

Summerfield Schools – FAQ on PA75 Health Trust Contribution Refund

Background Information:

During July 2010 through September 4, 2012, Summerfield Schools was required to deduct monies for PA75 retirement contributions required by the legislature. Those deductions were questioned when the law was passed as to the tax applicability (especially with the constitutionality of the law being challenged). At that point, all Monroe County districts, including Summerfield, elected to handle the deductions as exempt from Federal and State taxes, but not exempt from FICA taxes (Social Security and Medicare) in accordance with IRS Publications.

Now with the PA75 lawsuit settled and the deductions being refunded, the question of what has to happen with the payment is being reviewed. As stated, when paid, these deductions were exempted from Federal and State taxes, and will need to have those taxes withheld when the deductions are re-paid. Since FICA was already withheld, it will not have to be withheld again. Also, due to the funds being reported to the Retirement system already, MIP/DC/PHF withholdings will also NOT be withheld either.

Knowing the refunded deductions are now subject to tax, Summerfield will be allowing employees to voluntarily elect to contribute a portion of their return to an existing 403b/457b product on file with the District. Please see the required form to turn in for current active employees and make sure it is submitted by February 5, 2018.

The Office of Retirement Services submitted certain information to the district specific to key member data and the amounts being refunded. ORS made calculations of the refunded contributions and interest and the total payment for members was aggregated to be provided to Summerfield. The District is not making payments based on any recalculations it has done, only passing along the monies it has been told to, taking into consideration the tax implications from the payment.

The other portion of the refund is the interest earned in escrow by the State that is being passed along to each employee. This interest will be taxable income to all recipients, however since Summerfield did not earn the interest, it is not required to have taxes withheld and will not be separately reported to you on a form 1099-INT at the end of year. Employees will need to include it in their own tax filing at year end. This interest is not wages and cannot be redirected into a 403b/457b product.

The District has selected Friday, February 16, 2018, as the payment date for these funds. This date is the Friday in between our normally scheduled bi-weekly payroll dates. This allows the District to issue a check specific to this refund for employees to help everyone identify the separate payment. It also allows us to adjust our payroll settings to ensure all other deductions are turned off. The only items to deduct from the payment is the applicable federal and state taxes, court-ordered withholdings, specifically-elected redistribute into an existing 403b/457b product for active employees, and the direct deposit on file with the District that is the last bank listed on your current check (for active employees). Inactive employees will receive a paper check.

FAQ (check out ORS first- <http://www.michigan.gov/orsschools/0,4653,7-206-36609-456119--,00.html>)

Q: When did the district receive the State payment for the settled court case?

A: Summerfield received the money on January 22, 2018 after the Court of Claims approved the payment plan.

Q: How is the District paying out these funds?

A: Due to the settlement being a refund of deducted wages, the returned contribution needs to process back through payroll, taxed in the reverse of how it was deducted. Direct deposits or payroll checks will be issued after appropriate taxes and required contributions are processed.

Q: When should I expect my payment for the refund of contributions?

A: All members receiving a payment will be processed on February 16, 2018. Active Summerfield employees will receive their direct deposit on this date, and checks will be issued as of this date. Any checks not picked up on February 16th will be mailed at the end of day. Inactive employees will have their checks issued on the same date and be mailed that day.

Q: So I shouldn't expect to receive the full amount in the notice I received from ORS?

A: Between January 19th and 23rd, ORS sent member notifications via email of the amounts they should anticipate from employers. This amount is the gross refund of contributions and needs to be taxed for Federal and State income taxes (FICA is exempt as it was already taken prior to the deduction). The taxation will make the net amount less than you were notified by ORS. If you did not receive a notification from ORS, please reference their FAQ noted above for steps on finding out the amount.

Q: What if my spouse (parents, etc.) was employed and is now deceased?

A: The District was notified by ORS of members whose status with them is deceased. We will be contacting next of kin as much as possible to ensure the proper beneficiaries are identified and provided payment on February 16, 2018. If ORS did not identify a member as deceased, and the inactive employee check was issued inadvertently under their name, please return the check to the District. We will provide the appropriate paperwork to have the check voided and reissued to the proper beneficiary. Under IRS rules, a deceased employees payments will be issued and reportable on a 1099-M, Box 3 income.

Q: Why is the District waiting until February 16th?

A: Payroll processing takes some time to ensure the proper set up is completed and all calculations are accurate. We are providing a short window to file paperwork for redirecting the refund into a 403b/457b product and thus need time to process that information, and shut off the corresponding deductions that won't process on this check.

Q: Which deductions and taxes will be processed with the payment?

A: IRS rules and court orders will dictate the required deductions that correspond with the payment. The District is putting the payment on a separate check from regular processed payroll. Therefore, we are not including certain scheduled deduction that are on the 26 pay bi-weekly schedule. Deductions not being included are insurance premium contributions, flexible spending account, HSA, insurance options, ORS TDP's, and all retirement plan deductions. The District will review each specific court order for any garnished wage implications for items such as child support, IRS liens, etc. The Net Direct Deposit bank account (the last bank listed on your current paycheck) will be left on to pay into, all other direct deposit redirects of funds will be turned off for this run.

We will also turn off all tax-sheltered annuity deductions that were scheduled under the 26 pay schedule for 403b/457b products. Unless you turn in the specified form to redirect your amount into an existing product with the District by February 5, 2018, no additional amount will be redirected. All IRS limitations and caps on total annual contributions into 403b and 457b products will still be in effect as all of these deductions still must be processed through our third-party administrator TSA Consulting. The interest portion of the payment can not be redirected into a 403b/457b as it is not wages.

Q: I am retired and currently not living in Michigan (or in the U.S.)? Am I exempt from taxes?

A: No. The refund of contributions must have Federal and State tax withholdings taken from it.

Q: I'm filing my current 2017 taxes and looking at my W-2, how will this payment impact my 2018 W-2?

A: The refunded deductions represent taxable income in the year received (this is constructive receipt). Since in the year of deduction, the contributions reduced Box 1 taxable federal wages, and Box 16 taxable State wages, the 2018 W-2 will include the refunded deductions as added Box 1 and Box 16 wages. The corresponding withheld taxes for Federal (Box 2) and State (Box 17) will also increase. Since FICA was already taken from the original wages, there is no impact to Boxes 3 through 6.

Q: ORS has said to anticipate 60 – 90 days to wait for the payment, is the district doing things right if they are making the payment so quickly?

A: With the MCISD handling the Business Office processes, Summerfield Schools has utilized their help and resources to go through the complex questions of this payment. Because the District made conservative decisions originally when the deductions began in July of 2010, it puts us in a good position from a taxability perspective to make the payment with the proper system settings. Unless something currently unforeseen comes out from ORS, the State or the courts, we anticipate February 16, 2018 being the date for payment.