

## IRS Provides Guidance on 0.9% Additional Medicare Tax

In light of the 0.9% Medicare surtax taking effect in 2013, the IRS has proposed various regulations providing guidance on the implementation of the tax for both employers and individuals. These regulations include: a requirement to file a return to report the tax, a process for employers to make adjustments of underpayments and overpayments of the tax, and a process for employers and employees to file claims for refund for an overpayment of the tax. The IRS intends to finalize these regulations in 2013; however, individuals, employers, and payroll services may rely on the proposed rules until final regulations are published.

### BACKGROUND

The additional Medicare tax was enacted as part of 2010's health care reform legislation ([learn more about these increases by clicking here](#)). Beginning in 2013, under the Patient Protection and Affordable Care Act of 2010, employees will be subject to the 0.9% additional Medicare tax on FICA wages and self-employment income to the extent that they exceed the following threshold amounts: \$250,000 for joint filers; \$125,000 for married taxpayers filing separately; and \$200,000 for individuals, heads of household and other filers. The

additional Medicare tax is not imposed until wages exceed those thresholds, and there is no corresponding amount owed by the employer. The tax is effective for wages received in any tax year starting after Dec. 31, 2012.

### WITHHOLDING

The proposed regulations make it clear that an employer is required to withhold additional Medicare tax on wages in excess of \$200,000 in a calendar year, without regard to the employee's filing status or his or her income from other sources. In determining whether wages exceed \$200,000, the employer does not take into account the employee's filing status or other wages or compensation that may affect the employee's liability for the tax.

An employee may not request that the employer deduct and withhold additional Medicare tax on wages of \$200,000 or less. However, an employee who anticipates that he or she will be liable for additional Medicare tax—for example, if household wages will exceed the married filing jointly threshold—may use Form W-4, Employee's Withholding Allowance Certificate, to request additional income tax withholding sufficient to cover their liability for the additional

### Experience. Vision. Clarity. Knowledge.

Hiring the right firm for your clients' tax planning and return preparation is vital to your financial success. Both *NJBiz* and *New Jersey Business Magazine* rank RotenbergMeril as one of the top accounting firms in New Jersey. When you need a powerful ally in the areas of tax planning and return preparation, rely on RotenbergMeril.

### RotenbergMeril, where results exceed expectations.

Our integrated and specialized services include:

- Audit & Accounting Services
- Public Company & SEC Services
- Benefit Plan/ERISA Services
- Taxation Services
- Financial Outsourcing Services
- Litigation Support and Valuation Services
- International Consulting

[www.rmsbg.com](http://www.rmsbg.com)

- Saddle Brook, NJ  
(201) 487.8383
- New York, NY  
(212) 660.0050

Medicare tax. To the extent this additional liability isn't covered by employer withholding, employees should use estimated tax payments to make up the shortfall and avoid interest and penalties.

### REPORTING AND PAYMENT OBLIGATION

An employee is liable for additional Medicare tax on wages or compensation to the extent that the tax is not withheld by the employee's employer. Individuals must report the tax on Form 1040, U.S. Individual Income Tax Return, and will claim on the Form 1040 credit for any tax withheld or pay any tax due that was not previously withheld or paid as an estimated tax.

An employer that fails to meet its withholding, deposit, reporting and payment responsibilities is liable for additional Medicare tax, plus all applicable penalties. If the employee pays the tax, the employer is relieved of liability for the tax, but may still be subject to penalties.

### INTEREST-FREE ADJUSTMENTS

The proposed regulations allow employers to make interest-free adjustments in the event of underpayments or overpayments of additional Medicare tax. Adjustments for underpayments of the additional Medicare tax can only be made if the error is ascertained in the same year the wages or compensation was paid, unless the underpayment is attributable to an administrative error.

An adjustment of overpaid additional Medicare tax can be made only if the employer ascertains the error in the year the wages or compensation was paid and repays or reimburses the employee the amount of the over-collection before the end of the calendar year.

### CLAIMS FOR REFUND

Employers can claim refunds of overpaid additional Medicare tax only if the employer did not deduct or withhold the overpaid additional Medicare tax from the employee's wages or compensation.

Employees claim a refund or credit of overpaid additional Medicare tax by taking the overpayment into account in claiming a credit against, or refund of, tax on an individual tax return for the year in which the overpayment was made, or for a tax year for which a tax return has been filed, by filing Form 1040X, Amended U.S. Individual Income Tax Return. This process is in lieu of filing a claim for refund for overpaid additional Medicare tax on Form 843, Claim for Refund and Request for Abatement. Employees may only claim a refund of additional Medicare tax if they have not received repayment or reimbursement from their employer in the context of an interest-free adjustment.

### GET READY

The rules in the proposed regulations will be effective when they are published as final regulations in the Federal Register, which the IRS says it intends to do in 2013. The IRS has scheduled a public hearing on the proposed regulations, to be held on April 4, 2013, in Washington. However, taxpayers may rely on the proposed rules now.

The additional Medicare tax will take effect soon. To be ready, employers should be sure that their payroll procedures and systems are equipped to handle the new withholding requirements. High-income taxpayers should evaluate their liability for the tax and adjust their withholdings or estimated tax payments accordingly.

**We can help you understand the effect these possible increases could have on your unique tax situation and create strategies to minimize the impact. Contact RotenbergMeril today at [cpas@rmsbg.com](mailto:cpas@rmsbg.com).**