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Form 8959 Background

The Affordable Care Act brought about a new Medicare Tax on certain high-income individuals, called the Additional Medicare Tax, which went into effect in 2013. The Additional Medicare Tax of 0.9% applies to an individual's wages, Railroad Retirement Tax Act compensation, and self-employment income that exceed certain thresholds, as follows:

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

- The threshold amounts above are not indexed for inflation

Employers are required to withhold Additional Medicare Tax on wages it pays to any employee in excess of \$200,000 in a calendar year, regardless of an individual's filing status. If the individual files as Married: Filing Jointly and does not exceed the \$250,000 threshold limit, they will need to claim a credit for the withheld Additional Medicare Tax on their individual income tax return. Also, all employees subject Additional Medicare Tax must file out Form 8959 to figure out the amount of Additional Medicare Tax they owe and what amount, if any, was withheld by the employer.

Reporting

The IRS has released draft instructions for Form 8959. It details who must file, amounts subject to Additional Medicare Tax, and information on income tax withholding and estimated tax payments for 2014.

Who must file?

An individual is required to file Form 8959 if they fall into one or more of the following categories:

- Medicare wages and tips on any single Form W-2 (Box 5) are greater than \$200,000
- RRTA compensation on any single Form W-2 (Box 14) is greater than \$200,000
- Their total Medicare wages and tips plus self-employment income (including those of their spouse if filing jointly) are greater than the threshold amount for their filing status

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- Their total RRTA compensation and tips (including railroad retirement compensation) and compensation and tips from their spouse, if filing jointly, exceed the threshold

Amounts Subject to Additional Medicare Tax

All wages that are subject to Medicare tax are subject to Additional Medicare Tax if they exceed the threshold.

As previously stated, employers must withhold Additional Medicare Tax on wages they pay individuals in excess of \$200,000 regardless of their filing status.

All railroad retirement compensation that is currently subject to Medicare tax if it exceeds the threshold.

Income Tax Withholding and Estimated Tax Payments for 2014

If the employer does not withhold the Additional Medicare Tax because they do not know whether the employee will be liable for it based on their filing status, the employee may need to make estimated tax payments to compensate for it not being withheld and/or request additional withholdings on a Form W-4. The additional income tax withholding/ tax payments will be applied against the taxes shown on the employee's tax return, which includes Additional Medicare Tax. However, the employee cannot request additional amounts to be withheld specifically for the Additional Medicare Tax.

Employees may be subject to a penalty for failure to make estimated tax payments or additional withholdings if they knowingly owe Additional Medicare Tax and wait to pay the tax with their tax return.