



Client Alert

July 18, 2012

Medicare Tax Increase: Should You Increase Your Withholdings?

The Patient Protection and Affordable Care Act of 2010 imposes an additional 0.9 percent Medicare tax on employees receiving more than \$200,000 in wages (\$250,000 for married couples). The employer's portion of the Medicare tax remains unchanged. The tax increase supports the Medicare Hospital Insurance trust fund and begins in 2013 without further legislative action.

Withholding

The additional tax may create withholding issues for employees that receive wages from multiple sources in a single tax year. Employers will only withhold the additional tax from wages paid by that employer, not on combined wages. Therefore, employees who expect wages from multiple sources to exceed the \$200,000 threshold should increase their withholding on Form W-4 or estimated tax payments to avoid a tax liability upon filing their income tax return.

Reporting

Once the threshold is reached, employers will report the additional tax withheld on a line to be added to the 2013 Form 941. The employee's portion of the tax will continue to be reported in Form W-2, box 6.

IRS Circular 230 Notice

Internal Revenue Service regulations state that only a formal opinion that meets specific requirements can be used to avoid tax penalties. Any tax advice in this communication is not intended or written to be used, and cannot be used by a taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer, because it does not meet the requirements of a formal opinion.

Please contact an attorney in the Armstrong Teasdale Tax Department if you would like to discuss the Medicare tax increase.

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