What is the additional Medicare tax? Who is liable for paying the additional Medicare tax?

The additional Medicare tax is a tax of 0.9 percent that is tacked on to the “regular” Medicare tax on all wages and self-employment income (collectively referred to as “earned income”) that exceed applicable thresholds amounts. Thus, on earned income in excess of the applicable threshold amount, the total Medicare tax rate is 3.8 percent (the 2.9 percent regular Medicare tax rate plus the 0.9 percent additional Medicare tax rate).

In spite of its name, the tax revenue generated by the Additional Medicare tax is not specifically earmarked for the Medicare fund. Similar to the regular Medicare tax, the additional Medicare tax is imposed only on individual taxpayers (see Q#8599 for a discussion of an employer’s obligation to withhold the additional Medicare tax). Thus, entities such as C corporations, trusts and estates are not subject to the tax.[[1]](#footnote-1)

The applicable thresholds for the additional Medicare tax (not adjusted for inflation) are the sum of the taxpayers earned income (wages and/or self-employment income) in excess of the following amounts:

(1) $250,000 for married taxpayers filing jointly;

(2) $125,000 for married taxpayers filing separate returns; and

(3) $200,000 for single taxpayers and heads of households.[[2]](#footnote-2)

**Planning Point: The tax base of the additional Medicare tax and the net investment income are mutually exclusive. To this point, the additional Medicare surtax is imposed on earned income whereas the net investment income tax is imposed on investment income. This means that a taxpayer cannot be subject to both additional taxes on the same income.[[3]](#footnote-3) If income could be included in both tax bases, it will be included in the Medicare tax base.**

1. IRC Sec. 3101(b)(2). [↑](#footnote-ref-1)
2. IRC Sec. 3101(b)(2). [↑](#footnote-ref-2)
3. IRS FAQ, *Questions and Answers for the Additional Medicare Tax*, available at http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax (last accessed April 23, 2014). [↑](#footnote-ref-3)