

Clarification to the Instructions for Correcting Taxable Wages and Tips Subject to Additional Medicare Tax Withholding on Form 941-X, Line 11

We clarified the instructions for line 11 of Form 941-X to explain how an employer that made a prior year nonadministrative error related to Additional Medicare Tax corrects the taxable wages and tips subject to Additional Medicare Tax withholding. The clarified instructions shown below will be included in the next revision of the Instructions for Form 941-X.

An employer cannot correct the Additional Medicare Tax for a prior year nonadministrative error on Form 941-X. Instead, an employee will report the correct tax on the employee's income tax return, as necessary.

11. Taxable Wages and Tips Subject to Additional Medicare Tax Withholding

Generally, you may correct errors to Additional Medicare Tax withholding **only** if you discovered the errors in the same calendar year the wages and tips were paid to employees. However, you may correct errors to Additional Medicare Tax withholding for prior years if the amount reported on Form 941, line 5d, column 2, does not agree with the amount you actually withheld. This type of error is an administrative error. You may also correct errors to Additional Medicare Tax withholding for prior years if section 3509 rates apply. If section 3509 rates apply, see the instructions for line 17.

If a prior year error was a nonadministrative error, you may correct only the **wages and tips** subject to Additional Medicare Tax withholding that were originally reported on Form 941, line 5d, column 1, or previously corrected on Form 941-X. You cannot correct the tax reported on Form 941, line 5d, column 2.

Errors discovered in the same calendar year or prior year administrative errors. If you are correcting the taxable wages and tips subject to Additional Medicare Tax withholding that you reported on Form 941, line 5d, column 1, enter the total corrected amount in column 1. In column 2, enter the amount you originally reported or as previously corrected. In column 3, enter the difference between columns 1 and 2.

line 11 (column 1)
- line 11 (column 2)
line 11 (column 3)

If the amount in column 2 is larger than the amount in column 1, use a minus sign in column 3.

Multiply the amount in column 3 by .009 (0.9% tax rate) and enter the result in column 4.

line 11 (column 3)
x.009
 line 11 (column 4)

If the amount in column 3 used
 a minus sign, also use a minus
 sign in column 4.

Example—Prior year administrative error (incorrectly reported amount of Additional Medicare Tax actually withheld). Employee A's wages exceeded the \$200,000 withholding threshold for Additional Medicare Tax in November 2014. The total wages paid to Employee A for 2014 were \$230,000. You withheld \$270 (\$30,000 x .009) from the employee's wages. However, on your fourth quarter 2014 Form 941 you mistakenly reported \$3,000 on line 5d, column 1, and Additional Medicare Tax withheld of \$27 on line 5d, column 2. You discover the error on March 16, 2015. This is an example of an administrative error that may be corrected in a later calendar year because the amount actually withheld differs from the amount reported on your fourth quarter 2014 Form 941. Use Form 941-X, line 11, to correct the error as shown below.

Column 1 (corrected amount)	30,000.00
Column 2 (Form 941, line 5d, column 1)	- <u>3,000.00</u>
Column 3 (difference)	27,000.00

Use the difference in column 3 to
 determine your tax correction.

Column 3 (difference)	27,000.00
Tax rate (0.9%)	<u>x .009</u>
Column 4 (tax correction)	243.00

Be sure to explain the reasons for this correction on line 23.

Prior year nonadministrative errors. You may correct **only** the taxable wages and tips subject to Additional Medicare Tax withholding that you reported on Form 941, line 5d, column 1. Enter the total corrected amount in column 1. In column 2, enter the amount you originally reported or as previously corrected. In column 3, enter the difference between columns 1 and 2.

line 11 (column 1)
- line 11 (column 2)
 line 11 (column 3)

If the amount in column 2 is
 larger than the amount in
 column 1, use a minus sign in
 column 3.

Do not multiply the amount in column 3 by .009 (0.9% tax rate). Leave column 4 blank and explain the reasons for this correction on line 23.

Example—Prior year nonadministrative error (failure to withhold Additional Medicare Tax when required). Employee B's wages exceeded the \$200,000 withholding threshold for Additional Medicare Tax in December 2014. The total wages paid to Employee B for 2014 were \$220,000. You were required to withhold \$180 ($\$20,000 \times .009$) but you withheld nothing and did not report an amount on line 5d of your fourth quarter 2014 Form 941. You discover the error on March 16, 2015. File Form 941-X to correct wages and tips subject to Additional Medicare Tax withholding for your 2014 fourth quarter Form 941, but you may not correct the Additional Medicare Tax withheld (column 4) because the error involves a previous year and the amount previously reported for the employee represents the actual amount withheld from the employee during 2014.

Combination of prior year administrative and nonadministrative errors. If you are reporting both administrative errors and nonadministrative errors for the same quarter of a prior year, enter the total corrected amount in column 1. In column 2, enter the amount you originally reported or as previously corrected. In column 3, enter the difference between columns 1 and 2. However, multiply only the amount of wages and tips reported in column 3 that are related to administrative errors by .009 (0.9% tax rate). **Do not** multiply any wages and tips reported in column 3 that are related to nonadministrative errors by .009 (0.9% tax rate). Use line 23 to explain in detail your corrections. The explanation must include the reasons for the corrections and a breakdown of the amount reported in column 3 into the amounts related to administrative errors and nonadministrative errors.

Example—Combination of prior year administrative and nonadministrative errors. Employee A's wages exceeded the \$200,000 withholding threshold for Additional Medicare Tax in November 2014. The total wages paid to Employee A for 2014 were \$230,000. You withheld \$270 ($\$30,000 \times .009$) from the employee's wages. However, on your fourth quarter 2014 Form 941 you mistakenly reported \$3,000 on line 5d, column 1, and Additional Medicare Tax withheld of \$27 on line 5d, column 2. The difference in wages subject to Additional Medicare Tax related to this administrative error is \$27,000 ($\$30,000 - \$3,000$).

Employee B's wages exceeded the \$200,000 withholding threshold for Additional Medicare Tax in December 2014. The total wages paid to Employee B for 2014 were \$220,000. You were required to withhold \$180 ($\$20,000 \times .009$) but you withheld nothing and did not report Employee B's \$20,000 in wages subject to Additional Medicare Tax withholding on line 5d of your fourth quarter 2014 Form 941.

You discover both errors on March 16, 2015. Use Form 941-X, line 11, to correct the errors as shown below.

Column 1 (corrected amount)	50,000.00
Column 2 (Form 941, line 5d, column 1)	<u>- 3,000.00</u>
Column 3 (difference)	47,000.00

Determine the portion of wages and tips reported in column 3 that is related to the administrative error (\$47,000 - \$20,000 (nonadministrative error) = \$27,000 (administrative error)). Multiply this portion of column 3 by .009 (0.9% tax rate) to determine your tax correction.

Difference related to administrative error	27,000.00
Tax rate (0.9%)	<u>x .009</u>
Column 4 (tax correction)	243.00

Be sure to explain the reasons for these corrections on line 23. You must also report that \$20,000 of the amount shown in column 3 was related to the correction of a prior year nonadministrative error and \$27,000 of the amount shown in column 3 was related to the correction of an administrative error.