

## Comparisons of Sections 125 & 132(f)

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Under Section 132(f) of the Internal Revenue Code, an employer can provide up to \$230 per month to those employees who commute by public transit.

**Pre-tax benefit programs are treated under two sections of tax law:**

- 132(f): transportation
  - 125: healthcare and other cafeteria plans
- Section 132(f) is simpler, easier to administer (fewer rules, documentation and forms) and more flexible allowing employee enrollment as often as monthly
  - 132(f) and 125 funds cannot be combined or co-mingled

|  | Section 132(f)<br>Transportation  | Section 125<br>Health Care   |
|--|---|--|
| Purpose                                  | Allows employees to reserve pre-tax income for qualified transportation (public transportation)             | Allows employees to reserve pre-tax income for benefit programs, generally health care |
| Enrollment Period                        | Determined by the employer  | Must be annual   |
| Distribution of Remaining Pre-tax Income | No “use-it-or-lose-it” provision. Funds do not generally accumulate as they are used monthly for fare media | Employee forfeits money (use-it-or-lose-it)  |
| Employee Eligibility                     | May be available to any employee or group of employees  | Must meet non-discrimination test  |
| Reporting Requirements                   | No reporting requirements   | Annual reporting required to the IRS   |
| Written Plan                             | No written plan documentation required  | Written plan documentation required to IRS   |

*\*\*Consult your tax professional for specific tax guidance.*