

Additional Medicare Tax for High Earners

For taxable years beginning after December 31, 2012, employers are required to withhold Additional Medicare Tax (at a rate of 0.9%) on wages or compensation paid to an employee in excess of \$200,000 in a calendar year. Below are common questions and answers for individuals and employers regarding the tax increase. For additional information, please review the complete set of FAQs from the IRS.

Special Update: Effective November 29, 2013, final rules provide guidance for employers relating to the implementation of Additional Medicare Tax, including the employer process for adjusting underpayments and overpayments of the tax and for filing a claim for refund for an overpayment.

Basic FAQs

When did Additional Medicare Tax start?

Additional Medicare Tax went into effect in 2013 and applies to wages, compensation, and self-employment income above a threshold amount received in taxable years beginning after December 31, 2012.

What is the rate of Additional Medicare Tax?

The rate is 0.9 percent.

When are individuals liable for Additional Medicare Tax?

An individual is liable for Additional Medicare Tax if the individual's wages, 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

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.

Employer FAQs

When must an employer withhold Additional Medicare Tax?

Effective January 1, 2013, an employer must withhold Additional Medicare Tax on wages 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 Additional Medicare Tax because, for example, the employee's wages together with that of his or her spouse do not exceed the \$250,000 threshold for joint return filers. Any withheld Additional Medicare Tax will be credited against the total tax liability shown on the individual's income tax return (Form 1040).

Is an employer liable for Additional Medicare Tax even if it does not withhold it from an employee's wages?

An employer that does not deduct and withhold Additional Medicare Tax as required is liable for the tax unless the tax that it failed to withhold from the employee's wages is paid by the employee. An employer is not relieved of its liability for payment of any Additional Medicare Tax required to be withheld unless it can show that the tax has been paid by filing Forms 4669 and 4670. Even if not liable for the tax, an employer that does not meet its withholding, deposit, reporting, and payment responsibilities for Additional Medicare Tax may be subject to all applicable penalties.

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.

Additional Medicare Tax for High Earners

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.

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.

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.

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 IRS Publication 15.

I have two employees who are married to each other. Each earns \$150,000, so I know that their combined wages will exceed the threshold applicable to married couples that file jointly. Do I need to withhold Additional Medicare tax?

No. An employer does not combine wages it pays to two employees to determine whether to withhold Additional Medicare Tax. An employer is required to withhold

Additional Medicare Tax only when it pays wages in excess of \$200,000 in a calendar year to an employee.

What should an employer do if an employee receives wages that are not paid in cash, such as taxable 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 taxable 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 taxable noncash fringe benefits, in excess of \$200,000. The value of taxable 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 taxable noncash fringe benefits. Additional information on how to withhold tax on taxable noncash fringe benefits is available in IRS Publications 15 and 15-B.

If an employee receives tips and other 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 other 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. If the employee does not give the employer money to pay the taxes, then the employer makes a current period adjustment on Form 941 (or the employer’s applicable employment tax return), to reflect any uncollected employee social security, Medicare, or Additional

Additional Medicare Tax for High Earners

Medicare Tax on reported tips. However, unlike the uncollected portion of the regular (1.45%) Medicare tax, the uncollected Additional Medicare Tax is not reported in box 12 of Form W-2 with code B.

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 IRS Publication 531.

Employee FAQs

Will Additional Medicare Tax be withheld from an individual's wages?

An employer must withhold Additional Medicare Tax from wages it pays to an individual in excess of \$200,000 in a calendar year, without regard to the individual's filing status or wages paid by another employer. An individual may owe more than the amount withheld by the employer, depending on the individual's filing status, wages, compensation, and self-employment income. In that case, the individual should make estimated tax payments and/or request additional income tax withholding using Form W-4.

Can I request additional withholding specifically for Additional Medicare Tax?

No. However, if you anticipate liability for Additional Medicare Tax, you may request that your employer withhold an additional amount of income tax withholding on Form W-4. The additional income tax withholding will be applied against your taxes shown on your individual income tax return (Form 1040), including any Additional Medicare Tax liability.

Will I need to make estimated tax payments for Additional Medicare Tax?

If you anticipate that you will owe Additional Medicare Tax but will not satisfy the liability through Additional Medicare Tax withholding and did not request additional income tax withholding using Form W-4, you may need to make estimated tax payments. You should consider your estimated total tax liability in light of your wages, other compensation, and self-employment income,

and the applicable threshold for your filing status when determining whether estimated tax payments are necessary.

Will individuals calculate Additional Medicare Tax liability on their income tax returns?

Yes. Individuals liable for Additional Medicare Tax will calculate Additional Medicare Tax liability on their individual income tax returns (Form 1040). Individuals will also report Additional Medicare Tax withheld by their employers on their individual tax returns. Any Additional Medicare Tax withheld by an employer will be applied against all taxes shown on an individual's income tax return, including any Additional Medicare Tax liability.

Will an individual owe Additional Medicare Tax on all wages, compensation, and/or self-employment income or just the wages, compensation, and/or self-employment income in excess of the threshold for the individual's filing status?

An individual will owe Additional Medicare Tax on wages, compensation, and/or self-employment income (and that of the individual's spouse if married filing jointly) that exceed the applicable threshold for the individual's filing status. For married persons filing jointly the threshold is \$250,000, for married persons filing separately the threshold is \$125,000, and for all others the threshold is \$200,000.

If my employer withholds Additional Medicare Tax from my wages in excess of \$200,000, but I won't owe the tax because my spouse and I file a joint return and we won't meet the \$250,000 threshold for joint filers, can I ask my employer to stop withholding Additional Medicare Tax?

No. Your employer must withhold Additional Medicare Tax on wages it pays to you in excess of \$200,000 in a calendar year. Your employer cannot honor a request to cease withholding Additional Medicare Tax if it is required to withhold it. You will claim credit for any withheld Additional Medicare Tax against the total tax liability shown on your individual income tax return (Form 1040).

Additional Medicare Tax for High Earners

Are wages that are not paid in cash, such as fringe benefits, subject to Additional Medicare Tax?

Yes, the value of taxable wages not paid in cash, such as noncash fringe benefits, are subject to Additional Medicare Tax, if, in combination with other wages, they exceed the individual’s applicable threshold. Noncash wages are subject to Additional Medicare Tax withholding, if, in combination with other wages paid by the employer, they exceed the \$200,000 withholding threshold.

Are tips subject to Additional Medicare Tax?

Yes, tips are subject to Additional Medicare Tax, if, in combination with other wages, they exceed the individual’s applicable threshold. Tips are subject to Additional Medicare Tax withholding, if, in combination with other wages paid by the employer, they exceed the \$200,000 withholding threshold.