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Employee Benefits | Life Insurance | Risk Management

TO: Clients of Sitzmann Morris & Lavis Insurance Agency

RE: Transit Parity

It's no small wonder if you are experiencing a little déjà vu. Once again Congress has passed an eleventh hour measure which restores parity between the Sec. 132 parking and transit benefits. And once again they have thrown in a retroactive effective date. This was part of the Omnibus bill a.k.a Appropriations Act passed and then signed into law on December 18, 2015.

Key Provisions: As of 1/1/15 the maximum allowed pre-tax transit benefit has increased from \$130 to \$250 per month. For 2016 the maximum allowed pre-tax transit benefit is \$255.

For employers who have already completed open enrollment for 2016 but wish to allow the higher maximum, you will need to notify employees that they have the option to increase their deductions. If you support post-tax deductions you will also need to reclassify a portion of the post-tax deduction as pre-tax.

Unless you allow both post-tax and pre-tax transit deductions the retroactive 2015 parity has no impact. For those who do you will first need to decide whether to adopt the increase. To make the changes for 2015 follow these steps.

Step 1: Determine the adjustable amount for employees who had mass transit deductions in excess of \$130 (up to \$250 per month). Up to \$120 per month of after-tax mass transit deductions can now be re-categorized as pre-tax.

Step 2: Record a tax adjustment journal entry in your payroll system for the adjustable amount.

Step 3: Reimburse employees for the overpayment of taxes (if necessary). If the adjustment is made with the final payroll for 2015, this will generally occur automatically. If the adjustment is made as a separate payment, employees will generally need to receive a reimbursement. Consult your payroll processor to confirm the process you should use.

Step 4: Ensure employees' W-2 documents reflect the journal entry adjustments to taxable income. Please note, if you have already closed out your payroll for 2015 or paid your quarterly employer taxes, contact your tax advisor or payroll processor to determine whether additional documentation is required.

What's Next: Look for more details on what was included in the Appropriations Act in our upcoming January issue of *Insurance Brief*. Until then, Happy Holidays from your SML team!