



Questions and Answers for the Additional Medicare Tax

On Nov. 26, 2013, the IRS issued final regulations ([TD 9645](#)) implementing the Additional Medicare Tax as added by the Affordable Care Act (ACA). The Additional Medicare Tax applies to wages, railroad retirement (RRTA) compensation, and self-employment income over certain thresholds. Employers are responsible for withholding the tax on wages and RRTA compensation in certain circumstances.

BASIC FAQs

1. 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 Dec. 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, 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 separate | \$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. All FAQs that discuss the application of the Additional Medicare Tax to wages also apply to RRTA compensation, unless otherwise indicated.

6. Are nonresident aliens and U.S. citizens living abroad subject to Additional Medicare Tax?

There are no special rules for nonresident aliens and U.S. citizens living abroad for purposes of this provision. Wages, other compensation, and self-employment income that are subject to Medicare tax will also be subject to Additional Medicare Tax if in excess of the applicable threshold.

7. Will I also owe net investment income tax on my income that is subject to Additional Medicare Tax?

No. The tax imposed by section 1411 on an individual's net investment income is not applicable to wages, RRTA compensation, or self-employment income. Thus, an individual will not owe net investment income tax on these categories of income, regardless of the taxpayer's filing status. See more information on the [Net Investment Income Tax](#).

INDIVIDUAL FAQs

Wages, RRTA Compensation, and Self-Employment Income

8. Will an individual owe Additional Medicare Tax on all wages, RRTA compensation and self-employment income or just the wages, RRTA compensation and 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 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. Medicare wages and self-employment income are combined to determine if income exceeds the threshold. A self-employment loss is not considered for purposes of this tax. RRTA compensation is separately compared to the threshold.

9. 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.

10. 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.

Withholding and Estimated Tax Payments

(See [Publication 505](#), Tax Withholding and Estimated Tax, for more information)

11. 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, Employee's Withholding Allowance Certificate.

12. Will Additional Medicare Tax be withheld from an individual's compensation subject to Railroad Retirement Tax Act (RRTA) taxes?

An employer must withhold Additional Medicare Tax from RRTA compensation it pays to an individual in excess of \$200,000 in a calendar year without regard to the individual's filing status or compensation 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, Employee's Withholding Allowance Certificate.

13. 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.

14. 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).

15. What should I do if I have two jobs and neither employer withholds Additional Medicare Tax, but the sum of my wages exceeds the threshold at which I will owe the tax?

If you anticipate that you will owe Additional Medicare Tax but will not satisfy the liability through Additional Medicare Tax withholding (for example, because you will not be paid wages in excess of \$200,000 in a calendar year by an employer), you should make estimated tax payments and/or request additional income tax withholding using Form W-4.

16. 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.

17. Does an individual who makes estimated tax payments to pay an expected liability for Additional Medicare Tax need to identify the payments as specifically for this tax?

No. An individual cannot designate any estimated payments specifically for Additional Medicare Tax. 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.

Calculating Additional Medicare Tax

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

Yes. Individuals will calculate Additional Medicare Tax liability on their individual income tax returns (Form 1040), using Form 8959, Additional Medicare Tax. Individuals will also report Additional Medicare Tax withheld by their employers on their individual income 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.

19. How do individuals calculate Additional Medicare Tax if they have wages subject to Federal Insurance Contributions Act (FICA) tax and self-employment income subject to Self-Employment Contributions Act (SECA) tax?

Individuals with wages subject to FICA tax and self-employment income subject to SECA tax calculate their liabilities for Additional Medicare Tax in three steps:

Step 1. Calculate Additional Medicare Tax on any wages in excess of the applicable threshold for the filing status, without regard to whether any tax was withheld.

Step 2. Reduce the applicable threshold for the filing status by the total amount of Medicare wages received, but not below zero.

Step 3. Calculate Additional Medicare Tax on any self-employment income in excess of the reduced threshold.

Example 1. C, a single filer, has \$130,000 in wages and \$145,000 in self-employment income.

1. C's wages are not in excess of the \$200,000 threshold for single filers, so C is not liable for Additional Medicare Tax on these wages.
2. Before calculating the Additional Medicare Tax on self-employment income, the \$200,000 threshold for single filers is reduced by C's \$130,000 in wages, resulting in a reduced self-employment income threshold of \$70,000.
3. C is liable to pay Additional Medicare Tax on \$75,000 of self-employment income (\$145,000 in self-employment income minus the reduced threshold of \$70,000).

Example 2. D and E are married and file jointly. D has \$150,000 in wages and E has \$175,000 in self-employment income.

1. D's wages are not in excess of the \$250,000 threshold for joint filers, so D and E are not liable for Additional Medicare Tax on D's wages.
2. Before calculating the Additional Medicare Tax on E's self-employment income, the \$250,000 threshold for joint filers is reduced by D's \$150,000 in wages resulting in a reduced self-employment income threshold of \$100,000.
3. D and E are liable to pay Additional Medicare Tax on \$75,000 of self-employment income (\$175,000 in self-employment income minus the reduced threshold of \$100,000).

Example 3. F, who is married filing separate, has \$175,000 in wages and \$50,000 in self-employment income.

1. F is liable to pay Additional Medicare Tax on \$50,000 of his wages (\$175,000 minus the \$125,000 threshold for married persons who file separate).
2. Before calculating the Additional Medicare Tax on self-employment income, the \$125,000 threshold for married persons who file separate is reduced by F's \$175,000 in wages to \$0 (reduced, but not below zero).
3. F is liable to pay Additional Medicare Tax on \$50,000 of self-employment income (\$50,000 in self-employment income minus the reduced threshold of \$0).
4. In total, F is liable to pay Additional Medicare Tax on \$100,000 (\$50,000 of his wages and \$50,000 of his self-employment income).

Example 4. G, a head of household filer, has \$225,000 in wages and \$50,000 in self-employment income. G's employer withheld Additional Medicare Tax on \$25,000 (\$225,000 minus the \$200,000 withholding threshold).

1. G is liable to pay Additional Medicare Tax on \$25,000 of her wages (\$225,000 minus the \$200,000 threshold for head of household filers).
2. Before calculating the Additional Medicare Tax on self-employment income, the \$200,000 threshold for head of household filers is reduced by G's \$225,000 in wages to \$0 (reduced, but not below zero).
3. G is liable to pay Additional Medicare Tax on \$50,000 of self-employment income (\$50,000 in self-employment income minus the reduced threshold of \$0).
4. In total, G is liable to pay Additional Medicare Tax on \$75,000 (\$25,000 of her wages and \$50,000 of her self-employment income).
5. The Additional Medicare Tax withheld by G's employer will be applied against all taxes shown on her individual income tax return, including any Additional Medicare Tax liability.

20. How do individuals calculate Additional Medicare Tax if they have compensation subject to RRTA taxes and wages subject to FICA tax?

Compensation subject to RRTA taxes and wages subject to FICA tax are not combined to determine Additional Medicare Tax liability. The threshold applicable to an individual's filing status is applied separately to each of these categories of income.

Example. J and K, are married and file jointly. J has \$190,000 in wages subject to Medicare tax and K has \$150,000 in compensation subject to RRTA taxes. J and K do not combine their wages and RRTA compensation to determine whether they are in excess of the \$250,000 threshold for a joint return. J and K are not liable to pay Additional Medicare Tax because J's wages are not in excess of the \$250,000 threshold and K's RRTA compensation is not in excess of the \$250,000 threshold.

21. How do individuals calculate Additional Medicare Tax if they have compensation subject to RRTA taxes and self-employment income subject to SECA tax?

The threshold applicable to an individual's filing status is applied separately to RRTA compensation and self-employment income. In calculating Additional Medicare Tax on self-employment income, an individual does not reduce the applicable threshold for the taxpayer's filing status by the total amount of RRTA compensation.

Example. F and G are married and file jointly. F has \$160,000 in self-employment income and G has \$140,000 in compensation subject to RRTA taxes. The \$140,000 of RRTA compensation does not reduce the threshold at which Additional Medicare Tax applies to self-employment income. F and G are not liable to pay Additional Medicare Tax because F's self-employment income is not in excess of the \$250,000 threshold and G's RRTA compensation is not in excess of the \$250,000 threshold.

Community Property

22. How does a married filing separate spouse in a community property state calculate Additional Medicare Tax on wages subject to FICA tax and self-employment income subject to SECA tax?

Individuals who are married filing separate spouses in a community property state will calculate their Additional Medicare Tax liability, using the married filing separate threshold amount of \$125,000, without regard to the income tax treatment of the community property income:

- Each spouse will calculate Additional Medicare Tax based on his or her own wages.
- Only the spouse carrying on the trade or business generating the self-employment income will calculate Additional Medicare Tax on the self-employment income because the self-employment tax rules contain a provision that overrides community income treatment (section 1402(a)(5) of the Internal Revenue Code).

Example. A and B live in a community property state and are married filing separate. A has \$200,000 in wages and B has \$100,000 in self-employment income. A is liable for Additional Medicare Tax on \$75,000, the amount by which A's wages exceed the \$125,000 threshold for married filing separate. B's self-employment income of \$100,000 does not exceed the \$125,000 threshold, so B does not owe Additional Medicare Tax.

23. How do married filing separate spouses living in a community property state determine their credit for Additional Medicare Tax withheld on wages, their credit for income tax withholding or their credit for estimated tax payments?

The credit for any Additional Medicare Tax withheld on wages applies only to the wage earner. However, in community property states, half of any income tax withholding on one spouse's wages will be credited to the other spouse. By contrast, each spouse can take full credit for the estimated tax payments that he or she made. However, if married filing separate spouses made joint estimated tax payments, either spouse can claim all of the estimated tax paid, or they may agree to divide it between them. If they cannot agree on how to divide it, each spouse may claim credit for the portion of the estimated tax payments that equals the total estimated tax paid times the tax shown on the spouse's separate return, divided by the combined total of the tax shown on both spouses' returns.

As a result, an individual living in a community property state who is a married filing separate spouse and who anticipates Additional Medicare Tax liability should be aware that the credit for any additional income tax withholding will be split between both spouses but that estimated tax payments can be fully claimed by the spouse who made them or, if made jointly, divided between them as agreed or in proportion to their tax liability.

Example. C and D are married filing separate spouses living in a community property state. C has \$150,000 in self-employment income and D has \$240,000 in wages. C is liable for Additional Medicare Tax on \$25,000 of self-employment income, the amount by which C's self-employment income exceeds the \$125,000 threshold for married filing separate. D is liable for Additional Medicare Tax on \$115,000 of wages, the amount by which D's wages exceed the \$125,000 married filing separate threshold. D's employer will only withhold Additional Medicare Tax on the amount of D's wages that exceed \$200,000, in this case \$40,000. D must pay the remaining Additional Medicare Tax liability on \$75,000 through increased income tax withholding, estimated tax payments, or payment with D's income tax return. If D requests additional federal income tax withholding, half of this additional withholding must be credited to C. However, if D makes estimated tax payments, these payments will be credited entirely to D. If C and D make joint estimated tax payments, these payments may be divided between them as agreed or in proportion to their tax liability.

24. How does a registered domestic partner (RDP) who is subject to his or her state's community property laws calculate Additional Medicare Tax on wages subject to Federal Insurance Contributions Act (FICA) tax and self-employment income subject to Self-Employment Contributions Act (SECA) tax?

Registered domestic partners (RDPs) are not married for federal tax purposes so they can only use the single filing status or, if they qualify, the head of household status. Thus, their threshold for Additional Medicare Tax is \$200,000. Individuals who are RDPs in a community property state will calculate their Additional Medicare Tax liability as follows:

- Each individual will calculate Additional Medicare Tax based on his or her own wages without regard to the income tax treatment of wages as community property income.
- Each individual will calculate Additional Medicare Tax on half of the total self-employment income earned by both RDPs. Although the self-employment tax rules contain a provision that overrides community income treatment in the case of spouses (section 1402(a)(5) of the Internal Revenue Code), this provision does not apply to RDPs.

Example 1: E and F are RDPs who are subject to their state's community property laws. E has \$150,000 in wages and F has \$125,000 in wages. Since neither E nor F has wages that exceed the threshold of \$200,000, neither E nor F owes Additional Medicare Tax.

Example 2: G and H are RDPs who are subject to their state's community property laws. G has \$300,000 in wages and H has \$100,000 in self-employment income. G and H must each calculate Additional Medicare Tax on half of H's self-employment income. G will calculate Additional Medicare Tax on \$300,000 in wages and \$50,000 in self-employment income. G's wages exceed the \$200,000 threshold amount by \$100,000, so G is liable for Additional Medicare Tax on \$100,000 in wages. Before calculating the Additional Medicare Tax on self-employment income, G's \$200,000 threshold is reduced by G's \$300,000 in wages (but not below zero), resulting in a reduced self-employment income threshold for G of \$0. G is therefore also liable for Additional Medicare Tax on \$50,000 in self-employment income.

H calculates Additional Medicare Tax only on \$50,000 in self-employment income (half of H's total self-employment income). Since \$50,000 is below H's \$200,000 threshold, H does not owe Additional Medicare Tax.

25. How does a registered domestic partner (RDP) who is subject to his or her state's community property laws determine the credit for Additional Medicare Tax withheld on wages, the credit for income tax withholding, or the credit for estimated tax payments?

The credit for any Additional Medicare Tax withheld on wages applies only to the wage earner. However, in community property states, half of any income tax withholding on wages will be credited to the other RDP. By contrast, each RDP takes full credit for the estimated tax payments that he or she made. RDPs cannot make joint estimated tax payments.

As a result, an individual in a community property state who is an RDP and who anticipates Additional Medicare Tax liability should be aware that the credit for any additional income tax withholding will be split between both RDPs but that estimated tax payments are fully claimed by the RDP who made them.

Example: J and K are RDPs who are subject to their state's community property laws. J has \$250,000 in wages and K has \$50,000 in self-employment income. Because half of K's self-employment income must be reported by J for Additional Medicare Tax purposes, J is liable for Additional Medicare Tax on \$50,000 of wages and \$25,000 of self-employment income. However, J's employer will only withhold Additional Medicare Tax on the amount of J's wages that exceed \$200,000, in this case \$50,000. J must pay the remaining Additional Medicare Tax liability on \$25,000 through increased income tax withholding, estimated tax payments, or payment with J's income tax return. If J decides to increase federal income tax withholding to cover the liability, half of this additional withholding must be credited to K. However, if J makes estimated tax payments, these payments will be credited entirely to J.

K calculates Additional Medicare Tax only on \$25,000 in self-employment income (half of K's total self-employment income). Since \$25,000 is below K's \$200,000 threshold, K does not owe Additional Medicare Tax.

Reporting Additional Medicare Tax

26. How do I report Additional Medicare Tax when I file my tax return?

You will report Additional Medicare Tax on Form 8959, Additional Medicare Tax, and attach Form 8959 to your income tax return.

27. Who is required to file Form 8959, Additional Medicare Tax?

If you are liable for Additional Medicare Tax and/or your employer withheld Additional Medicare Tax from your wages or compensation, you must file Form 8959.

If your Medicare wages and tips on all Forms W-2, Wage & Tax Statement, plus self-employment income - combined with your spouse's Medicare wages and tips and self-employment income if you're filing a joint return - are more than the threshold amount for your filing status on the chart in FAQ #3, you are liable for Additional Medicare Tax on the amount that exceeds the threshold. You must file Form 8959.

Also, if your RRTA compensation on all Forms W-2 - combined with your spouse's RRTA compensation if you're filing a joint return (but NOT combined with any Medicare wages and tips or self-employment income) - is more than the threshold amount for your filing status on the chart in FAQ #3, you are liable for Additional Medicare Tax on the amount that exceeds the threshold. You must file Form 8959.

28. My wages and self-employment income or my RRTA compensation exceed the threshold for my filing status, but my employer already withheld 0.9% from my wages. Do I have to file Form 8959?

Yes. If you have met the threshold for Additional Medicare Tax based on your filing status, wages, compensation, and self-employment income, it is possible that you will owe more or less Additional Medicare Tax than the amount that was withheld by your employer. Therefore, even if your employer withheld the 0.9% Additional Medicare Tax from your wages or compensation above the \$200,000 withholding threshold, you must file Form 8959, Additional Medicare Tax, to ensure that you are reporting and paying the correct amount.

29. My wages and self-employment income or my RRTA compensation do NOT exceed the threshold for my filing status, but my employer withheld 0.9 percent from my wages; do I need to file Form 8959?

Yes. If your employer withheld the 0.9% Additional Medicare Tax from your wages or compensation, and you will not meet the threshold based on your filing status, then the amount that was withheld from your wages or compensation may be refundable to you. Therefore, you need to file Form 8959, Additional

Medicare Tax, to document the withholding and to receive a refund of any tax that was withheld in excess of the total tax owed on your individual income tax return.

30. If I performed services for a business and believe my pay from the business was not for services as an independent contractor, and the business did not withhold my share of Social Security, Medicare and Additional Medicare Tax, how do I report this uncollected Social Security, Medicare tax and Additional Medicare Tax?

You must file Form 8919, Uncollected Social Security and Medicare Tax on Wages, to report your wages and compute any Social Security and Medicare taxes due. You must also file Form 8959, Additional Medicare Tax, to compute any Additional Medicare Tax due. Attach Forms 8919 and 8959 to your income tax return (Form 1040).

31. If I received tip income that I did not report to my employer, how do I report Social Security, Medicare and Additional Medicare Tax on these unreported tips?

You must file Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to report unreported tips and compute any Social Security and Medicare taxes due. You must also file Form 8959, Additional Medicare Tax, to compute any Additional Medicare Tax due. Attach Forms 4137 and 8959 to your income tax return (Form 1040).

Wage Repayments

32. How does an individual claim a refund of Additional Medicare Tax on a repayment to an employer of wage payments received in a prior year?

In the case of a repayment of wages received by an individual in a year for which he or she has filed Form 1040, the individual should make a claim for refund for the Additional Medicare Tax paid using Form 1040X, Amended U.S. Individual Income Tax. See the Instructions for Form 1040X.

EMPLOYER and PAYROLL SERVICE PROVIDER FAQs

Withholding

33. When must an employer withhold Additional Medicare Tax?

Effective Jan. 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).

34. 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.

35. 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.

36. 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.

37. 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.

38. If an employee requests that I stop withholding Additional Medicare Tax from wages in excess of the \$200,000 withholding threshold, because the employee and spouse file a joint return and won't meet the \$250,000 threshold for joint filers, should I stop withholding Additional Medicare Tax?

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

39. 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.

40. 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 Nov. 30, 2013. On Dec. 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.

41. 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.

42. 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 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 Publication 15 (Circular E), section 5, and Publication 15-B, section 4.

43. 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, Employer's QUARTERLY Federal Tax Return (or the employer's applicable employment tax return), to reflect any uncollected employee social security, Medicare, or Additional Medicare Tax on reported tips. Uncollected taxes are not reported in boxes 4 and 6 of Form W-2. 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 Publication 531, Reporting Tip Income.

44. If a former employee receives group-term life insurance coverage in excess of \$50,000 and the cost of the coverage, in combination with other wages, exceeds \$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 withholding. However, 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. In this case, 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. Uncollected taxes are not reported in boxes 4 and 6 of Form W-2. 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.

45. 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 (that is, 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.

46. 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.

47. For a company that goes through a merger or acquisition, will the wages from the predecessor and successor employers be combined to determine whether the \$200,000 withholding threshold has been met?

When corporate acquisitions meet certain requirements, wages paid by the predecessor are treated as if paid by the successor for purposes of applying the social security wage base and for applying the Additional Medicare Tax withholding threshold (that is, \$200,000 in a calendar year). For more information on acquisitions under the predecessor-successor rules, see [Rev. Proc. 2004-53, 2004-2 C.B. 320](#); Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations; and the Instructions for Schedule D (Form 941).

48. 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 payer on behalf of each subsidiary should be combined only if the payer 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 payer is not a common paymaster.

49. I am a common paymaster that pays wages to an employee who is concurrently employed by related corporations. Should I combine this employee's wages for purposes of determining whether wages are paid in excess of the \$200,000 withholding threshold?

Yes. Liability to withhold Additional Medicare Tax with respect to wages disbursed by the common paymaster is computed as if there was a single employer, just as it is for application of the social security wage base. See section 7 of Publication 15-A for more information on common paymasters.

50. If an agent pays wages to an employee on behalf of an employer (under an approved Form 2678, Employer Appointment of Agent), then, for purposes of determining whether wages are paid in excess of the \$200,000 withholding threshold, should the agent combine those wages with wages paid to that same employee: 1) directly by the employer, 2) by the same agent on behalf of a different employer, or 3) by another agent on behalf of the same employer?

No. Wages paid by an agent with an approved Form 2678 on behalf of an employer are not combined with wages paid to the same employee by any of the above other parties in determining whether to withhold Additional Medicare Tax.

51. I use an employee leasing company. How should wages be determined for purposes of the \$200,000 withholding threshold?

An employer is required to withhold Additional Medicare Tax on wages paid to an employee in excess of \$200,000 in a calendar year. Generally, if you provide wages in excess of the \$200,000 withholding threshold to the employee leasing company to pay to an employee that performs services for you, Additional Medicare Tax should be withheld from the wages in excess of \$200,000. Taxpayers should be aware that the employer is ultimately responsible for the deposit and payment of federal tax liabilities. Even though you forward tax payments to a third party to make the tax deposits, you may be responsible as the employer for the tax liability.

Reporting Additional Medicare Tax and Correcting Errors

52. When an employer deposits Additional Medicare Tax through the Electronic Federal Tax Payment System (EFTPS), does it need to separate Additional Medicare Tax from regular Medicare tax?

No. When providing the deposit detail, regular Medicare tax and Additional Medicare Tax are entered as one combined amount.

53. How does an employer report Additional Medicare Tax on Form 941, Form 941-PR or Form 941-SS?

Line 5d has been added to Form 941, Form 941-PR and Form 941-SS. On this line, employers report any individual's wages paid during the quarter that is in excess of the \$200,000 withholding threshold for the year as well as the withholding liability for Additional Medicare Tax on those wages.

NOTE: Report only wages & tips subject to Additional Medicare Tax withholding and Additional Medicare Tax on Line 5d. Report Medicare wages & tips and Medicare tax on Line 5c.

54. How does an employer report Additional Medicare Tax on Form W-2?

There is no change to the boxes on Form W-2. An employer will enter the total employee Medicare tax (including any Additional Medicare Tax) withheld on Medicare wages and tips in box 6 ("Medicare tax withheld"). A railroad employer will report Additional Medicare Tax in box 14.

55. If an employer under withholds Additional Medicare Tax (for example, fails to withhold the tax when it pays the employee wages in excess of \$200,000 in a calendar year) and discovers the error in the same year the wages are paid but after its Form 941 is filed, how can the employer correct this error?

An employer is liable for Additional Medicare Tax required to be withheld, whether or not it deducts the tax from wages it pays to the employee. If the employer fails to withhold the correct amount of Additional Medicare Tax from wages it pays to an employee and discovers the error in the same year it pays the wages, the employer may correct the error by making an interest-free adjustment on the appropriate corrected return (for example, Form 941-X). Once the employer has discovered the error, the employer should deduct the correct amount of Additional Medicare Tax from other wages or other remuneration, if any; it pays to the employee on or before the last day of the calendar year. However, even if the employer is not able to deduct the correct amount of Additional Medicare Tax from other wages or other remuneration it pays to the employee, the employer must report and pay the correct amount of Additional Medicare Tax on its return. If the employer pays Additional Medicare Tax without having deducted it from wages or other remuneration it pays to the employee, the obligation of the employee to the employer with respect to the payment is a matter for settlement between the employer and the employee. For more information on adjustments, see section 13 of Pub 15 or visit the IRS website and enter the keywords: Correcting Employment Taxes.

56. If an employer over withholds Additional Medicare Tax (for example, withholds the tax before it pays the employee wages in excess of \$200,000 in a calendar year) and discovers the error in the same year the wages are paid, how can the employer correct this error?

The employer may correct the error by making an interest-free adjustment on the appropriate corrected return (for example, Form 941-X). The employer must first repay or reimburse the over withheld amount to the employee prior to the end of the calendar year in which it paid the wages. If the employer does not repay or reimburse the employee the amount of over collected Additional Medicare Tax before the end of the year in which the wages were paid, the employer can not correct the error via an interest-free adjustment. In this case, the employer should report the amount of withheld Additional Medicare Tax on the employee's Form W-2 so that the employee may obtain credit for Additional Medicare Tax withheld on the employee's individual income tax return. For more information on adjustments, see section 13 of Pub 15 or visit the IRS website and enter the keywords: Correcting Employment Taxes.

57. If an employer over withholds Additional Medicare Tax (for example, withholds the tax before it pays the employee wages in excess of \$200,000 in a calendar year) from an employee's wages, should the employer file a claim for refund for the Additional Medicare Tax?

No. An employer can only claim a refund of overpaid Additional Medicare Tax if it did not deduct or withhold the overpaid Additional Medicare Tax from the employee's wages. For more information on claims for refund, see section 13 of Pub 15 or visit the IRS website and enter the keywords: Correcting Employment Taxes.

58. If an employer under withholds Additional Medicare Tax (for example, fails to withhold the tax when it pays the employee wages in excess of \$200,000 in a calendar year) and discovers the error in a subsequent year, should the employer correct this error by making an interest-free adjustment?

No. If an employer under withholds Additional Medicare Tax and does not discover the error in the same year wages were paid, the employer can not correct the error by making an interest-free adjustment. In this case, the employer should have reported the amount of Additional Medicare Tax withheld, if any, on the employee's Form W-2 for the prior year. Additional Medicare Tax withholding will be applied against the taxes shown on the employee's individual income tax return (Form 1040). The employee will report and pay all Additional Medicare Tax liability, including any liability that exceeds Additional Medicare Tax withheld, on the employee's individual income tax return. To the extent the employer can show that the employee paid Additional Medicare Tax, the under withheld amount will not be collected from the employer. The employer will remain subject to any applicable penalties.

While the employer cannot correct the tax by making an interest-free adjustment, the employer corrects the amount of wages and tips subject to Additional Medicare Tax withholding on the appropriate "X" form ([Form 941-X](#), [Form 943-X](#), [Form 944-X](#), or [Form CT-1 X](#)).

59. If an employer over withholds Additional Medicare Tax (for example, withholds the tax before it pays the employee wages in excess of \$200,000 in a calendar year) and discovers the error in a subsequent year, should the employer correct this error by making an interest-free adjustment?

No. If an employer withholds more than the correct amount of Additional Medicare Tax from wages paid to an employee and does not discover the error in the same year the wages were paid, the employer can not correct the error by making an interest-free adjustment. In this case, the employer should have reported the amount of Additional Medicare Tax withheld (including the over withheld amount) on the employee's Form W-2 for the prior year so that the employee may obtain credit for Additional Medicare Tax withheld. Additional Medicare Tax withholding will be applied against the taxes shown on the employee's individual income tax return (Form 1040).

While the employer can not correct the tax by making an interest-free adjustment, the employer corrects the amount of wages and tips subject to Additional Medicare Tax withholding on the appropriate "X" form ([Form 941-X](#), [Form 943-X](#), [Form 944-X](#), or [Form CT-1 X](#)).

Wage Repayments

60. How should employers treat repayment by an employee of wage payments received by the employee in a prior year for Additional Medicare Tax purposes (for example, sign on bonuses paid to employees that are subject to repayment if certain conditions are not satisfied)?

Employers cannot make an adjustment or file a claim for refund for Additional Medicare Tax withholding when there is a repayment of wages received by an employee in a prior year because the employee determines liability for Additional Medicare Tax on the employee's income tax return for the prior year. In the case of a repayment of wages received by the employee in a year for which the employee has filed Form 1040, the employee should make a claim for refund for the Additional Medicare Tax paid using Form 1040X, Amended U.S. Individual Income Tax Return. See the Instructions for Form 1040X.