

Version: Connect

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Additional Resources:

- Notice 136 (www.irs.gov/pub/irs-pdf/n1036.pdf)

- Circular E, Employer's Tax Guide (www.irs.gov/pub/irs-pdf/p15.pdf)

How to comply with the Additional Medicare Tax Withholding?

Background

Pursuant to IRS Notice 1036: "In addition to withholding Medicare tax at 1.45%, you must withhold a 0.9% Additional Medicare tax from wages you pay to an employee in excess of \$200,000 in a calendar year. You are required to begin withholding Additional Medicare Tax in the pay period in which you pay wages in excess of \$200,000 to an employee and continue to withhold it each pay period until the end of the calendar year. Additional Medicare Tax is only imposed on the employee. There is no employer share of Additional Medicare Tax. All wages that are subject to Medicare tax are subject to Additional Medicare Tax withholding if paid in excess of the \$200,000 withholding threshold. For more information on what wages are subject to Medicare tax, see the chart, Special Rules for Various Types of Services and Payments, in section 15 of Publication 15 (Circular E), Employers Tax Guide."

Changes to Caselle

Caselle has a new pay code type called Medicare Premium (version 4.2140 or higher). You will need to add the new pay code to Payroll to comply with IRS Notice 1036.

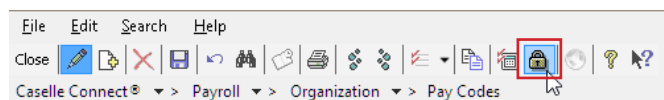
Directions

Follow the directions in this document to add the new Medicare pay code to Payroll. You will create a new summarization pay code, create the new Additional Medicare Tax Pay Code, and add the new 75-02 Additional Medicare Tax to employees.

Step 1: Renumber the current Medicare Tax Pay Codes

1. Open **Connect Payroll > Organization > Pay Codes**.
2. Look up pay code **75-00 Medicare Tax**.
3. If the pay code is restricted, you will need to unlock the restricted fields before you continue.

To unlock the restricted fields, click the **Restricted Fields** button.



Now, you can edit the pay code.

4. Change the **Sub Code** to **01**.

5. Press **Enter**.

The Renumber Sub Code 00 warning message displays.

6. Click **Yes**.

Caselle creates the summarization pay code for you.

7. Click the **Restricted Field** button again to restrict access to the Pay Code and Sub Code field.

The summarization pay code is created. Do not close the Pay Code table.

Step 2: Create the new Additional Medicare Tax Pay Code

1. Look up the new pay code **75-01 Medicare Tax**.
2. Click **Copy** (SHFT+F7).

The Copy Record form displays.

3. In the section titled Copy To, enter **75** as the **Pay Code** and **02** as the **Sub Code**.

The screenshot shows a 'Copy Record' dialog box with the following fields:

Copy FROM	
Pay code	75
Copy TO	
Pay code	75
Sub code	02

Buttons: Help, OK, Cancel

4. Click **OK**.

Caselle copies the pay code setup from pay code 75-00 to pay code 75-02. Do not close the Pay Code table.

Step 3: Update the fields on the Pay Code tab

1. Change the **Title** to *Additional Medicare Tax*.
2. Change the **Abbreviated Title** to *AddMedTax*.
3. Change the **Type** to *Medicare Premium*.
4. Click the **Calculation Order** menu.

Pay code: 75-02 Additional Medicare Tax

Pay Code Employee Employer W-2/1099 Notes

Pay code: 75

Sub code: 02

Title: Additional Medicare Tax

Abbreviated title: AddMedTax

Type: Medicare Premium

State: (dropdown)

Identification number: (text)

Calculation order: 24 (with menu icon)

Leave rate: (dropdown)

Leave level: (dropdown)

5. Click **Sort A-Z**.

Calculation Order

Select the order of the items

- 1 - 00 Regular Pay
- 2 - 00 Overtime Pay
- 3 - 00 Vacation Pay
- 4 - 00 Sick Leave
- 7 - 00 Holiday Pay
- 8 - 00 Miscellaneous Pay
- 9 - 00 Comp Time Pay
- 20 - 00 Misc Reimbursement
- 21 - 00 Travel Reimbursement
- 40 - 00 401-K Deduction
- 65 - 00 Credit Union
- 70 - 00 Miscellaneous Deduction
- 74 - 00 Social Security Tax
- 75 - 00 Medicare Tax
- 76 - 00 Federal Withholding Tax
- 77 - 00 State Withholding Tax
- 85 - 00 Net Pay
- 86 - 00 Direct Deposit

Buttons: Move Up, Move Down, Sort A-Z, Help, OK, Cancel

The 75-02 pay code displays in the pay code list in alphabetical order.

6. Click **OK**.

The fields on the Pay Code tab are set up. Leave the Pay Code table open.

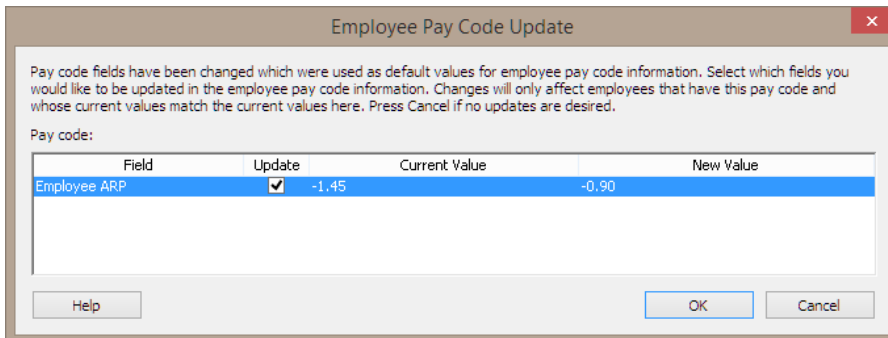
Step 4: Update the Employee tab

1. Click the **Employee tab > Employee subtab**.
2. Change the **Percentage** to *0.9* and then, press **Enter**.

Caselle saves the entry as -0.9000.

3. Change the **Minimum Wage Limit** to *200,000.00*
4. Click **Save** (CTRL+S).

The Employee Pay Code Update form displays.



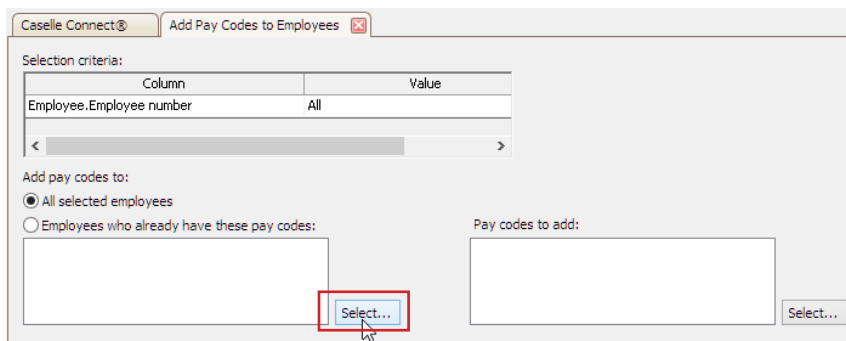
The Employee Pay Code Update form confirms the new value in the Percentage field and allows you to update the value in the pay code information that is saved in the employee's record.

5. Click **OK**.
6. Click **Close**.

The fields on the Employee tab have been updated and the changes have been updated in the employee pay code information.

Step 5: Add the new 75-02 Additional Medicare Tax to Employees

1. Open **Connect Payroll > Employees > Add Pay Codes to Employees**.
Classic users: Classic Payroll > Miscellaneous > Add Pay Codes to Employees.
2. Find the section titled **Add Pay Codes To**.
3. Click to select **Employees Who Already Have These Pay Codes**.
4. Click **Select**.



5. Add pay code **75-01**.
6. Click **OK**.
7. Click **Select**.

Selection criteria:

Column	Value
Employee.Employee number	All

Add pay codes to:

All selected employees

Employees who already have these pay codes:

75-01 Medicare Tax

Pay codes to add:

Select...

8. Add pay code **75-02**.

9. Click **OK**.

The Add Pay Codes to Employees form should look like this before you continue to the next step.

Selection criteria:

Column	Value
Employee.Employee number	All

Add pay codes to:

All selected employees

Employees who already have these pay codes:

75-01 Medicare Tax

Pay codes to add:

75-02 Additional Medicare Tax

Select...

10. Click **GO**.

You have added pay code 75-02 to all of the employees who have pay code 75-01.

You're done. Caselle Payroll meets the requirements set forth in IRS Notice 1036.