



AN ALERT FROM THE BDO NONPROFIT & EDUCATION PRACTICE

BDO KNOWS:

NONPROFIT & EDUCATION

May 2018 | www.bdo.com

TRANSPORTATION FRINGE BENEFITS ARE NOW UBI

Effective January 1, 2018

The Tax Cut and Jobs Act of 2017 added the following provision to the Internal Revenue Code that will cause many tax-exempt organizations to pay the unrelated business income tax (UBIT):

Internal Revenue Code (IRC) Section 512(a)(7): Certain qualified transportation fringe benefits, including those relating to parking garages, must be reported as unrelated business income (UBI).

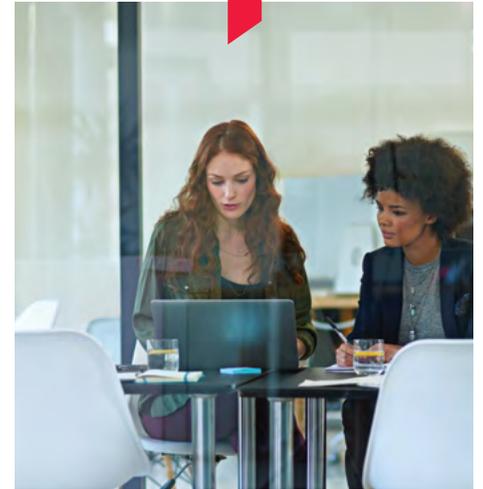
All tax-exempt organizations will have to include as Unrelated Business Taxable Income (UBTI) any amounts paid or incurred for any Qualified Transportation Fringe Benefit, including the following:

- ▶ A ride in a commuter highway vehicle between the employee's home and work place
- ▶ A transit pass
- ▶ Qualified parking

Qualified parking is parking you provide to your employees on or near your business premises. It includes parking on or near the location from which your employees commute to work using mass transit, commuter highway vehicles, or carpools. If an organization has its own garage that is used for parking that is already reported as UBI, e.g., parking for the general public, then the percentage of those costs attributable to the amount already included in its UBI does not have to be included in the amount treated as UBI under the new provision.

The UBIT on these employer costs is 21 percent at the federal level and state taxes may apply as well. Organizations should consider making estimated tax payments on these taxes.

These employee fringe benefits are still excluded from an employee's income. Employers can generally exclude the value of transportation benefits provided to an employee during 2018 from the employee's wages up to the following limits:



HOW DO I GET MORE INFORMATION?

MARC BERGER

National Nonprofit Tax Services Director
703-336-1420 / mberger@bdo.com

ANGELO PIROZZI

Partner, Nonprofit
646-520-2870 / apirozzi@bdo.com

PAUL HAMMERSCHMIDT

Director, Nonprofit
212-885-8321 / phammerschmidt@bdo.com

JOYCE UNDERWOOD

Director, Nonprofit Tax Services
703-336-1552 / junderwood@bdo.com

SANDRA FEINSMITH

Tax Managing Director
404-979-7105 / sfeinmith@bdo.com

MARY JANE PIERONI

Tax Managing Director
314-889-1166 / mjpieroni@bdo.com

- ▶ \$260 per month for combined commuter highway vehicle transportation and transit passes
- ▶ \$260 per month for qualified parking

See IRS Publication 15-b (<https://www.irs.gov/pub/irs-pdf/p15b.pdf>).

Even if the benefit is provided under a Compensation Reduction Agreement, the payment will still result on UBIT for the organization. The only way the organization can avoid counting these benefits is to have the employee pay for the benefits with after-tax dollars. This provision was an attempt to put exempt organizations on the same footing as taxable organizations that will no longer be able to deduct these costs. The provision is effective for amounts paid or incurred after December 31, 2017.

Compensation Reduction Agreement Example:

For 2018, the monthly limit on the amount that may be excluded from an employee's income for qualified parking benefits is \$260. Commuter employees can receive both the transit and parking benefits up to \$520 per month tax-free.

On a per employee basis, for **commuter and transit passes only**, \$260 monthly is \$3,120 annually, and the UBI tax on this amount at 21 percent is \$655 plus state taxes, if applicable. With 100 employees, the federal tax alone would be \$655 per employee and \$65,500 in total. To the extent your organization provides a commuter benefit of up to \$520 per month, the UBI tax can be much more.

BDO INSIGHTS

- ▶ For tax-exempt organizations, the next steps should be to determine whether you provide these transportation and parking benefits, and if so, to how many employees, what kind and how much?
- ▶ BDO can work with you to calculate estimated tax payments for UBI and the state, if applicable. We can also prepare or review your 2018 Form 990-T. If your organization has not filed Form 990-T in the past, we can assist in enrolling the organization in the Electronic Federal Tax Payment System in order to remit its taxes.

BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,800 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients—and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

Please see www.bdo.com/industries/nonprofit-education/overview for more information.

BDO INSTITUTE FOR NONPROFIT EXCELLENCESM

BDO's Institute for Nonprofit ExcellenceSM (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at www.bdo.com/resource-centers/institute-for-nonprofit-excellence for upcoming local events and webinars.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 550 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 73,800 people working out of 1,500 offices across 162 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2018 BDO USA, LLP. All rights reserved.