



IRS Provides Process to Address Retroactive Increase in Excludable Transit Benefits

On December 19, 2014, the Tax Increase Prevention Act of 2014 (TIPA) became law. TIPA included a retroactive increase for 2014 in the amount of transit benefits an employee could exclude from income, whether those benefits are paid directly by the employer or by the employee on a pre-tax basis. Prior to the retroactive TIPA increase, the total excludable amount for commuter highway vehicle transportation and transit pass benefits was \$130 per month (while the maximum benefit for qualified parking was \$250 per month). TIPA increased the maximum monthly benefit for commuter highway vehicle transportation and transit pass benefits to \$250 for 2014.

Because this increase occurred so late in the year, employers have raised questions about how to handle and report the increase. On January 9, 2015, the IRS issued [Notice 2015-2](#). This notice provides a special process for employers that provide additional, retroactive tax-exempt benefits to make corresponding adjustments to Federal Insurance Contributions Act (FICA) withholding and reporting. Any excess withholding of federal income tax will not be adjusted by the employer, but may be claimed by the employee when the Form 1040 is filed. The Notice states that employers may not simply contribute or allow employees to contribute amounts above the monthly limit (which was reduced back to \$130 for commuter highway vehicle transportation and transit pass benefits for 2015) to recoup the 2014 amounts. Employers may use the normal refund process that applies when FICA is withheld in error, if they prefer.

Form 941

The IRS has provided a streamlined process for employers that have not yet filed their Form 941 for the fourth quarter 2014. To use this streamlined process:

- The employer must repay or reimburse the over-collected FICA (including any Additional Medicare Tax) for all four quarters of 2014 on or before the date they file the fourth quarter Form 941.
- The employer should reduce the fourth quarter “Wages, tips and compensation” reported on line 2, the “Taxable Social Security wages” reported on line 5a, the “Taxable Medicare wages and tips” reported on line 5c, and the “Taxable wages & tips subject to Additional Medicare Tax withholding” reported on line 5d by the benefits that were under-claimed for all four quarters of 2014.

- To avoid a mismatch between the total taxes reported on Form 941, line 10, Total taxes after adjustments, and the Total liability for the quarter reported on Form 941, Line 14 (for a monthly schedule depositor) or Schedule B (Form 941) (for a semiweekly schedule depositor), the employer should reduce the last liability of the quarter reported (that is, Month 3 on line 14 or the last liability entry on Schedule B) by the amount of the tax reduction due to use of the streamlined process. If the amount of the tax reduction exceeds the last liability of the quarter reported on line 14 or Schedule B, the employer should apply the amount of the tax reduction to reduce previous liabilities in reverse order until the amount of the tax reduction is completely used. Note that negative numbers must not be entered on Line 14 or Schedule B.

Employers that take advantage of this option:

- Will not be required to provide a Form W-2c to affected employees.
- Will not be required to get statements from affected employees confirming the employee has not and will not claim a FICA refund for these amounts.
- Will not be required to file Form 941-X.

Employers that have already filed their final fourth quarter Form 941 for 2014, or who have not repaid or reimbursed employees by the time they file their fourth quarter Form 941, must use Form 941-X to make an adjustment or claim for refund and must follow the normal over-collection procedures, which includes obtaining a statement from employees.

Forms W-2

Employers that have not yet furnished 2014 Forms W-2 to their employees should take into account the increased exclusion for transit benefits in calculating the amount of wages reported in box 1, "Wages, tips, other compensation," box 3, "Social Security wages," and box 5, "Medicare wages and tips."

Employers that have already repaid or reimbursed their employees for the over-collected FICA taxes before furnishing Form W-2 (regardless of whether they used the streamlined or normal procedure) should reduce the amounts of withheld tax reported in box 4, "Social Security tax withheld," and box 6, "Medicare tax withheld," by those amounts. Employers, however, must report in box 2, "Federal income tax withheld," the amount of income tax actually withheld during 2014.

Employers that repaid or reimbursed their employees for the over-collected FICA taxes after they furnished Forms W-2 to their employees, but before filing Forms W-2 with the Social Security Administration (SSA), must check the "Void" box at the top of each incorrect Form W-2 (Copy A), prepare new Forms W-2 with the correct information, and send these new Forms W-2 to the SSA. The employers must also furnish the employees new copies of Form W-2 marked "CORRECTED."

Employers that have already filed with SSA their 2014 Forms W-2 must provide Form W-2c with corrected information to both the affected employee and SSA.

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