

Commuter Deduction: 2021 Script

[Introduction] Do you commute to work on the MBTA? Maybe you commute using toll roads? You should know that since two thousand six Massachusetts has allowed a personal income tax deduction from part B income for certain commuter expenses.

[What is Deductible] The deduction is limited to tolls paid through an E-Z Pass or registered Pay by plate account and purchases of MBTA multiple use passes.

[EZ Pass Receipts] Tolls allowed include bridge, tunnel and road tolls only if paid through an automated E-Z Pass or registered Pay by plate account. Tolls paid individually or with an unregistered pay by plate invoice do not qualify even if a receipt is obtained.

[MBTA] MBTA passes eligible for the commuter deduction include weekly or monthly unlimited use transit commuter passes, transit, bus, commuter rail, or commuter boat passes. These also include a "Ten-Ride" pass purchased for the MBTA commuter rail, express bus and commuter boat.

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[What is Not Deductible] Expenses not allowed include "Stored value" Charlie Card or Charlie tickets and any travel on other, non-MBTA transit systems whether public or private.

[Payroll Deduction] When an employee pays for an MBTA pass through payroll deductions, the total cost of the pass is eligible for the commuter deduction if all other requirements are met.

[The Calculation] For each individual, the deduction allowed applies only to the amount that exceeds one hundred fifty dollars. The maximum deduction allowed is seven hundred fifty dollars per person over the one hundred fifty-dollar threshold.

The deduction must be calculated separately for each individual. A married couple filing jointly must still calculate each person's deduction separately. Excess qualifying expenses that exceed the maximum amount allowed for one person may not be transferred to be claimed by the other spouse.

[Other Factors] If an individual claims a dependent on his or her return and purchases an MBTA pass for that dependent, the taxpayer may include that expense when calculating the commuter deduction provided the dependent does not also claim the deduction.

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However, the maximum deducted cannot exceed seven hundred fifty dollars per taxpayer even with the dependent's expenses included.

Finally, the deduction is allowed only if the amount has not also been deducted under any other provision of tax law.

[Commuter Benefits] A separate section of the law allows a per month exclusion from taxable income for transit passes provided by employers. Unlike the commuter deduction, which is available only for MBTA passes, this exclusion is available for any transit system including those in other states. Further, the exclusion would also apply when an employee arranges with their employer to receive a transit pass in return for a reduction in their salary.

Either way the cost, up to the exclusion, would not be included in the employee's taxable income. Of course, this cost, already a deduction reducing taxable income would NOT be allowed to be used again for the commuter deduction.

This exclusion changes each year. The table shows the allowed exclusion for recent years. Note that the federal exclusion may be different than the Massachusetts exclusion.

An employer may pay for a pass or an employee may elect to have an amount withheld that exceeds these limits. However, any such amount is treated as employee income and must be included on their W-two as taxable income.

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Then again, this income amount will be considered used to pay for the pass, and if for an MBTA pass, may be included in the Massachusetts commuter deduction calculation.

This works in a similar fashion to the employer paying the amount exceeding the exclusion to the employee, and the employee then using it to pay for the pass.

As an example, during 2019 Valerie elected to have \$261 per month deducted from her salary to purchase a monthly MBTA pass. Since only \$140 is allowed to be excluded from Valerie's income per month for Massachusetts tax purposes, the \$121 salary deduction over the \$140 must be treated as Massachusetts taxable income for Valerie. However, because this money was spent to purchase an MBTA pass, the \$121 is allowed to be included in the calculation of Valerie's MA commuter deduction.

For federal tax purposes the \$261 paid by Valerie is under the federal monthly limit. Therefore, none of the benefit would be included as federal income.

Please note - employees located in states other than MA should check for their applicable state transportation exclusion.

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[Schedule Y] The commuter deduction is claimed by entering the net amount onto the Schedule Y - Other Deductions. This is then carried to the Form One Massachusetts Income Tax Return.

[Receipts Needed] To substantiate your deduction retain E-ZPass reports, monthly passes, payroll stubs, bank statements and credit card statements.

[Example 1] Let's look at some examples. Noah travels to work on the MBTA. Last year he purchased 10 monthly subway unlimited use passes for 90 dollars each. Only occasionally does Noah drive to work using a toll road. When he does, his vehicle is identified by plate and a bill is mailed to him. This includes the toll plus a billing fee. Noah mails in a check for the amount due. To calculate his deduction, Noah starts with the total cost of the ten monthly passes, nine hundred dollars. Since only tolls paid through a registered E-ZPass or Pay-by-plate account qualify for the deduction, Noah cannot include his tolls in this calculation.

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If Noah had simply opened a pay by plate account, registering his vehicle along with a credit or debit card for payment, the toll would then be includable in the commuter deduction.

[Example 2] Because only the expenses exceeding one hundred fifty dollars are allowed for the deduction, Noah has to subtract one hundred fifty dollars from the nine hundred dollars he previously calculated. This results in an allowable deduction of seven hundred fifty dollars. Noah enters this amount on the Schedule Y line fifteen. Since Noah has no other deductions on Schedule Y, this amount is carried forward to line fifteen of the Form One.

[Example 3] Bob and Mary live west of the Boston and file a joint return. Last year, Bob commuted to work on the Massachusetts Turnpike and over the Tobin Bridge to Chelsea paying tolls through his **E-Z Pass** account totaling one thousand, two hundred fifty dollars. The calculation for Bob's commuter deduction is the total tolls paid of one thousand, two hundred fifty dollars less the threshold amount of one hundred fifty dollars, leaving a total of one thousand one hundred dollars.

Bob's maximum deduction allowed is seven hundred fifty dollars; although Bob and Mary file a joint return, Bob's excess amount of three hundred fifty dollars cannot be claimed by Mary.

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[Example 4] Mary is a self-employed lawyer. Last year Mary paid tolls through an E-ZPass account of two thousand dollars. Of this total, twelve hundred dollars was for business and was deducted as an expense on her Schedule C.

Only the balance of eight hundred dollars would qualify for the commuter deduction. After subtracting the threshold amount of one hundred fifty dollars, her commuter deduction is six hundred fifty dollars.

[Example 5] Mildred is an executive in Boston. Her employer purchases an MBTA pass at a cost of 158 dollars per month. For 2019 \$140 dollars per month was excluded from Mildred's taxable wages. However, the amount over 140 dollars, 18 dollars per month, is included as part of Mildred's taxable income. For the twelve monthly passes Mildred must report 216 dollars in income on her W-2. Because she must report this amount as income that was then spent on an MBTA pass, Mildred is allowed to include the 216 dollars in her calculation of the commuter deduction.

[Example 6] Mildred also purchases an MBTA pass for her son to commute to college. Due to the college's schedule, Mildred only buys passes for eight months. For the other days Mildred gives her

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son money to add value to a Charlie Card. Provided Mildred can claim her son as a dependent and he does not claim the commuter deduction himself, Mildred can add the cost of the monthly passes to the commuter expense.

However, the cost of adding value to pay for rides individually cannot be included. Note that although Mildred is paying these expenses for two people, it is considered to be one person for tax purposes, and the one hundred fifty-dollar threshold and the seven hundred fifty dollar maximum deduction allowed apply.

[Filing Options] As a personal income taxpayer, you have a number of options to choose from when filing your Massachusetts state taxes. The quickest way to receive your refund is to file electronically. DOR estimates that 75% of online returns will continue to be processed in two to three days and anticipates issuing most refunds in less than two weeks from the time returns are received. If taxpayers choose to file by paper, refunds could take up to eight to 10 weeks to process. To see filing options including Free e-file options, locations to have your taxes prepared for free and tips to choose a paid tax preparer click on this link to filing options. However, if you prefer to file with a paper form here is a link to the printable Form 1 Personal Income Tax Return and related schedules

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[Additional Information] Do you travel on toll roads but do not have an EZ Pass account? In addition to allowing tolls to qualify for a commuter deduction the EZ pass transponder is convenient and is accepted on most toll roads in Northeast United States. It may qualify for toll discounts. Please click on this link for information on acquiring an EZ Pass account.

For additional information on MBTA fares and passes click this link.

[TIRs] For more information on this deduction, please see the Technical Information Releases shown, as well as the Guide to Personal Income Tax on the Department of Revenue's web site.