

January, 2012

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REMINDER – ADDITIONAL MEDICARE TAX ON WAGES STARTING IN 2013

The Patient Protection and Affordable Care Act added an additional 0.9% Medicare tax on wages over \$200,000 for single taxpayers, \$250,000 for married filing jointly and \$125,000 for married filing separately. **This increase is effective for years beginning after December 31, 2012.**

The additional 0.9% tax is only imposed on the employee's portion of earnings. An employer is required to withhold the additional tax when it has direct knowledge that the employee's wages are over the threshold - meaning that a single employer pays an employee wages over the threshold.

The additional tax also applies to self-employment income. The additional 0.9% tax is not included in the computation of the deduction of self-employment tax.

Individuals are required to self-assess the tax and pay the additional amount regardless of whether their employers were required to withhold the additional amount.

The threshold for the additional tax is based on the taxpayer's filing status, but the additional tax is assessed on combined wages of each spouse. This means that even if neither spouse has wages or self-employment income greater than the threshold separately, the additional tax can be imposed if their combined wages and self-employment income is more than \$250,000.

EXAMPLE 1 - SINGLE EMPLOYER WITH WAGES OVER THRESHOLD

Employee's wages for the year ended December 31, 2013, are \$300,000. Per the employee's form W-4, their filing status for the year is married filing jointly. Therefore the employer is responsible for withholding the additional 0.9% Medicare taxes on the amount of salary in excess of \$250,000 or \$450 (\$50,000 wages in excess of \$250,000 X 0.9%).

EXAMPLE 2 - MULTIPLE EMPLOYERS WITH WAGES OVER THRESHOLD

Employee's wages for the year ended December 31, 2013, from Company1 are \$200,000 and wages from Company2 are \$150,000. The taxpayer's filing status is married filing jointly.

Because neither employer paid Employee more than \$250,000 of wages for the year, the employers are not responsible for withholding the additional Medicare tax. Employee must self-assess the tax and pay it with their tax return for 2013. In this case the tax will be \$900, calculated as follows (\$200,000 wages Company1 + \$150,000 wages Company2 - \$250,000 threshold) X 0.9% = \$900 additional tax.

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EXAMPLE 3 - TAXPAYER AND SPOUSE COMBINED WAGES OVER 250K

Taxpayer's wages for 2013 are \$190,000. Spouse's wages for 2013 are \$175,000.

Because neither employer paid the Taxpayer or Spouse more than \$250,000 of wages for the year, their employers are not responsible for withholding the additional Medicare tax. Taxpayer and Spouse must self-assess the tax and pay it with their joint tax return for 2013. In this case the tax will be \$1,035, calculated as follows (\$190,000 wages Taxpayer + \$175,000 wages Spouse - \$250,000 threshold) X 0.9% = \$1,035 additional tax.

Please contact us to discuss the change in reporting requirements and how this will affect you.

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