

Frequently Asked Questions

- 1. What is the 3% Healthcare contribution through the Michigan Public School Employees Retirement System (MPSERS) that may be subject to a refund of Social Security and Medicare Taxes?**

The 3% Healthcare contribution through the MPSERS is the “elective” retiree healthcare contributions remitted under 2012 Public Act 300 for calendar years 2013 to present.

- 2. How do I know if I have this deduction and am eligible for a potential refund?**

If you have this deduction, it will be included on your payroll voucher as “RE Health Care Ins 3%”. If this deduction is not included on your check, you opted out of the retiree healthcare plan when you enrolled, or during the election period offered in late 2012. If you were hired after Sept. 4, 2012, this was no longer an option and you will not have the deduction.

- 3. Why is CPS filing for a refund on the Social Security and Medicare taxes paid on the contributions?**

There have been questions as to whether or not the employee contributions to the retiree healthcare should be exempt from Social Security and Medicare taxes since the monies are not earmarked specifically for the benefit of the employee making the contribution. MPSERS has maintained that the contributions **should not** be subject to Social Security and Medicare taxes. However, the Internal Revenue Service has maintained it **to be** subject to taxes as it is not mentioned as an allowable reduction to taxable wages in the internal revenue tax codes.

On December 31, 2018, a Private Letter Ruling (PLR) request was made by Dewitt Schools to the IRS regarding the taxability of the 3% healthcare deduction. To date, the IRS has not issued an opinion on the PLR request. Therefore, CPS continues to subject the deduction to Social Security and Medicare taxes. To safeguard potential tax refunds within the statute of limitations, the Business Department at CPS has continued to file 941-X forms for each quarter, within the statute of limitations for each calendar year. The forms were filed to protect the employer and employee portions of Social Security and Medicare taxes paid. Therefore, should the IRS deem the transaction to be exempt from Social Security and Medicare taxes, then refunds will be issued and the funds will be distributed to each employee who provided consent for their respective share.

- 4. Why am I being asked to submit a waiver to CPS to seek the refund for my portions of the taxes paid for Social Security and Medicare taxes?**

The IRS requires written consent by the employee to request the refund for the employee portion of the taxes paid for Social Security and Medicare. A waiver is **NOT** required to file for a refund on the employer portions of the taxes paid for Social Security and Medicare. The waiver will allow for CPS to file on behalf of the employee and reimburse the employee should the IRS deem the transaction to be exempt from Social Security and Medicare taxes.

5. What happens if I do not submit a waiver to CPS by March 31st?

If a waiver is not received in the Business Office by 3:30 on March 31st, the portion of Social Security and Medicare taxes paid by you on the 3% Healthcare Contributions will be subtracted out of the CPS's total claim for refund to be filed within the Statute of Limitations.

6. Can I still pursue a refund if I miss the deadline to submit a waiver?

Yes. Should the deduction be deemed to be tax exempt, you can amend your tax returns when you receive your corrected W-2s for the tax year. Please see a tax advisor for specific instructions on how to file for a refund.

7. Will I receive a corrected W-2 if I submit a waiver?

If the IRS rules that the deduction is Social Security and Medicare exempt, you will receive a corrected W-2 if you paid the 3% Healthcare Contributions **whether you submit the waiver or not**. The corrections will be to taxable Social Security Wages, taxable Medicare Wages, Social Security taxes and Medicare taxes. There will be **NO** adjustment to taxable wages as the contributions were originally treated as federal exempt.

8. When will the corrected W-2s be filed?

The corrected W-2's will be filed if the IRS makes a determination that the deduction is exempt from Social Security and Medicare, **and** refund is received by the Internal Revenue Service.

9. If I receive a refund, what will be the tax implications for me?

Since the impact is only on Social Security and Medicare taxes, for the majority of employees there would be no impact on federal and state taxes. Therefore, there would be no requirement to file amended tax returns. In the rare instance where Social Security and Medicare taxes impact your personal income tax return, please see your tax advisor for further instructions.

10. If there is no impact on prior year income taxes, why will I receive a corrected W-2?

There is no impact on federal and state taxes, but there will be an impact to Social Security wages and contributions to Social Security and Medicare. Since the contributions were

originally in your Social Security and Medicare wages, they will need to be corrected to reduce the wages. This information will be refiled with Social Security Administration to correct your reportable wages.

11. What happens if I do not want a refund?

If you do not want a refund, do not remit the waiver to CPS. However, your Social Security wages will be corrected **IF** the IRS grants the PLR request and allows for the exemption of the contributions for Social Security and Medicare purposes.

12. If CPS does receive the refund, will the contributions be exempt from Social Security and Medicare in the future?

The contributions will remain taxable for Social Security and Medicare purposes until a PLR is received from the IRS exempting them. The IRS has not ruled to allow the contributions to be exempt.

13. I did not work for CPS during some of the time between 2016 and 2018. How do I pursue a refund from my previous district?

Please note that not every district is filing the paperwork to receive a refund. In addition, some are filing only for the employer portion. We recommend that you contact your previous district and inquire as to whether they are collecting waivers. If they are, you can request that they send you one. If not, you can request a refund when you receive your corrected W-2.

Some districts have maintained the deductions to be tax exempt and have not remitted Social Security and Medicare taxes on the contributions. Therefore, there is no refund to request.

In any case, we recommend you contact the business department at the district for further information.

14. My spouse works for another district and he/she has not received a correspondence regarding this issue. Why?

This could be due to a combination of items, including:

- The District **has not** filed a Protective Claim with the IRS
- The District **is not** filing on behalf of the employee contributions
- The District **has exempted** the contributions from Social Security and Medicare taxes

15. How do I calculate my refund, if one is granted through the IRS?

The Business Department has calculated the refunds for the employee and employer share for each employee who has contributed to the 3% Healthcare Contribution. It is basically 7.65% of 3% of your Social Security wages. For instance, if your Social Security wages were \$40,000 in 2019 and you paid into the 3% retiree healthcare contributions, then your social security wages would be reduced by \$1,200 ($\$40,000 \times 3\%$). Your Social Security and Medicare reimbursement would be \$91.80 ($\$1,200 \times 7.65\%$).