Service Request 83719
2013 Employee Medicare Tax Rate Increase for Wages in Excess of $200,000.00

Technical Specification

November 5, 2012
Prepared by Emma Sebastian

Information Resources & Communications
Office of the President
University of California
## Version History

<table>
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<th>Date</th>
<th>Revised By</th>
<th>Reason for Change</th>
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<td>08/23/2012</td>
<td>Emma Sebastian</td>
<td>Initial draft.</td>
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<td>1.1</td>
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<td>Revisions for clarity, Added Unit test portion.</td>
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<td>1.2</td>
<td>09/18/2012</td>
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<td>Removed references to parameter 203 (prev year’s medicare rate). The employee deduction rate will always take current rate. Removed unedited sections.</td>
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<td>1.4</td>
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<td>Change to reflect BRD change: new rate will be applied only to earnings subject to Medicare in excess of $200K.</td>
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<td>1.5</td>
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<td>Corrected PPP4106 computation formula for employer contribution (should be PAR Medicare Gross * .0145)</td>
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<td>1.6</td>
<td>11/5/2012</td>
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1 Introduction

Under the Patient Protection and Affordable Care Act (PPACA) the employee Medicare tax rate will increase by 0.9%, from 1.45% to 2.35%, on wages paid over $200,000.00 effective for tax years beginning after December 31, 2012. The increase in tax applies only to the employee portion of the Medicare tax. The employer portion will remain at 1.45%.

Effective January 1, 2013, the statute requires an employer to withhold an additional Medicare tax on wages in excess of $200,000.00 paid to an employee in a calendar year regardless of whether the employee will actually reach the applicable threshold.

The additional Medicare tax must be withheld by the employer on wages in excess of $200,000.00 paid to the employee. The additional tax cannot be withheld in anticipation of the employee’s wages exceeding the threshold.

1.1.1 Service Request 83719

Service Request 83710 requests that PPS processes be revised to support the above ruling. It necessitates that the computation for Medicare tax in PPS be revised to increase the employee rate of the Medicare tax by 0.9% from 1.45% to 2.35% on wages received in excess of $200,000.00 per tax year beginning January 1, 2013.

The additional tax must be withheld beginning in the pay period Medicare taxable wages exceed $200,000.00.

Note that the employer rate of the tax will remain at 1.45%.

2 Background

Currently, the Medicare tax rate for employee deduction is 1.45%. This is saved in the Systems Parameter Table as parameter 11. The current Medicare tax rate for employer contribution is 1.45% saved as parameter 12.

Current PPS processing is flat taxation for Medicare (i.e., all earnings subject to Medicare tax are taxed at a fixed rate).

3 Overview of System Modifications

3.1.1 Compute Process

The PPS Compute process needs to be revised to allow for additional Medicare tax for high earners, beginning January 2013.

This can be implemented by introducing a new system parameter in the System Parameter Table to hold the Medicare tax rate for high earners.

Only one entry will be added despite the fact that current rates have 2: one for previous (year’s) rate and one for current (year’s) rate.

Parameter 13 (Medicare deduction previous (year’s) rate) is not used for computation purposes in the Compute process. Rather, it is being used in expense distribution processing to derive the actual earnings taxed by Medicare.
Accordingly, the compute process will be modified to use the new rates once the threshold earnings amount of $200,000 is reached in the pay cycle.

3.1.2 Expense Distribution

Expense distribution, which computes and processes Medicare employer contribution, also needs to be modified. Unfortunately, it uses the Medicare deduction rate (the employee rate) in a computation.

The expense distribution process will be modified to eliminate the use of Medicare deduction rate in derivations and use the employer contribution rate instead.

3.1.3 Reporting

Report PPP4106, EDB Balance Control, is currently being used by campuses to determine the aggregate Medicare tax that needs to be remitted. Currently the campuses do this by doubling the employees’ Medicare deduction balance (since the employer and employee rates are the same).

With the modified Medicare taxation structure for employee deductions, this practice will not hold accurate anymore. The report will be modified to provide campuses the amount of employer Medicare contribution for the pay cycle.

4 Design Considerations

4.1 Assumptions and Dependencies

- The additional Medicare tax for earnings over $200,000 will not have to be tracked separately.
- No hard-coded “1.45%” for Medicare deduction is used anywhere in PPS.
- Current methods of accessing system parameter values in compute and expense distribution will be utilized for the new parameters to be introduced by this Service Request.
- Calculations of gross income subject to Medicare remain the same.
- Imputed Income processing will remain the same.

5 Testing Considerations

(1) Compute processing for those whose YTD earnings subject to Medicare is below or equal the threshold of $200,000 should remain the same. Consider running unrevised compute versus revised compute for this population. Results should be the same.
6 Mainframe Design

6.1 Compute

6.1.1 Cobol Programs

6.1.1.1 PPFICA (Requirement R0002, R0003)

PPFICA calculates the employee’s FICA (OASDI and Medicare) deductions. It is part of the Net Pay Calculation routine. It is called from PPNETCLC, the module that calculates net pay.

PPFICA will be modified to change the way Medicare deduction is computed. Currently using flat rate Medicare taxation, the code will be changed to add a new processing for those whose current YTD earnings subject to Medicare cross the set threshold of $200,000. The entire payment in which the Medicare taxable wages exceed the $200,000.00 threshold will be taxed at 2.35%.

WORKING-STORAGE

Define new fields:

- WS-MEDICR-THRESHOLD-AMT or a variable to contain the Medicare Threshold Amount (current value $200,000)
- WS-MEDICR-RATE-OVER-THRESHOLD or a variable to contain the Medicare Rate for Medicare Gross over $200K (value to be retrieved from CTL table).
- WS-YTD-MEDICR-GRS-OVER-THRESHOLD or a variable to contain the amount in excess of the threshold amount, currently $200,000.

PROCEDURE DIVISION

After existing code to compute Medicare deduction to take (XFIC-MED-DED-TO-TAKE), check if the YTD Medicare Gross > WS-MEDICR-THRESHOLD-AMT

If yes, do the following

- retrieve value for WS-MEDICR-RATE-OVER-THRESHOLD using PPPRMUT2 (see PPP430 as an example)
  
  Use Current Year rate (parameter 204)
  
  Save retrieved rate as WS-MEDICR-RATE-OVER-THRESHOLD.

Programmer(s) should feel free to customize the field names to their liking. Field names mentioned are for ease of writing the technical specification.
Compute WS-YTD-MEDICR-GRS-OVER-THRESHOLD as the difference between YTD Medicare Gross and WS-MEDICR-THRESHOLD-AMT (currently = $200,000).

re-compute Medicare deduction to take as:

\[
XFIC-MED-DED-TO-TAKE \text{ rounded} = (WS-MEDICR-THRESHOLD-AMT \times \text{Employee Medicare rate}) + (\text{Current YTD Medicare gross over Threshold} \times \text{Employee Med Rate over 200K})
\]

The self correcting feature for Medicare deductions will stay the same as:

\[
XFIC-MED-DED-TO-TAKE = XFIC-MED-DED-TO-TAKE - XFIC-YTD-MED-DED
\]

Illustrations:

(A) \(<= \$200K\)
- Earnings subject to Medicare for pay period: \$18,000
- Current YTD earnings subject to Medicare: \$180,000
- Current YTD Med Deductions Taken: \$2,610

\[
XFIC-MED-DED-TO-TAKE \text{ rounded} = (\$198,000 \times 1.45\%)
\]

Self-correcting:

\[
XFIC-MED-DED-TO-TAKE = \$2871 - \$2,610 = \$261
\]

(B) \(> \$200K\)
- Earnings subject to Medicare for pay period: \$21,000
- Current YTD earnings subject to Medicare: \$180,000
- Current YTD Med Deductions Taken: \$2,610

\[
XFIC-MED-DED-TO-TAKE \text{ rounded} = (\$200,000 \times 1.45\%) + (\$1,000 \times 2.35\%)
\]

Self-correcting:

\[
XFIC-MED-DED-TO-TAKE = \$2923.5 - \$2,610 = \$313.5
\]

6.1.2 Control Table Updates

6.1.2.1 CTL Database

UPAY forms are included with the requirements document and will contain detailed CTL update transactions. These will be keyed by the programmer and applied to the CTL database by running program PPP004.

6.1.2.1.1 System Parameter Table (Requirement R0001)

Add new parameter 204 as specified in the Attachments.
6.2 Expense Distribution

6.2.1 Cobol Programs

6.2.1.1 PPP520 (Requirement R0005)

PPP520 is the expense distribution program, which calculates the amounts that are to be distributed to different accounts.

Theoretically, since only the Medicare employer contribution (not changing, stays at 1.45%) is being computed here, this should not be changed. However, there is a derivation in PPP520 that uses the Medicare Deduction rate and this should be resolved.

**WORKING-STORAGE**

Define new field²:

- WS-MEDICR-RATE-OVER-THRESHOLD or a variable to contain the Medicare Rate for Medicare Gross over $200K (value to be retrieved from CTL table).

**PROCEDURE DIVISION**

The expense distribution’s current method of computing Medicare employer contribution uses the following formula:

\[
\text{COMPUTE WS-MEDICR-AMT ROUNDED} = \left(\frac{\text{TOTAL-MEDICR-DEDCTN} \times \text{MEDICR-CONTRB-RATE}}{\text{MEDICR-DEDCTN-RATE}}\right)
\]

This formula will not hold accurate anymore with the new Medicare tiered taxation.

In the above formula, the MEDICR-CONTRB-RATE is multiplied by the gross amount subject to Medicare (TOTAL-MEDICR-DEDUCTN / MEDICR-DEDCTN-RATE = gross subject to Medicare).

We will eliminate the use of the Medicare Deduction Rate in the formula, hence:

\[
\text{COMPUTE WS-MEDICR-AMT ROUNDED} = \frac{\text{ XPAR-MEDICR-GROSS} \times \text{MEDICR-CONTRB-RATE}}{}
\]

** XPAR-MEDICR-GROSS** = Total of all earnings distribution amounts that were used to determine employee contributions to Medicare.

6.3 Reports

6.3.1 Cobol Programs

6.3.1.1 PPP410 (Requirement R0004)

PPP410 updates the EDB with the new balances generated by the compute process.

**PROCEDURE DIVISION**

² Programmer(s) should feel free to customize the field names to their liking. Field names mentioned are for ease of writing the technical specification.
7 Unit Testing Requirements

Recommendation to use base data that is mid-year to find employees with YTD Medicare gross nearing $200,000.

7.1 Compute

- Check employees whose YTD gross subject to Medicare will not reach $200,000 for the cycle. The Medicare deduction should stay the same at approx 1.45% (subject to rounding variance).
- Check employees whose YTD gross subject to Medicare will reach $200,000 (even if it is by just $.01) for the cycle. The Medicare deduction should be computed as the sum of
  - $200K * 1.45%
  - (YTD-Gross-Subject to Medicare - $200K) * 2.35%
  - (- YTD Medicare deductions taken, XFIC-YTD-MED-DED)

7.2 Expense Distribution

- Check that the resulting Medicare contribution amount approximates to 1.45% (subject to rounding variance).

7.3 Report PPP4106

- Check that the report layout matches the sample and that the employer Medicare contribution is = PAR Medicare Gross * 1.45%.
## 8 Attachments:

### 8.1 System Parameter Table

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*Shown Medicare deduction balances may reflect increased Medicare rates on wages received in excess of $200,000.00 per tax year. Medicare employer contribution portion for this cycle is $3806.22.*