

## Questions and Answers for the Additional Medicare Tax

The following questions and answers provide employers and payroll service providers information that will help them as they prepare to implement the Additional Medicare Tax which goes into effect in 2013. The Additional Medicare Tax applies to individuals' wages, other compensation, and self-employment income over certain thresholds; employers are responsible for withholding the tax on wages and other compensation in certain circumstances. The IRS has prepared these questions and answers to assist employers and payroll service providers in adapting systems and processes that may be impacted.

### BASIC FAQs

- 1. When does Additional Medicare Tax start?**  
Additional Medicare Tax goes into effect for taxable years beginning after December 31, 2012.
- 2. What is the rate of Additional Medicare Tax?**  
The rate is 0.9 percent.
- 3. When are individuals liable for Additional Medicare Tax?**  
An individual is liable for Additional Medicare Tax if the individual's wages, other compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed 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 qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$200,000

- 4. What wages are subject to Additional Medicare Tax?**  
All wages that are currently subject to Medicare Tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status. For more information on what wages are subject to Medicare Tax, see the chart, Special Rules for Various Types of Services and Payments, in section 15 of Publication 15, (Circular E), Employer's Tax Guide.
- 5. What Railroad Retirement Tax Act (RRTA) compensation is subject to Additional Medicare Tax?**  
All RRTA compensation that is currently subject to Medicare Tax is subject to additional Medicare Tax if it is paid in excess of the applicable threshold for an individual's filing status.

6. Are wages paid to employees that are nonresident aliens or U.S. citizens living abroad subject to Additional Medicare Tax withholding?  
There are no special rules for nonresident aliens and U.S. citizens living abroad for purposes of this provision. Wages earned by such individuals that are subject to Medicare tax will be subject to Additional Medicare Tax withholding if paid in excess of the \$200,000 withholding threshold.

## **EMPLOYER and PAYROLL SERVICE PROVIDER FAQs**

7. When must an employer withhold Additional Medicare Tax?  
The statute requires an employer to withhold Additional Medicare Tax on wages or compensation it pays to an employee in excess of \$200,000 in a calendar year. An employer has this withholding obligation even though an employee may not be liable for the Additional Medicare Tax because, for example, the employee's wages or other compensation together with that of his or her spouse (when filing a joint return) does not exceed the \$250,000 liability threshold. (See Q&A-3.) Any withheld Additional Medicare Tax will be credited against the total tax liability shown on the individual's income tax return (Form 1040).
8. Is an employer required to notify an employee when it begins withholding Additional Medicare Tax?  
No. There is no requirement that an employer notify its employee.
9. Is there an "employer match" for Additional Medicare Tax (as there is with the regular Medicare tax)?  
No. There is no employer match for Additional Medicare Tax.
10. May an employee request additional withholding specifically for Additional Medicare Tax?  
No. However, an employee who anticipates liability for Additional Medicare Tax may request that his or her employer withhold an additional amount of income tax withholding on Form W-4. This additional income tax withholding will be applied against all taxes shown on the individual's income tax return (Form 1040), including any Additional Medicare Tax liability.
11. If an employee's annual Medicare wages are expected to be over \$200,000, will an employer withhold Additional Medicare Tax from the beginning of the year or only after Medicare wages are actually paid in excess of \$200,000 year-to-date?  
An employer is required to begin withholding Additional Medicare Tax in the pay period in which it pays wages in excess of \$200,000 to an employee.
12. If a single payment of wages to an employee exceeds the \$200,000 withholding threshold, will an employer withhold Additional Medicare Tax on the entire payment?  
No. Additional Medicare Tax withholding applies only to wages paid to an employee that are in excess of \$200,000 in a calendar year. Withholding rules for this tax are different than the income tax withholding rules for supplemental wages in excess of \$1,000,000 as explained in Publication 15, section 7. Example: M received \$180,000 in wages through November 30, 2013. On

December 1, 2013, M's employer paid her a bonus of \$50,000. M's employer is required to withhold Additional Medicare Tax on \$30,000 of the \$50,000 bonus and may not withhold Additional Medicare Tax on the other \$20,000. M's employer also must withhold Additional Medicare Tax on any other wages paid in December 2013.

13. What should an employer do if an employee receives wages or other compensation that is not paid in money, such as fringe benefits, from which Additional Medicare Tax cannot be withheld?  
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 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. The same rules apply for compensation subject to Railroad Retirement Tax Act (RRTA) taxes. Additional information on how to withhold tax on noncash fringe benefits is available in Publication 15 (Circular E), section 5, and Publication 15-B, section 4.
14. If an employee will receive tips and wages in excess of \$200,000 in the calendar year, how is Additional Medicare Tax paid on the tips?  
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 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. The employee may need to make estimated tax payments to cover any shortage. More information about this process of giving an employer money for taxes is available in Publication 531, Reporting Tip Income.
15. If a former employee receives group-term life insurance coverage in excess of \$50,000 and the resulting income is in excess of \$200,000, how does an employer report Additional Medicare Tax on this?  
The imputed cost of coverage in excess of \$50,000 is subject to social security and Medicare taxes, and to the extent that in combination with other wages it exceeds \$200,000, it is also subject to Additional Medicare Tax. When group-term life insurance over \$50,000 is provided to an employee (including retirees) after his or her termination, the employee share of social security and Medicare taxes and Additional Medicare Tax on that period of coverage is paid by the former employee with his or her tax return and is not collected by the employer. An employer should report this income as wages on Form 941, Employer's QUARTERLY Federal Tax Return (or the employer's applicable employment tax return), and make a current period adjustment to reflect any uncollected employee social security, Medicare, or Additional Medicare Tax on

group-term life insurance. However, unlike the uncollected portion of the regular (1.45%) Medicare tax, an employer may not report the uncollected Additional Medicare Tax in box 12 of Form W-2 with code N.

16. For employees who receive third-party sick pay, will wages paid by an employer and by the third party need to be aggregated to determine whether the \$200,000 withholding threshold has been met?

Yes. Wages paid by an employer and by the third party need to be aggregated to determine whether the \$200,000 withholding threshold has been met. The same rules that currently assign responsibility for sick pay reporting and payment of Medicare tax based on which party is treated as the employer (i.e., the employer, the employer's agent, or a third party that is not the employer's agent) apply also to Additional Medicare Tax. For more information on sick pay, see Publication 15-A, Employer's Supplemental Tax Guide, and Notice 91-26, 1991-2 C.B. 619.

17. If an employee has amounts deferred under a nonqualified deferred compensation (NQDC) plan, when is the nonqualified deferred compensation taken into account as wages for purposes of withholding Additional Medicare Tax?

An employer calculates wages for purposes of withholding Additional Medicare Tax from nonqualified deferred compensation (NQDC) in the same way that it calculates wages for withholding the existing Medicare tax from NQDC. Thus, if an employee has amounts deferred under a nonqualified deferred compensation plan and the NQDC is taken into account as wages for FICA tax purposes under the special timing rule described in §31.3121(v)(2)-1(a)(2) of the Employment Tax Regulations, the NQDC would likewise be taken into account under the special timing rule for purposes of determining an employer's obligation to withhold Additional Medicare Tax. Additional information about the special timing rules for NQDC is in Publication 957, Reporting Back Pay and Special Wage Payments to the Social Security Administration.

18. Should an employer combine an employee's wages for services performed for all of its subsidiaries if it has an employee who performs services for more than one subsidiary in its company, but the payroll is paid through one of the subsidiaries?

An employer is required to withhold Additional Medicare Tax on wages paid to an employee in excess of \$200,000 in a calendar year. When an employee is performing services for multiple subsidiaries of a company, and each subsidiary is an employer of the employee with regard to the services the employee performs for that subsidiary, the wages paid by the payor on behalf of each subsidiary should be combined only if the payor is a common paymaster. Publication 15-A, section 7 contains more information on common paymasters. The wages are not combined for purposes of the \$200,000 withholding threshold if the payor is not a common paymaster.

**19. Should an agent combine an employee's wages for purposes of determining whether wages are paid in excess of the \$200,000 withholding threshold, if it is an agent for two employers (with approved Forms 2678, Employer Appointment of Agent), and it pays wages to an employee that performs services for both employers?**

**No. An agent with approved Forms 2678 acting as an agent for two employers should not combine the wages paid on behalf of the separate employers in determining whether to withhold Additional Medicare Tax.**

**20. Will the IRS be changing Form 941 or any other forms to be completed by employers and payroll service providers?**

**Yes. The IRS plans to release drafts of revised forms, including Forms 941, 943, and the tax return schemas for the F94X series of returns.**