IRS News Release

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IRS issues guidance for determining nondeductible amount of parking fringe expenses and unrelated business taxable income; provides penalty relief to tax-exempt organizations

IR-2018-247

WASHINGTON – The Internal Revenue Service today issued interim guidance regarding the treatment of qualified transportation fringe benefit expenses paid or incurred after Dec. 31, 2017. The new rules assist taxpayers in determining the amount of parking expenses that are no longer tax deductible. They also help tax-exempt organizations determine how these nondeductible parking expenses create or increase unrelated business taxable income (UBTI).

The IRS acknowledges that this guidance falls late in the year and taxpayers that own or lease parking facilities may have already adopted reasonable methods in 2018 to determine the amount of their nondeductible parking expenses. Taxpayers may rely on the guidance or, until further guidance is issued, use any reasonable method for determining nondeductible parking expenses related to employer-provided parking.

A key part of this guidance is a special rule, enabling many employers to retroactively reduce the amount of their nondeductible parking expenses. Under this rule, employers will have until March 31, 2019, to change their parking arrangements to reduce or eliminate the number of parking spots they reserve for their employees. By making this change, many churches, schools, hospitals and other tax-exempt organizations may be able to reduce their associated UBTI. In some cases, the organization may avoid having to file a Form 990-T, Exempt Organization Business Income Tax Return, altogether. Such a change made in parking arrangements will apply retroactively to Jan. 1, 2018.

The Treasury Department and IRS seek comments for future guidance to clarify the treatment of these qualified transportation fringe expenses.

The IRS also announced today that it will provide estimated tax penalty relief in 2018 to tax-exempt organizations that offer these benefits and were not required to file a Form 990-T last filing season. Additionally, some tax-exempt organizations will not exceed the $1,000 threshold below which an organization is not required to file a Form 990-T or pay the unrelated business income tax.

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