



Nonprofit Financial Success Series

Helping Nonprofits Build Financial Success

Monday, March 18th, 2019

Parking is a Fringe Benefit?

Qualified Transportation Fringes



Presenter



Steven Anseth
Partner, CPA
Nonprofit Services Leader



Unrelated Business Income

Unrelated Business Income (UBI)

- IRS Definition: “Gross income derived from any trade or business regularly conducted and not substantially related to the organization’s exempt purpose or function”
- And any activity the IRS deems to be unrelated business income
- More information on UBI see IRS Publication 598
- Unrelated Business Income isn’t bad, just means we need to pay income tax.

Form 990-T

Form 990-T

- Used to report Unrelated Business Income
- Is a public document
- Threshold to prepare is \$1,000 of gross revenue
- For December 31st year-ends, due May 15th and must be extended separately from 990
- Extension not an extension to pay all tax due

Qualified Transportation Fringe is reported on Form 990-T

Qualified Transportation Fringes

Tax Cuts and Jobs Act disallows Qualified Transportation Fringe benefits (QTFs):

- Commuting in a commuter highway vehicle
- Any transit (bus) pass
- Qualified parking (vastly expanded definition)

All of the above are now either considered Unrelated Business Income or need to be included as taxable compensation to employees.

Commuting Fringes

Commuting in a Commuter Highway Vehicle (vanpool) and transit (bus/light rail) pass

- Any amounts provided to employees tax free, including pre-tax payroll deduction, is now Unrelated Business Income

Qualified Parking

Old Law

- Employers could provide employees a certain amount toward their parking expenses paid to 3rd parties
- Primarily an urban issue, where organizations rented or owned buildings that didn't have parking
- Previously the amount was \$240/month
- Could be pre-tax salary reduction or paid directly by the organization

Qualified Parking

New Law

- These amounts can still be provided tax free to employees, but are now considered Unrelated Business Income (taxable) to the organization.
- Any amounts that are included in taxable compensation of the employee is not UBI to the organization

Qualified Parking

New Law

- The new definition of qualified parking is:
- *“Parking provided to an employee on or near the business premises of the employer”*
- Vastly larger definition
- Leased, whether directly or indirectly
- Organization owned

Calculating Taxable Parking

Step 1

- Determine total number of parking spaces available
- Determine total number of spaces reserved or marked for employees
- Calculate percentage of spaces that are reserved

Example A

- \$5,000 parking expenses
- 40 spaces total
- 5 spaces reserved for employees
- 12.5% of spaces are reserved
- \$625 UBI for the reserved spaces

Calculating Taxable Parking

Step 2

- Determine number of spaces used by employees on a typical day
- Saturdays and Sundays may or may not be typical days
- Calculate percentage of non-reserved spaces used by employees

Example A (cont) – assume facts from previous slide

- Spaces used by employees = 25
- 71.4% (25/35) used by employees
- \$3,125 of UBI for non-reserved spaces
- \$3,750 total UBI

Calculating Taxable Parking

Step 2

- Less than 50% used by employees, no UBI from non-reserved spaces

Example B

- \$5,000 parking expenses
- 40 spaces total
- Spaces reserved for employees = 5 (same as prior)
- Spaces used by employees = 16
- 45.7% (16/35) used by employees
- \$0 of UBI for non-reserved spaces since it is below 50%
- \$625 from reserved spots still apply

Calculating Taxable Parking

Step 2

- One more example

Example C

- \$5,000 parking expenses
- 40 spaces total
- Spaces reserved for employees = 0
- Spaces used by employees = 21 (16 + 5)
- 52.5% (21/40) used by employees
- \$2,625 of total UBI

Calculating Taxable Parking



Action to Take Now

- Remove reserved signs by March 31, 2019 treated as retroactive to January 1, 2018
- We can't add to reserved spots for 2018, but we could make changes now for 2019
- Add more spaces for 2019
- May combine parking facilities located in the same city.

Calculating Taxable Parking

Annual expenses of the parking facility include:

- Snow removal
- Insurance
- Cleaning
- Landscaping (if in the parking facility)
- Security
- Rent/lease payments
- Trash removal
- Property taxes
- Utility costs (lights)
- Interest expense

Depreciation is NOT a component of expenses

Qualified Parking

Exercise

Exercise 1

- \$6,000 parking expenses
- 75 spaces total
- Organization has 50 employees. 5 of which have their own designated parking spot. There are 5 spaces reserved for visitors. On most days that the organization is open, there are about 40 vehicles from employees in general parking spaces.

Calculate total UBI

Qualified Parking

Exercise

Exercise 1

- \$6,000 parking expenses
- 75 spaces total
- Spaces reserved for employees = 5
- Spaces used by employees = 40 (non-reserved)

- \$400 of UBI from reserved spots ($5/75 * 6,000$)
- 57% of remaining spaces used by employees
- \$3,200 of UBI for non-reserved employee spaces
($40/(75-5) * (6,000-400) = \$3,200$)

- Total UBI $\$400 + \$3,200 = \$3,600$

Qualified Parking

Future

- There is a bill currently in the Minnesota House and Senate to keep MN from following IRS on this
- Some talk in DC of repealing this provision, but no action or currently expected action

Qualified Parking

Estimated Tax Payments

- Nonprofits, like for-profits, are required pay their taxes throughout the year.
- IRS is waiving late payment penalties for 2018.
- Will need to decide about estimated payments for 2019.

Questions and Table Recap

Parking is a Fringe Benefit?
Presented by Steve Anseth

1. Do you understand how to calculate the potential UBI for your organization?
Yes No

2. Do you anticipate having to pay UBI tax related parking in 2018?
Yes No Not Sure

3. How do you see this impacting your organization?

4. I learned something new from this presentation (circle one)
Strongly Disagree 1 2 3 4 5 6 7 8 9 10 Agree

5. The presenters were knowledgeable (circle one)
Strongly Disagree 1 2 3 4 5 6 7 8 9 10 Agree

6. Would you like someone from Abdo, Eick & Meyers to contact you? If so, please provide your contact info:
Name:
Phone Number:
Email:

**Please leave any additional comments on the reverse side*

Nonprofit Financial Success Series



Nonprofit Financial Success Series



Join Us for Upcoming Events in the Series!

Location: Minnesota Council of Nonprofits

Dates: Thursday, May 9th, 2019
Wednesday, September 25th, 2019

Time: 8:00am - 1:00pm

Helping Nonprofits Build Financial Success

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