

Below is a summary of the Internal Revenue Service's (IRS) Final Regulations on the Additional Medicare Tax (AMT). There have been a few changes from the proposed requirements, resulting in additional Medicare withholding for high earners.

*The following is a summary of the changes.*

- The requirement for additional withholding was effective January 1, 2013.
- The requirement applies to all employers, regardless of size or grandfathered status. Private, government and not-for-profit employers all must withhold the tax.
- The employer must withhold an additional 0.9% of the employee's share for Medicare/Hospital Insurance (from 1.45% to 2.35%) once the employee's wages exceed \$200,000.
  - The employer is not required to - and should not - match this additional 0.9%.
  - The additional 0.9% is not capped.
  - The additional withholding applies to wages over \$200,000, beginning in the pay period the \$200,000 threshold is met.
  - Married employees must be treated as separate individuals.

**Example:**

Bob and Beth both work for Acme. They each make \$150,000. Even though they will owe the AMT because their household income exceeds \$250,000, Acme should not withhold AMT because neither individually earns over \$200,000. (Bob and Beth can request additional withholding by filing a W-4.)

- All wages that are currently subject to Medicare tax are also subject to the AMT (such as imputed income).
- The additional amount withheld for AMT will be reported with other Medicare withholding in Box 6 of the W-2.
- The AMT withheld will be reported on a new line 5d on Form 941, 941-PR or 941-SS. "Regular" Medicare tax should be reported on line 5c.
- There is no obligation to notify high earners of additional withholding.
- A similar requirement applies to self-employed taxpayers once their income exceeds \$200,000. If the taxpayer has both wages and self-employment income, those amounts are combined.
- Wages of employees who work for related employers are combined only if the employers use a common paymaster.
- The final regulations clarify that in general over-withholding or under-withholding of the AMT should be handled the same as over-withholding or under-withholding of any other payroll tax. Employer-initiated corrections must occur within the same calendar year as the incorrect withholding; if the correction cannot be made during the current calendar year, the employee typically will need to make the correction through an amended income tax return (Form 1040X).

The employee's actual tax obligation is not synchronized with this withholding requirement. The employer is required to withhold on wages in excess of \$200,000 regardless of the employee's actual tax situation. Regardless of the amount withheld, the employee will owe the 0.9% AMT on wages and other compensation over \$200,000 if filing as a single individual, on wages and compensation over \$250,000 if married and filing jointly, and on wages and compensation over \$125,000 if married and filing single.

**Examples:**

- Joe is married and earns \$225,000 in 2013. Joe's wife is not employed, so Joe's household income is below \$250,000. Even though Joe will not ultimately owe any additional Medicare tax, Joe's employer must withhold the additional 0.9% once his 2013 pay reaches \$200,000. The additional amount withheld will be credited/refunded to Joe when he files his federal income tax return.
- Jane is single and earns \$180,000 in 2013. She will owe the AMT on her federal income tax because her income is over \$125,000. However, Jane's employer cannot withhold AMT for Jane because her income is below the \$200,000 threshold. Jane may request that her employer withhold additional amounts by filing a W-4.

**Note:** There is another new Medicare tax on high earners that imposes no obligation on employers. A 3.8% tax is payable on the lesser of the taxpayer's net investment income and modified adjusted gross income over the levels described above. Net investment income excludes wages, self-employment income, distributions from IRAs and qualified plans, and tax-exempt interest and dividends. It includes dividend and interest income, annuities, royalties, and rents unless derived in the ordinary course of business, net gains on the disposition of property, and income from a variety of other passive activities. The capital gain from selling a principal residence is considered net income to the extent it exceeds the excludable amount (\$250,000 if single or \$500,000 if married and filing jointly).

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