Kilpatrick

JANUARY 13, 2016

IRS Update Resolving Issue with Retroactive Monthly Transit Amount

Once again, at the end of 2015, the monthly transit benefit amount not subject to tax was retroactively increased from $130 per month to $250 month (it has been increased to $255 for 2016, so employers will not have this same correction problem next year). *IRS Notice 2016-06* provides a special administrative procedure employers can use in filing Form 941 and Forms W-2 to reflect the changes in the amounts excludable from income. This will be of importance to those employers that allowed employees to purchase transit benefits in excess of $130 through a transportation program in 2015. Click here to view earlier guidance as a precursor to this topic.

This Notice provides a method to avoid filing corrected Forms 941-X. To use this special procedure, employers must repay employees for the over-collected FICA tax (and any additional Medicare tax) on these transit benefits for all four quarters before filing the fourth quarter Form 941. No written statements must be collected from employees under this special procedure. Alternatively, employers can use Form 941-X under the normal procedures that apply for correcting overpayments.

The IRS Notice also provides that the Forms W-2 must take into account the increased exclusion for 2015 in calculating the wages reported in Box 1, Box 3, and Box 5. If the employer has taken advantage of the special correction procedure in the Notice and has repaid overpayments, the amounts reported as withheld in Box 4 and Box 6 must be adjusted. The procedures for correction vary depending on whether the Forms W-2 have been provided to employees and/or filed with the government.