

UNIVERSITY OF WYOMING

Tax Office

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TO: University of Wyoming employees who have elected the pre-tax parking benefit for payment of parking permit fees

RE: Reclassification of parking permit fees as a post-tax item in light of Tax Cuts and Jobs Act of 2017

The recent passing of the new tax bill, Tax Cuts and Jobs Act of 2017, affects the pre-tax parking fringe benefit offered by the University of Wyoming. Effective immediately, parking permit fees will be a post-tax item.

Background:

Prior to January of 2018, employees were allowed to pay for their UW parking permit via payroll deduction calculated on a pre-tax basis. By electing to deduct parking fees on a pre-tax basis, an employee's taxable income for the year was decreased by the price of the parking permit. This allowed savings on Federal Income taxes, as well as Social Security and Medicare taxes.

New Tax Law:

There are two sections in the Tax Cuts and Jobs Act that affect UW's ability to allow these pre-tax deductions for parking expenses – Section 13304 and Section 13703.

From Section 13304:

QUALIFIED TRANSPORTATION FRINGES.- No deduction shall be allowed under this chapter for the expense of any qualified transportation fringe (as defined in section 132(f)) provided to an employee of the taxpayer.

From Section 13703:

(7) INCREASE IN UNRELATED BUSINESS TAXABLE INCOME BY DISALLOWED FRINGE.— Unrelated business taxable income of an organization shall be increased by any amount for which a deduction is not allowable under this chapter by reason of section 274 and which is paid or incurred by such organization for any qualified transportation fringe (as defined in section 132(f)), any parking facility used in connection with qualified parking (as defined in section 132(f)(5)(C)), or any on-premises athletic facility (as defined in section 132(j)(4)(B)). The preceding sentence shall not apply to the extent the amount paid or incurred is directly connected with an unrelated trade or business which is regularly carried on by the organization. The Secretary shall issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations or other guidance providing for the appropriate allocation of depreciation and other costs with respect to facilities used for parking or for on-premises athletic facilities.(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid or incurred after December 31, 2017.

The interpretation of the previous two sections is that UW would be required to pay an unrelated business income tax on the total amount of pre-tax parking benefit allowed for university employees. This total amount would be taxed at the new corporate rate of 21%. As you could imagine, this would be a very substantial amount of tax to pay for our institution as a whole. At this time, funds are not available for this significant amount of a tax increase. Therefore, effective immediately, employees that elected the pre-tax option will be automatically transitioned to the post-tax option.

What this means for you:

Your taxable income will now include the cost of the parking permit. All pre-tax parking deductions will now be calculated as a post-tax item. This means that your parking permit costs will be included in the total that will be used to calculate Federal Income Tax, Social Security, and Medicare tax withholding. It may slightly increase the amount of tax withholding on your monthly paycheck. It will increase your taxable income for the year. **Please contact your tax professional to discuss how this change may affect you.**

Please don't hesitate to contact the Tax Office with any questions.