



*A Firm That Cares About Its Clients
Large Enough To Know, Small Enough To Care*

Liability for the .9 Percent Medicare Tax

An additional Medicare tax of 0.9 percent is imposed on wages, compensation, and self-employment income in excess of a threshold amount. The threshold amounts are \$250,000 (joint return or surviving spouse), \$125,000 (married individual filing a separate return), and \$200,000 (all others). However, the threshold amount is reduced (but not below zero) by the amount of the taxpayer's wages. Thus, a single individual who has \$145,000 in self-employment income and \$130,000 of wages is subject to the .9 percent additional tax on \$75,000 of self-employment income (\$145,000 - \$70,000 (the \$200,000 threshold - \$130,000 in wages)). No tax deduction is allowed for the additional Medicare tax.

For married couples, employers do not take a spouse's self-employment income or wages into account when calculating Medicare tax withholding for an employee. If you and your spouse will exceed the \$250,000 threshold in 2016 and have not made enough tax payments to cover the additional .9 percent tax, you can file Form W-4 with the IRS before year end to have an additional amount deducted from your paycheck to cover the additional .9 percent tax. Otherwise, underpayment of tax penalties may apply.