

July 2013



Employment Taxes

Additional Medicare Taxes - Effective from Calendar Year 2013



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Generally, an employer is required to withhold social security and Medicare taxes from employees' wages, and pay the employer's share of these taxes. The employee tax rate for social security tax that is required to be withheld is 6.2% for 2013. The social security wage base limit is \$113,700, i.e. a social security withholding of 6.2% will be imposed on wages up to a maximum amount of \$113,700. The 2013 employee tax rate for Medicare taxes withheld is 1.45% of the compensation received for the employee, and there is no wage base limit for Medicare tax. Employee wages are subject to social security and Medicare taxes regardless of the employee's age or whether he or she is receiving any social security benefits.

Starting from tax year 2013, an Additional Medicare Tax is to be withheld above a threshold amount from wages and compensation earned on or after January 1, 2013. The additional rate of Medicare Tax is fixed at the rate of **0.9 percent** for compensation above the threshold amount. The threshold amount depends on the Filing status of an individual for the tax return, and is tabulated as below:

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

For example, if the Filing status of the individual is 'Married filing jointly' and they have an income of \$300,000, then the taxpayer will be subject to Additional Medicare Tax of 0.9 percent on the income of \$50,000 (Total income of \$300,000 less threshold amount of \$250,000 for an individual with the filing status of 'Married filing jointly'). Thus, the additional Medicare tax would equal the amount of \$450 (\$50,000 @ 0.9%). This tax is in addition to the Social Security and Medicare taxes that the individual taxpayer is already subject to. There is no employer match for the Additional Medicare Tax.

All wages that are currently subject to Medicare Tax are also subject to Additional Medicare Tax, even for **Non-Resident Aliens** and **U.S. Citizens living outside the U.S.**, if they are paid in excess of the applicable threshold for an individual's filing status. The value of taxable wages not paid in cash, such as noncash fringe benefits, are also subject to Additional Medicare Tax if they exceed the individual's applicable threshold. The other types of compensation that are subject to Additional Medicare Tax withholding if they exceed the respective threshold are shown below:

- Sick Pay from third parties,
- Amounts deferred under a nonqualified deferred compensation (NQDC) plan,
- Wages paid by a successor employer if the company goes through a merger or acquisition.

Additional Medicare Tax will be withheld from wages paid to an individual in excess of \$200,000 if the wages are received from the same

employer 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 such a case, the individual should make estimated tax payments and/or request additional income tax withholding using Form W-4, 'Employee's Withholding Allowance Certificate'. If an individual anticipates that they will owe Additional Medicare Tax but will not satisfy the liability through the Additional Medicare Tax withholding and did not request additional income tax withholding using Form W-4, estimated tax payments may be needed. The individual should consider their estimated total tax liability taking into account the wages, other compensation, and self-employment income, and the applicable threshold for the respective filing status when determining whether estimated tax payments are necessary. Noncash wages are also subject to Additional Medicare Tax withholding if they exceed the \$200,000 withholding threshold.

Any estimated tax payments that an individual makes will apply to any and all tax liabilities on the individual income tax return (Form 1040), including any Additional Medicare Tax liability. Individuals liable for Additional Medicare Tax will calculate Additional Medicare Tax liability on their individual income tax returns. 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.

For more information, please visit the IRS website on the following link:

<http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>

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