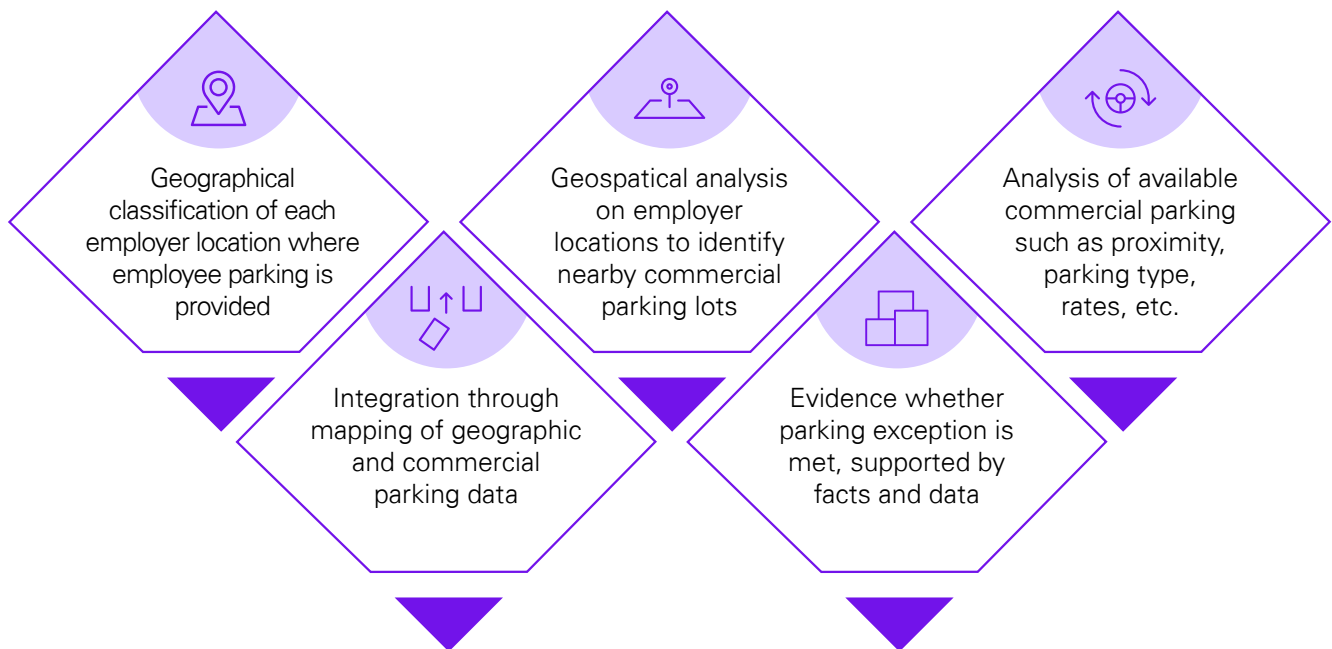
Help entities control spending through analysis of entity-wide policies



Mitigate risk by identifying potential tracking and reporting exposures



Assist in determining the most optimal methodology and in computing the disallowance under section 274(a)(4)



The IRS has indicated that if the value was not determined by Treasury Reg. section. 1.61-21(b)(2), taxpayers may need to conduct a survey of nearby parking facilities to determine the fair market value

**KPMG QualPark:** An automated solution that geographically analyzes whether employee parking expenses are deductible under the section 274(e)(8) exception for parking provided in a rural, industrial, or remote area with \$0 value.

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