

Important Tax Update – Please Read Immediately

Sharonville Qualifying Wages for Withholding

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

Medicare Wages (Box 5)

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 in Box 5 of the Form W-2.

- **Medicare Exempt Employees** - are subject to the requirements for “qualifying wages” in Box 5 of the Form W-2 even though that box will remain blank.
- **Cafeteria Plans** – IRC Section 125 wages are not included in the definition of Medicare wages and do not need to be deducted from Box 5.
- **401(k), 457 and Supplemental Unemployment Compensation Benefits** - These items should all be included in Box 5 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: *A written explanation will be required from the employer if Box 5 is not the largest wage figure on the W-2 form.*