Technical Bulletins: Mandatory Medicare Coverage for Newly Hired State and Local Workers

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MANDATORY MEDICARE COVERAGE FOR NEWLY HIRED STATE AND LOCAL WORKERS

By Richard L. Stokes

A Budget Reconciliation Bill designed to reduce the federal budget deficit was recently signed into law by the President. The bill proposes to reduce the deficit by raising eighteen (18) billion dollars in the next three (3) years.

The reconciliation legislation includes a provision that requires all state and local government employees hired after April 1, 1986 to be covered by the Medicare portion of the Social Security Tax. The new bill requires both employers and employees to pay a tax of 1.45% on the first $42,000 of income earned by an employee.

Only those jurisdictions which do not participate in social security or those jurisdictions that have excluded certain positions from social security would be affected by this provision. All other jurisdictions which are now paying social security on their employees are also paying the Medicare payroll tax as part of their social security coverage.

Employment services are not subject to the tax if they are performed after March 31, 1986 by an employee who was hired before April 1, 1986, and if the following requirements are met:

1. The employee was performing regular and substantial services for remuneration for the state or political subdivision before April 1, 1986;

2. The employee was a bona fide employee of that employer on March 31, 1986;

3. The employment relationship with that employee was not entered into for purposes of avoiding the Medicare tax;

4. The employment relationship of the employee with that employer has not been terminated after March 31, 1986.
Also excluded from mandatory Medicare coverage are:

1. Individuals hired by a city to "relieve said individual from unemployment" (such as services of welfare recipients performed in return for assistance payments);

2. A patient or inmate working in a hospital, home, or other institutions;

3. A temporary worker hired for "certain emergencies."

4. Services performed by non-resident aliens (students, exchange visitors, etc...) while in the United States under F-1 and J-1 visas, if the payment is for services performed in connection with the purpose for which the alien was admitted to the country.

Cities should note that their Section 218 agreements may have optionally excluded the following services from social security coverage:

1. Services in any classes of elective, "executive", "legislative", "judicial" positions;

2. Services in any class of positions for which the compensation is on a fee basis;

3. Services in any class or classes of part-time positions;

4. Election workers and election officials in positions, for which the remuneration is less than $100.00 during a calendar year.

Under this new legislation any newly hired (elected) employee in an optionally excluded position would be subject to the Medicare tax after April 1, 1986. If an official is re-elected after April 1, 1986, neither the official nor the employee is subject to the Medicare tax.

The reporting and payment requirements are as follows:

If on April 7, 1986 no employee of the employer was covered under a 218 agreement, then Medicare tax is reported and paid to the Internal Revenue Service (IRS). The tax is to be reported on line 6 of form 941E, Quarterly Return of Withheld Federal Income Tax and Hospital Insurance Tax.

If on April 7, 1986 an employee was covered under a 218 agreement, then Medicare tax is reported and paid to the Old Age and Survivors Insurance Agency (OASI). In reporting and paying Medicare taxes to the OASI, the tax is reported and paid just as contributions under a 218 agreement are reported and paid.
The Internal Revenue Service also announced a waiver of penalties to allow employers time to implement the new requirements of the law. If all amounts due to the IRS for April through December 1986 are paid by February 2, 1987, the IRS will waive any penalties that might otherwise have been due for late payments.

If all payments due for April through December 1986 are not paid by February 2, 1987, the automatic waiver of penalties will no longer be applicable. Penalties, however, may be waived if the employer shows reasonable cause for failure to pay and failure to make timely deposits of the tax.

MTAS has an unconfirmed list of cities without an OASI agreement. If you have questions regarding any matter relating to whether your city has an agreement or you need assistance in this matter, please contact your MTAS Management Consultant or Richard L. Stokes, Personnel Management Consultant (615) 256-8141.
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