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# Tax Researcher

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## IRS RELEASES GUIDANCE ON ADDITIONAL MEDICARE TAX ON HIGH-INCOME EARNERS

As a result of the enactment of the Patient Protection and Affordable Care Act (ACA), effective for wages paid on or after January 1, 2013, the Medicare tax rate increases by 0.9% from 1.45 % to 2.35 % on the wages of high-income earners that exceed certain thresholds.

The Internal Revenue Service (IRS) has released guidance, in an FAQ (Frequently Asked Question) format, on the 0.9% Additional Medicare Tax. The FAQ's are intended to assist employers and payroll service providers in adapting systems and processes that may be affected by the new tax.

Effective January, 1, 2013, an individual is liable for the Additional Medicare Tax if their wages, other compensation, or self-employment income (together with that of their spouse if filing a joint return) exceeds the threshold amount for the individual's filing status:

FILING STATUS	THRESHOLD AMOUNT
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of Household (with qualified person)	\$200,000
Qualifying widow(er) with dependent child	\$200,000

The Additional Medicare Tax is imposed only on the employee. **There is no "employer match" as there is with the regular Medicare tax.** However, employers are still responsible for the withholding and reporting obligations with respect to the employee's Additional Medicare Tax. If an employer fails to withhold and deposit the Additional Medicare Tax amount and the employee pays it with their tax return, the employer will not be required to pay the missed amount, but will be subject to penalties for the failure to withhold the tax.

**NOTE:** The employer is required to withhold the increased amount from all workers with wages exceeding \$200,000 regardless of the marital status claimed on the employee's Form W-4. Over and under withholding for the employee will be reconciled upon the filing of their tax return.

Some of the highlights of the FAQ's are as follows:

- All wages that are currently subject to Medicare tax are also subject to the Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status (see above). (FAQ 4)
- The Additional Medicare Tax also applies to employees who are nonresident aliens or U.S. citizens living abroad if their wages exceed the applicable thresholds. (FAQ 6)
- An employer must begin withholding the Additional Medicare Tax once an employee's wages are over the threshold, even if the employee may not ultimately be liable for this tax. For example, consider a situation where one spouse earns \$210,000 and the other spouse earns \$25,000, and they file a joint return. Although the employer would be required to withhold on the higher earner's wages to the extent they exceed \$200,000, the couple wouldn't actually be liable for the Additional Medicare Tax because their combined income is less than the applicable \$250,000 threshold. Any excess Additional Medicare Tax withheld will be credited against the total tax liability shown on the employee's personal income tax return. (FAQ 7)
- An employer is not required to notify an employee when it begins withholding the Additional Medicare Tax. (FAQ 8)
- Although an employee can't request additional withholding specifically for the Additional Medicare Tax, an employee who anticipates being liable for it may request that his employer withhold an additional amount of income tax withholding on Form W-4, which will be applied against all taxes (including any Additional Medicare Tax liability) shown on the employee's income tax return. (FAQ 10)



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- An employer begins withholding the Additional Medicare Tax in the pay period in which it pays wages to the employee exceeding the \$200,000 threshold and not earlier, even if the employee's annual wages are expected to exceed the threshold. (FAQ 11)
- If an employee receives wages from an employer in excess of \$200,000 and the wages include noncash fringe benefits, the employer calculates wages for purposes of withholding Additional Medicare Tax in the same way that it calculates wages for withholding the existing Medicare tax. The employer is required to withhold the Additional Medicare Tax on total wages, including noncash fringe benefits, in excess of \$200,000. The value of noncash fringe benefits must be included in wages and the employer must withhold the applicable Additional Medicare Tax and deposit the tax under the rules for employment tax withholding and deposits that apply to noncash fringe benefits. (FAQ 13)
- To the extent that tips and wages exceed \$200,000, an employer applies the same withholding rules for Additional Medicare Tax as it does currently for the existing Medicare tax. An employer withholds Additional Medicare Tax on the employee's reported tips from wages it pays to the employee. If the employee does not receive enough wages for the employer to withhold all the taxes that the employee owes, including Additional Medicare Tax, the employee may give the employer money to pay the rest of the taxes or the employee may need to make estimated tax payments to cover any shortage. (FAQ 14)
- If an employee receives third-party sick pay, wages paid by the employer and by the third party need to be aggregated to determine whether the \$200,000 withholding threshold has been met. (FAQ 16)
- If an employee has amounts deferred under a nonqualified deferred compensation (NQDC) plan, the employer calculates wages for purposes of withholding Additional Medicare Tax on the NQDC in the same way that it calculates wages for withholding the existing Medicare tax. (FAQ 17)

To view the full list of FAQ's, please visit the IRS website at [www.irs.gov/businesses/small/article/0,,id=258201,00.html](http://www.irs.gov/businesses/small/article/0,,id=258201,00.html).

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