

## ***Important Tax Update - Please Read Immediately***

### ***Qualifying Wages for Withholding***

**Effective Date: January 1, 2004 – Ohio Revised Code Sec. 718.03**

#### **Medicare Wages**

An employer is required to withhold only on “qualifying wages”, which are wages as defined in Internal Revenue Code Section 3121(a), generally the Medicare Wage Box of the Form W-2.

- ***Medicare Exempt Employees*** - are subject to the requirements for “qualifying wages” in the Medicare Wage Box of the Form W-2 even though that box will remain blank.
- ***Cafeteria Plans*** – Internal Revenue Code Section 125 wages are not included in the definition of Medicare wages and do not need to be deducted from the Medicare Wage Box.
- ***401(k), 457 and Supplemental Unemployment Compensation Benefits*** - These items should all be included in the Medicare Wage Box and are subject to withholding requirements.
- ***Nonqualified Deferred Compensation Plan*** - Income from nonqualified plans is included in the definition of “qualifying wages” at the time the income is deferred and is subject to withholding requirements.
- ***Stock Options*** - Income from the exercise of stock options is included in the definition of “qualifying wages” and is subject to withholding requirements.
- ***Disqualifying Disposition of an Incentive Stock Option*** - Employer is not required to withhold, but the income is considered “qualifying wages” and the recipient is liable for the tax.

**Note:** *As an employer, if the Medicare Wage Box is not the largest wage figure on the W-2 form a written explanation will be required.*