

Health Reform Update

Increased Medicare Taxes on High Earners

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Under the Affordable Care Act, effective January 1, 2013, there is an increase in Medicare tax for certain high earners. The IRS issued Questions and Answers regarding this increase to assist employers and payroll service providers. Highlights from the Q&As can be found below.

An individual is liable for the additional tax to the extent his or her wages, other compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the following threshold amounts 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

The Medicare tax rate will increase by .9 percent (from 1.45 percent to 2.35 percent). The additional tax only applies to individuals, not any employer amounts. Employers are responsible for withholding the tax, and are not required to notify an employee when they begin withholding the additional tax. When determining whether the threshold is met, employers are not required to consider a spouse's

wages or whether an employee earns wages at a second job. The additional tax must be applied to amounts the employer pays an employee over \$200,000 in a calendar year and should be applied in the pay period in which the employee's wages are in excess of \$200,000. For example, if Jane received \$180,000 in wages through November 30, 2013 and received a bonus of \$50,000 from her employer on December 1, 2013, her employer would be 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. Her employer would also have to withhold additional Medicare tax on any other wages paid in December 2013.

The Q&As also describe procedures for handling a number of anticipated situations where employees will receive various forms of compensation (i.e., tips, excess group term life insurance, and other fringes) which put the individual over the \$200,000 threshold, and also describe how these amounts are to be reported. For more information, visit <http://www.irs.gov/businesses/small/article/0,,id=258201,00.html>.

The IRS advised that it is revising Forms 941, 943, and other payroll based reporting forms to accommodate the changes required by the ACA. Employers should begin planning now for payroll tax system changes necessary to implement the collection of the new Medicare tax.