



MICHIGAN PUBLIC SCHOOLS: PA 75 AND 3% HEALTHCARE CONTRIBUTIONS

PA 75 of 2010 (effective July 2010 - September 2012) mandated that Michigan public school employees contribute 3% of their compensation to the Retiree Healthcare Fund. In December 2017 the Michigan Supreme Court ruled in a 6-0 decision that this was unconstitutional and that the state must return over \$554 million dollars to public school employees.

In January 2018, the Michigan Office of Retirement Services (“ORS”) submitted this payment to Michigan public school districts. Money was refunded to each individual school district that, in turn, will refund it back to the employees who made contributions.

Reporting, payment back, and financial effect to each school district depends on how the district treated the original contribution.

Treatment of Payments to Employees

If the District originally included for Federal and State wages; and included for FICA wages:

- ▶ The District would have no additional tax reporting in 2018, since the District originally reported this payment correctly.
- ▶ The District should make the payment through regular accounts payable or payroll through a pass-through payroll reimbursement.
- ▶ There would be no additional financial impact to the District or the employee since taxes were properly paid.

If the District originally included for Federal and State wages; but excluded for FICA wages:

- ▶ The District would have to include this in the employee’s 2018 W-2 form in Box 3 social security wages and Box 5 Medicare wages.
- ▶ The District should make the payment to the employee for reimbursement through District’s payroll that is coded not subject to Federal or State income tax.
- ▶ The District’s financial impact of these expenditures would be the employer match of FICA taxes paid.
- ▶ Deceased employee - generally a 1099 MISC would be issued unless they received W-2 wages in 2018.

If the District originally excluded for Federal and State wages; but included for FICA wages:

- ▶ The District would have to include this in the employees 2018 W-2 form Box 1 wages, tips and other compensation and Box 16 state wages, tips, etc., and possibly local withholding in some cases.
- ▶ The District should make the payment to the employee for reimbursement through District’s payroll that is coded Federal and State taxable, but not subject to FICA tax.

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- ▶ Deceased employee - generally a 1099 MISC would be issued unless they received W-2 wages in 2018.

If the District originally excluded for Federal and State wages; and excluded for FICA wages:

- ▶ The District would have to include this in the employees 2018 W-2 form Box 1 wages, tips and other compensation, Box 3 social security wages and Box 16 state wages, tips, etc., Box 5 Medicare wages, and possibly local withholding in some cases.
- ▶ The District should make the payment to employee for reimbursement through District's payroll that is coded Federal, State, and FICA taxable.
- ▶ The District's financial impact of these expenditures would be the employer match of FICA taxes paid.
- ▶ Deceased employee - generally a 1099 MISC would be issued unless they received W-2 wages in 2018.

Payment of Interest to Employees from the District

Interest earned on 3% refund:

- ▶ The District should make the payment through regular accounts payable or payroll through a pass-through payroll reimbursement.
- ▶ There would be no additional financial impact to the District since this is a repayment of the employee's interest that was earned.

Note: We recommend that the District have employees consult a tax advisor on the interest payment to determine the proper tax reporting. The District should not provide tax advice.

Payment of Funds to Employees From the District

We recommend issuing the following batch payments to refund employees:

1. First batch – Active employees pay as supplemental wages:
 - ▶ “Flat Rate Method” through payroll with withholding for federal (22%) and state (4.25%).
 - ▶ The District should review plan documents for any elective deferrals against these dollars. It is a District-by-District choice of how these electives, if any, should be handled.
2. Second batch - Inactive employees pay as supplemental wages (two groups):
 - ▶ If no payments were made to the employee in the current or previous year (2018 or 2017):
 - ▶ Process payment separately through payroll using the “Aggregate Approach.”
 - ▶ Use W-4 on file. If no W-4, attempt contact with former employee.
 - ▶ If no W-4 and all efforts are made, tax individual as single with no withholding allowances.
 - ▶ If any payments were made to the employee in the current or previous year (2018 or 2017):
 - ▶ “Flat Rate Method” through payroll with withholding for federal (22%) and state (4.25%).
3. Deceased Employees:
 - ▶ Deceased in 2018 and current employee run through current payroll as wages.
 - ▶ Deceased prior to 2018 and not current employee contact attorney.

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Accounting and Other

- ▶ Accounting, debit cash and credit liability account upon original receipt of funds.
- ▶ Allocation of additional FICA, the District may choose on how to allocate.
- ▶ Do not post the additional FICA to federal funds.
- ▶ Do not amend prior year tax fillings.

Resources

- ▶ Michigan Office of Retirement Services FAQs
<http://www.michigan.gov/orsschools/0,4653,7-206-36609-456119--,00.html>
- ▶ IRS Publication 15, (Circular E) Employer's Tax Guide - for use in 2018
<https://www.irs.gov/pub/irs-pdf/p15.pdf>

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