

Part I

Section 132(f).—Qualified Transportation Fringe

26 CFR 1.132-9: Qualified transportation fringes.

(Also: 3121(a)(20), 3306(b)(16), 3401(a)(19), 7805(b)(8))

Rev. Rul. 2014-32

(1) Whether, under the facts described in Situations 1 through 5 and Situation 7 below, employer-provided transportation benefits provided through electronic media are excluded from gross income under §§ 132(a)(5) and 132(f) of the Internal Revenue Code (Code) and from wages for employment tax purposes.

(2) Whether, under the facts described in Situation 6 below, qualified transportation fringe benefits include delivery charges incurred by an employee in acquiring transit passes.

(3) Whether, under the facts described in Situation 8 below, qualified transportation fringe benefits can be provided through a bona fide reimbursement arrangement.

FACTS

Situation 1. Employer A provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit under § 132(f)(2) (the statutory monthly limit). Transit system X provides smartcards that may be used by employers in the metropolitan area served by X to provide fare media for transit system X to employees. Smartcards are cards that contain a memory chip storing certain information that uniquely identifies the card and value stored on the card, and that can be used either as fare media or to purchase fare media. The amount stored on the smartcard provided by transit system X is usable only as fare media; it cannot be used for any other purpose or to purchase anything else. A uses the smartcards to provide transportation benefits to its employees. A makes monthly payments to X on behalf of its employees who participate in the transportation benefit program, which X then electronically allocates to each employee's smartcard as instructed by A. A does not require its employees to substantiate their use of the smartcards.

Situation 2. Employer B provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit card provider P provides terminal-restricted debit cards that may be used by employers to provide transportation benefits to their employees. Terminal-restricted debit cards are debit cards that are restricted for use only at merchant terminals at points of sale at which only fare media for local transit systems is sold. B uses the terminal-restricted debit cards provided by P to provide transportation benefits to its employees. B makes monthly payments to P on behalf of its employees who participate in the transportation benefit program, which P

then electronically allocates to each employee's terminal-restricted debit card as instructed by B. B does not require its employees to substantiate their use of the debit cards.

Situation 3. Employer C provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit card provider Q provides debit cards that may be used by employers to provide transportation benefits to their employees. Q restricts the use of the debit cards to merchants that have been assigned a merchant category code (MCC) indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. C uses the MCC-restricted debit card provided by Q to provide transportation benefits to its employees. A voucher or similar item exchangeable only for a transit pass is not otherwise readily available for purchase by C for direct distribution to C's employees within the meaning of § 132(f)(3).

For the first month an employee participates in the transportation benefit program, the employee pays for fare media with after-tax amounts. The employee then substantiates to C the amount of fare media expenses incurred during the month following reasonable substantiation procedures implemented by C as described in § 1.132-9(b) Q/A-16(c) of the Income Tax Regulations. C then remits to Q an amount equal to the amount of substantiated fare media expenses for the prior month, which Q then electronically allocates to the debit card assigned to the employee. For subsequent months, C reimburses the employee for fare media expenses incurred by the employee by providing funds to Q to be allocated to the employee's debit card equal to the amount of fare media expenses substantiated under the following procedures (not

exceeding the statutory monthly limit). With respect to expenses for which employees seek reimbursement that were paid using the MCC-restricted debit card, C receives periodic statements providing information on the use of each debit card, which include information on the identity of the merchants at which the debit card was used and the date and amount of the debit card transactions. In addition, for the first month the debit card was used, prior to providing reimbursement, C requires that the employee certify that the debit card was used only to purchase fare media. For subsequent months, C does not require employee certifications prior to reimbursement of recurring expenses that match the seller and the time period covered for expenses previously substantiated under the procedures described above (e.g., for an employee who purchases a transit pass every month from the same seller). However, C requires a recertification at least annually from each employee that the debit card was used only to purchase fare media. C reviews the periodic statements in combination with the employee certifications to determine the fare media expenses incurred by each employee through the use of the debit card and reimburses each employee for the expenses that have been substantiated by transmitting funds to Q to be allocated electronically to each employee's debit card. With respect to fare media expenses for which C's employees seek reimbursement that were not paid using the MCC-restricted debit card, the employees substantiate the amount of the fare media expenses incurred following reasonable substantiation procedures implemented by C as described in § 1.132-9(b) Q/A-16(c). For example, an employee receiving reimbursements of less than the maximum monthly excludable amount of transportation expenses may increase his or

her reimbursements for future months by paying for increased fare media expenses by some method other than the use of the debit card and substantiating the additional amount using reasonable substantiation procedures as described in § 1.132-(9)(b) Q/A-16(c).

Situation 4. Employer D provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit card provider Q provides debit cards that may be used by employers to provide transportation benefits to their employees. The debit cards have been restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. D uses the MCC-restricted debit card provided by Q to provide transportation benefits to its employees. A voucher or similar item exchangeable only for a transit pass is not otherwise readily available for purchase by D for direct distribution to D's employees within the meaning of § 132(f)(3). D provides employees with the MCC-restricted debit cards as soon as they begin work. Prior to using the MCC-restricted debit cards, D's employees certify that the card will be used only to purchase fare media. In addition, written on each debit card is the statement that the card is to be used only for fare media, and, by using the card, the employee certifies that the card is being used only to purchase fare media. At no time do D's employees substantiate to D the amount of fare media expenses that have been incurred.

Situation 5. Employer E provides to its employees transportation benefits in an amount not exceeding the statutory monthly limit. Debit card provider R provides debit

cards that may be used by employers to provide transportation benefits to their employees. The debit card can be used to purchase fare media on several transit systems within the metropolitan area in which E is located. The debit cards are restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media. The merchant may or may not sell other merchandise. R has worked with the bank that issues the debit card to place additional restrictions on the debit card based on a merchant's Merchant Identification Number. These restrictions block all purchases from any merchant in the area with an acceptable MCC that sells any items other than fare media. These restrictions have been tested and effectively prohibit recipients of the debit cards from using them to purchase any items other than fare media. E makes monthly payments to R on behalf of its employees who participate in the transportation benefit program, which R then electronically allocates to each employee's debit card as instructed by E, in an amount not to exceed the statutory monthly limit. E does not require its employees to substantiate their use of the debit cards.

Situation 6. Same facts as in Situation 5, except E also provides the R debit card to employees who commute using commuter highway vehicles (often called "vanpools"). E requires the employees to use the debit card to purchase their vanpool vouchers. The vanpool voucher provider does not sell any other merchandise. Vanpool vouchers may be purchased by the employee in-person at certain locations or online. If purchased online, the vanpool voucher provider imposes a reasonable and customary delivery charge. The employee includes the delivery charge as a cost of transit and

pays for the delivery charge with the debit card. The aggregate cost of the vanpool voucher and the related delivery charge does not exceed the statutory monthly limit.

Situation 7. Employer F and Employer G provide to their employees transportation benefits in amounts not exceeding the statutory monthly limit. F's employees and G's employees commute using Transit System Z. Z provides a smartcard that may be used by employers to provide transportation benefits to their employees. Z's smartcard includes separate accounts to separately track funds provided directly by an employer that are available only for transit use, funds provided directly by an employer that are only available for nontransit use (e.g., parking), and funds added by the cardholder/employee that are available for either use. Funds in each of the three accounts cannot be transferred between accounts. Debit card provider S provides debit cards, which may be used by employers to provide transportation benefits to their employees. Similar to Situation 5, the debit cards are restricted for use only at merchants that have been assigned an MCC indicating that the merchant sells fare media and the cards contain restrictions based on a merchant's Merchant Identification Number. Except as provided below, these restrictions block all purchases from any merchant in the area with an acceptable MCC that sells any items other than fare media.

F provides its employees who use Z with the S debit card and employees use the debit card to load funds onto the smartcard. When F's employees use the S debit card to load funds onto their smartcards, the funds are placed into the account holding funds that are available for either transit or nontransit use. Although the S debit card is

otherwise equipped with restrictions to prevent use of the card to purchase any items other than fare media, the restrictions do not work to prevent the employee loading funds onto the smartcard account holding funds that are available for either transit or nontransit use. F does not require its employees to substantiate their use of the debit card.

By contrast, G provides transportation benefit amounts directly to Z. Each month, Z places an amount not exceeding the statutory monthly limit into each of G's employees' smartcard accounts that can only be used for transit. G does not require its employees to substantiate their use of the smartcard.

Situation 8. Employer H has been providing transit benefits to its employees via a bona fide cash reimbursement arrangement. Debit card provider T offers a terminal-restricted debit card, which is readily available under § 1.132-9(b) Q/A -16(b)(4), for use in the geographic area of H's business. T's terminal-restricted debit card is the only readily available voucher or similar item in the area.

LAW

Section 61(a)(1) of the Code provides that, except as otherwise provided in subtitle A, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items.

Section 132(a)(5) provides that any fringe benefit that is a qualified transportation fringe is excluded from gross income. Section 132(f)(1) provides that the term "qualified transportation fringe" means (1) transportation in a commuter highway vehicle between home and work, (2) any transit pass, and (3) qualified parking. Section 132(f)(2)

provides a monthly limit on the amount of the fringe benefit provided by the employer which may be excluded from an employee's gross income under § 132(a)(5). Section 132(f)(6) provides for an annual cost-of-living adjustment in the monthly limit. The amount of the fringe benefit which may be excluded from an employee's gross income and wages for 2014 is limited to \$130 per month for the aggregate of transportation in a commuter highway vehicle and transit passes, and \$250 per month for qualified parking. See § 132(f)(2); Rev. Proc. 2013-35, 2013-47 I.R.B. 537, § 3.16.

Sections 132(f)(5)(A) and 1.132-9(b), Q/A-3 provide that a transit pass is any pass, token, farecard, voucher or similar item entitling a person to transportation (or transportation at a reduced price) if such transportation is on mass transit facilities or is provided by any person in the business of transporting persons for compensation or hire in a commuter highway vehicle. See § 132(f)(5)(B) for the definition of a commuter highway vehicle.

Section 132(f)(3) provides that a qualified transportation fringe includes a cash reimbursement by an employer to an employee for transit benefits. However, a qualified transportation fringe includes a cash reimbursement by an employer to an employee for any transit pass only if a voucher or similar item that may be exchanged only for a transit pass is not readily available for direct distribution by the employer to the employee.

Section 1.132-9(b) Q/A-16(a) provides that the term qualified transportation fringe includes cash reimbursement for transportation in a commuter highway vehicle, transit passes (if permitted), and qualified parking, provided the reimbursement is made

under a bona fide reimbursement arrangement. A payment made before the date an expense has been incurred or paid is not a reimbursement. In addition, a bona fide reimbursement arrangement does not include an arrangement that is dependent solely on the employee certifying in advance that the employee will incur expenses at some future date.

Under Q/A-16(b)(2), a transit system voucher is an instrument, which may be purchased by employers from a voucher provider, that is accepted by one or more mass transit operators (e.g., train, subway, and bus) in an area either as fare media or in exchange for fare media.

Under Q/A-16(b)(3) a voucher provider is any person in the trade or business of selling transit system vouchers to employers or any transit system or transit operator that sells vouchers to employers for the purpose of direct distribution to employees. The requirement that a voucher be distributed in-kind by the employer is satisfied if the voucher is distributed by another person on behalf of the employer. See § 1.132-9(b) Q/A-16(b)(1).

Section 1.132-9(b) Q/A-16(b)(4) provides that a voucher or similar item is readily available for direct distribution by an employer to employees if and only if the employer can obtain it from a voucher provider that does not impose fare media charges greater than 1 percent of the average annual value of the voucher for a transit system, and does not impose other restrictions causing the voucher not to be considered readily available.

Section 1.132-9(b) Q/A-16(b)(5) provides that reasonable and customary delivery charges imposed by the voucher provider are disregarded in computing the fare media charges. Examples of restrictions that effectively prevent the employer from obtaining vouchers appropriate for distribution to employees include advance purchase requirements, purchase quantity requirements, and limitations on denominations of vouchers that are available. See § 1.132-9(b) Q/A-16(b)(5) and (b)(6).

Under § 1.132-9(b) Q/A-16(c), whether a reimbursement is made under a bona fide reimbursement arrangement depends upon the facts and circumstances. The employer must implement reasonable procedures to ensure that the amount equal to the reimbursement was incurred for transportation in a commuter highway vehicle, transit passes, or qualified parking.

Section 1.132-9(b) Q/A-16(d) provides that reasonable reimbursement procedures include the collection of receipts from employees or obtaining employee certifications in appropriate circumstances. The regulations provide that obtaining an employee's certification is a reasonable reimbursement procedure if receipts are not provided by the seller in the ordinary course of business, and if the employer has no reason to doubt the employee's certification.

Section 1.132-9(b) Q/A-18 provides that there are no employee substantiation requirements if an employer distributes a transit pass (including a voucher or similar item) in-kind to the employer's employees.

Federal Insurance Contributions Act (FICA) taxes, Federal Unemployment Tax Act (FUTA) taxes, and Federal income tax withholding are imposed on "wages." See

§§ 3101, 3111, 3121(a), 3301, 3306(b), 3402, and 3401(a). Section 3121(a) defines "wages" for FICA purposes as all remuneration for employment including the cash value of all remuneration (including benefits) paid in any medium other than cash, with certain specific exceptions. Sections 3306(b) and 3401(a) define "wages" similarly for FUTA and Federal income tax withholding purposes, respectively.

Section 3121(a)(20) excepts from the definition of "wages" for FICA tax purposes any benefit provided to or on behalf of an employee if, at the time such benefit is provided, it is reasonable to believe that the employee will be able to exclude such benefit from gross income under § 132. Sections 3306(b)(16) and 3401(a)(19) provide similar exclusions for FUTA and Federal income tax withholding purposes, respectively.

Rev. Rul. 2006-57, 2006-47 I.R.B. 911, provided guidance on the use of smartcards, debit cards, or other electronic media to provide employees with transportation fringe benefits and included four situations as illustrations. Originally scheduled to become effective January 1, 2008, the effective date was postponed until January 1, 2012. Because terminal-restricted debit cards were not widely used when Rev. Rul. 2006-57 was first issued, the Treasury Department and the Internal Revenue Service (IRS) lacked sufficient factual information to develop guidance regarding when terminal-restricted debit cards were readily available. Accordingly, Rev. Rul. 2006-57 provided that, as use of terminal-restricted debit cards increased, the IRS intended "to issue guidance clarifying under what situations the [terminal-restricted debit] cards are considered to be readily available and thus preclude cash reimbursement for transit benefits." In the interim, Rev. Rul. 2006-57 provided that the IRS would not challenge

the ability of employers to provide qualified transportation fringes in the form of cash reimbursement for transit passes when the only available voucher or similar item was a terminal-restricted debit card.

In Notice 2012-38, 2012-24 I.R.B. 1014, the IRS requested comments on issues surrounding an employer's provision of transit benefits in light of changes in technology since the publication of Rev. Rul. 2006-57. Specifically, comments were requested on (1) how electronic media may meet the statutory requirements under § 132(f) for providing transit benefits in a manner other than those described in Rev. Rul. 2006-57; (2) the availability of terminal-restricted debit cards and any other electronic media qualifying as vouchers or transit passes for purposes of determining whether such items are readily available; and (3) challenges employers encounter in transitioning from paper transit passes or vouchers to either cash reimbursement or electronic media that qualify as transit passes, or from cash reimbursement arrangements to electronic media qualifying as transit passes or vouchers.

ANALYSIS

In Situation 1, the fare media value stored on the smartcards is usable only as fare media for transit system X. Thus, the smartcard qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 distributed in-kind by A to its employees. In addition, the amount allocated to each employee's smartcard is within the amount specified by § 132(f)(2)(A). Accordingly, the value of the fare media provided by A to its employees through the smartcards is excluded from the employees' gross income as a qualified transportation fringe benefit within the meaning of § 132(a)(5) without requiring

the employees to substantiate their use of the smartcards. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

In Situation 2, the terminal-restricted debit card provided by B to its employees qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 because it can be used only at merchant terminals at points of sale at which only fare media for local transit systems can be purchased. In addition, the amount allocated to each employee's debit card each month is within the amount specified by § 132(f)(2)(A). Therefore, the value of the fare media provided by B to its employees through the terminal-restricted debit cards is excluded from its employees' gross income as a qualified transportation fringe benefit within the meaning of § 132(a)(5) without requiring the employees to substantiate their use of the debit cards. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

In Situation 3, the debit card provided by C to its employees does not qualify as a transit system voucher under § 1.132-9(b) Q/A-16(b)(2), but C has established a bona fide reimbursement arrangement within the meaning of § 1.132-9(b) Q/A-16(c). The debit card provided by C does not qualify as a transit system voucher because it is possible that a MCC-restricted debit card may be used to purchase items other than fare media. A merchant properly classified to accept the debit card as payment may sell merchandise other than fare media, and there is nothing in the debit card technology which prevents its use to purchase items other than fare media.

Because a voucher or similar item exchangeable only for fare media is not readily available to C for direct distribution to its employees, § 132(f)(3) permits C to

provide qualified transportation fringe benefits in the form of cash reimbursements for transit pass expenses, but only if the reimbursements are provided under a bona fide reimbursement arrangement. With respect to expenses incurred during the first month an employee participates in the transportation benefit program, and with respect to expenses not paid using the MCC-restricted debit card, C has implemented reasonable substantiation procedures as described in § 1.132-9 Q/A-16(c). With respect to expenses paid using the MCC-restricted debit card, C receives periodic statements providing information on the purchases made with the debit card, including the identity of the seller, and the date and amount of the debit card transactions. In addition, for the first month an employee uses the MCC-restricted debit card, C requires that the employee certify that the card was used only to purchase fare media. C does not require monthly certifications with respect to recurring items if the item described in the periodic statement matches with respect to the seller and the time period that have previously been substantiated as fare media expenses. However, C requires at least an annual recertification from each employee that the debit card was used only to purchase fare media. Prior to remitting an amount to Q to put on the debit card as a reimbursement to the employee for fare media expenses, C examines the periodic statements describing debit card transactions in combination with employee certifications to determine the fare media expenses incurred by each employee through the use of the debit card. C provides funds to Q to be electronically allocated to the debit cards only as reimbursements for substantiated fare media expenses that have been incurred and substantiated in this fashion. Based on the facts and circumstances,

C has established a bona fide reimbursement arrangement for transit passes within the meaning of § 1.132-9 Q/A-16(c). In addition, the amount of the monthly benefit is within the amount specified by § 132(f)(2)(A). Therefore, the value of the fare media provided by C to its employees through the MCC-restricted debit cards is excluded from its employees' gross income as a qualified transportation fringe benefit within the meaning of § 132(a)(5). The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding.

In Situation 4, as in Situation 3 above, the MCC-restricted debit card does not qualify as a transit system voucher under § 1.132-9(b) Q/A-16(b)(2). Because a voucher or similar item is not otherwise readily available to D, D may provide qualified transportation fringe benefits in the form of cash reimbursements for transit passes under a bona fide reimbursement arrangement. D provides the debit cards in advance, requiring its employees to certify that they will use the cards exclusively to purchase fare media. This arrangement does not constitute a bona fide reimbursement arrangement under § 1.132-9(b) Q/A-16(c) because it provides for advances rather than reimbursements and because it relies solely on employee certifications provided before the expense is incurred. Those certifications, standing alone, do not provide the substantiation of expenses incurred necessary for there to be a bona fide reimbursement arrangement. Because D is providing MCC-restricted debit cards that are not transit system vouchers, and because D is not reimbursing its employees for fare media expenses under a bona fide reimbursement arrangement, the amounts D

provides to its employees through the MCC-restricted debit cards are included in its employees' gross income and are wages for FICA, FUTA, and income tax withholding.

In Situation 5, the MCC-restricted debit card containing additional restrictions constitutes a transit pass because the technological restrictions and limitations effectively prohibit employees from using the cards to purchase any items other than fare media for use on local transit systems. The determining factor for a debit card to qualify as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 is whether the card restricts purchases to fare media. Based on technological advances, this restriction can be implemented with either a terminal-restricted debit card or an MCC-restricted debit card through technologies that limit use of the card to purchase of only fare media. For example, MCC-restricted debit cards that can only be used to purchase fare media from merchants that either sell only fare media or that have a dedicated fare media terminal can qualify as transit passes because the restrictions prevent use of the debit cards to purchase items other than fare media. It is possible that other technological restrictions are or will become available that will allow additional electronic media to qualify as a transit pass. The value of the fare media provided by E to its employees through the MCC-restricted debit cards is excluded from its employees' income as a qualified transportation fringe benefit within the meaning of § 132(f)(5) without requiring the employees to substantiate the use of the debit card. The value of the fare media is also excluded from wages for FICA, FUTA, and income tax withholding

In Situation 6, the R debit card provided by E to its employees qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3. For those employees who

obtain the transit pass online, thereby incurring a delivery charge, the delivery charge is included as part of the transit benefit, and may be excluded from income, subject to the monthly statutory limit. Thus, delivery charges incurred by an employee in acquiring transit benefits are included as part of the transit benefit. In contrast, delivery charges incurred by an employer in obtaining transit passes are not taken into account in determining whether vouchers are readily available for direct distribution by an employer, as described in § 1.132-9 Q/A-16(b)(5).

In Situation 7, the smartcard provided by Z qualifies as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 with regard to the amounts provided by G directly to Z and placed into the account that can only be used for transit. In that case, the value of the fare media is excluded from the employee's income and is excluded from wages for FICA, FUTA, and income tax withholding. However, the S MCC-restricted debit card provided by F to its employees who use Z does not qualify as a transit pass under §§ 132(f)(5)(A) and 1.132-9(b) Q/A-3 because the debit card may be used to purchase items other than fare media. Specifically, employees that use the S debit cards to load funds onto the smartcard will be able to use those funds for either transit or nontransit use. In addition, because the smartcard qualifies as a transit pass when amounts are provided directly by the employer to Z and placed into the account that can only be used for transit, F and G must use the smartcard in this manner, or another transit system voucher, to provide transit benefits to their employees as long as the smartcard or other transit system voucher is readily available (that is, benefits provided through the S MCC-restricted debit cards could not in such case be excluded from employees' gross

income as qualified transportation fringe benefits even if employees were required to, and did, substantiate that the cards were used solely to purchase fare media).

Accordingly, the value of the benefits provided by F to its employees through the S debit cards is included in the employees' income and is included in wages for FICA, FUTA, and income tax withholding.

In Situation 8, H has implemented a bona fide cash reimbursement arrangement. However, § 132(f)(3) provides that a qualified transportation fringe includes a cash reimbursement by an employer to an employee for transit benefits only if a voucher or similar item that may be exchanged only for a transit pass is not readily available for direct distribution by the employer to the employee. Rev. Rul. 2006-57 provided that the IRS would not challenge the ability of employers to provide qualified transportation fringes in the form of cash reimbursement for transit passes when the only available voucher or similar item is a terminal-restricted debit card. Based on comments received in response to Notice 2012-38, the IRS concludes that terminal-restricted debit cards are now widely used and generally available for purchase by employers subject to terms and costs that are similar to other forms of electronic media.

Accordingly, the provision included in Rev. Rul. 2006-57 permitting employers to use cash reimbursement if the only available voucher or similar item is a terminal-restricted debit card is no longer warranted. Beginning after December 31, 2015, in order to provide time for employers to comply, employers are no longer permitted to provide qualified transportation fringe benefits in the form of cash reimbursement in geographic areas where a terminal-restricted debit card is readily available. Whether

terminal-restricted debit cards are readily available for direct distribution by an employer to employees must be determined under the standards in § 1.132-9(b) Q/A-16(b)(5) and (b)(6).

The terminal-restricted debit cards offered by T qualify as a transit pass and are readily available in H's geographic area. Therefore, beginning after December 31, 2015, H may no longer provide qualified transportation fringe benefits in the form of cash reimbursement for transit passes.

HOLDINGS

Situation 1. The value of the transit pass benefits provided by A to its employees through the smartcards is excluded from gross income under § 132(a)(5) and from wages for employment tax purposes.

Situation 2. The value of the transit pass benefits provided by B to its employees through the terminal-restricted debit cards is excluded from gross income under § 132(a)(5) and from wages for employment tax purposes.

Situation 3. The value of the transit pass benefits provided by C to its employees through the MCC-restricted debit cards is excluded from gross income under § 132(a)(5) and from wages for employment tax purposes.

Situation 4. The value of the transit benefits provided by D to its employees through the MCC-restricted debit cards is not excluded from gross income under § 132(a)(5) and is wages for employment tax purposes.

Situation 5. The value of the transit pass benefits provided by E to its employees through the MCC-restricted debit cards is excluded from gross income under § 132(a)(5) and from wages for employment tax purposes.

Situation 6. The delivery charges incurred by employees in acquiring the van pool vouchers constitute qualified transportation fringe benefits under § 132(f).

Situation 7. The value of the transit benefits provided by F to its employees through the debit cards is not excluded from gross income under § 132(a)(5) and is wages for employment tax purposes. The value of the transit pass benefits provided by G to its employees through funds loaded directly onto the Z smartcard account that can only be used for transit is excluded from gross income under § 132(a)(5) and from wages for employment tax purposes.

Situation 8. Beginning after December 31, 2015, the value of the transit benefits provided by H to its employees through a cash reimbursement arrangement is not excluded from gross income under § 132(a)(5) and is wages for employment tax purposes.

EFFECT ON OTHER REVENUE RULING

Notice 2012-38 requested comments on issues associated with Rev. Rul. 2006-57. The situations illustrated in Rev. Rul. 2006-57 are incorporated into this Revenue Ruling. Accordingly, Rev. Rul. 2006-57 is modified and superseded.

PROSPECTIVE APPLICATION

Under the authority of § 7805(b)(8), the holding with respect to Situation 8 is effective after December 31, 2015. After that date, employers may no longer provide

qualified transportation fringe benefits under a bona fide cash reimbursement arrangement in cases in which a terminal-restricted debit card is the only voucher or similar item available for direct distribution by the employer to employees that may be exchanged for a transit pass.

DRAFTING INFORMATION

The principal author of this revenue ruling is Jean M. Casey of the Office of Division Counsel/Office of Associate Chief Counsel (Tax Exempt & Government Entities). For further information regarding this revenue ruling, contact Ms. Casey at (202) 317-4774 (not a toll-free call).