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MMARS Policy: Payroll

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Mandatory and Voluntary Deductions: Medicare Tax

Executive Summary

Medicare Tax:

- Is administered by the Social Security Administration (SSA) and the Internal Revenue Service (IRS);
- Is a mandatory deduction for Commonwealth employees hired after March 31, 1986; and
- Is deducted in every bi-weekly pay period.
- Check the Social Security Number. Make sure the name matches Social Security Administration records. Correct names and social security numbers (SSN) on W-2 wage reports are the keys to successful processing of the Commonwealth's annual wage report submission. Not only can the Commonwealth be subject to penalties when employee names and SSNs do not match Social Security Administration records, but also unmatched wage reports can cause earnings that are not posted to your employees' records. To verify the name and SSN match, call the SSA toll-free number for employers - 1-800-772-6270 provide Social Security Number, Date of Birth and Gender. The Commonwealth EIN is 04-6002284. Double check to make sure you have entered the SSN correctly into the payroll system.
- The first \$2,000 of combined Retirement and Medicare Withholdings are pre-tax for State Withholdings.

Considerations

This policy applies to all Commonwealth Branches and Departments.

Policy

Social Security

Employees of the Commonwealth are not subject to Social Security tax in accordance with a Section 218 agreement entered into by the Commonwealth and the U.S. Secretary of Health and Human Services in 1952.

Medicare

Departments are responsible for determining and/or verifying the Medicare tax status of each of their employees, and entering that status correctly in HR/CMS. This requires confirming whether an employee has a concurrent job and ensuring that both jobs have the same/correct Medicare status in HR/CMS.

Employees of the Commonwealth may be subject to the Medicare tax for hospital insurance coverage. The Consolidated Omnibus Budget and Reconciliation Act (COBRA), which became law in April 1986,

provides that governmental employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the FICA tax. The governmental employer is, in turn, required to match the amount of the employee's contribution. Each Department is assessed the cost of the employer paid portion of Medicare tax applicable to their employees. Certain services are excluded from the Medicare tax. These exclusions pertain regardless of the date the employee was hired. The following employees or services are not subject to Medicare tax:

- Individuals hired to relieve unemployment;
- Patients or inmates working in hospitals, homes or other institutions;
- Services performed in a local college club, fraternity or sorority by students enrolled and attending classes at such school;
- Services performed in a local school, college or university by students enrolled and attending classes at such school;
- Services performed as a student nurse in the employ of a hospital or a nurse's training school by an individual who is enrolled and is regularly attending classes in a nurse's training school chartered or approved pursuant to state law;
- Services performed by a duly ordained, commissioned or licensed minister of a church in the exercise of his/her ministry;
- Temporary workers hired for fire, snow, flood or similar emergencies; and
- Election officials or workers receiving less than \$100 in a calendar year for such services.

Exemptions for Continuing Employment

(Otherwise known as "Break In Service")

If an employee is not covered by one of the Medicare exclusions listed above, it must be determined whether the exemption for continuing employment applies. This determination is made as follows: An employee hired before April 1, 1986 by a Commonwealth employer, who transfers after March 31, 1986 to another Commonwealth employer, is exempt from the Medicare tax provided that there was continuous uninterrupted employment with the Commonwealth (IRS Revenue Ruling 86-88). An interruption shall include a break in service of one business day or more.

The question of whether an employment relationship has been interrupted is a question of fact that must be determined on the basis of all relevant facts and circumstances. Two examples of no interruption of the employee's employment relationship are:

1. Employee transfers from a Commonwealth employer to another Commonwealth employer, both of which use the same Employer Identification Number (EIN) for the purposes of withholding, paying and reporting the federal income taxes of employees. Employees with a job action of "Transfer" automatically have their Medicare tax status value carried forward from their previous Commonwealth job record. If the transfer is treated as a "Hire" or "Rehire" in HR/CMS, the Medicare tax status information would **not** be carried forward from his/her previous Commonwealth job record. The new Department is responsible for determining the Medicare tax status for the new employee with the former Department.
2. Employee hired before April 1, 1986 into a Commonwealth Department. Employee starts a part time job after April 1, 1986 with another Commonwealth employer, who uses the same Employer Identification number for tax reporting as the original Department. The employee works both jobs concurrently (primary and secondary). This type of employment is most common in higher education departments.

An employee does NOT qualify for the Medicare tax exemption if:

- It is the employee's first job with the Commonwealth; they are subject to Medicare tax. Employees with a job action of "Hire" or "Rehire" automatically have their Medicare tax status value default to Medicare only ("M").
- The employee transfers from any other political subdivision employer (local municipal, county, authority, federal or another state) to the employ of the Commonwealth after March 31, 1986.
- The employee transfers from a Commonwealth employer to any other political subdivision employer (local, municipal, county, authority, federal or another state) after March 31, 1986.
- The employee is rehired after retirement.

Only Commonwealth employees, hired before April 1, 1986, who transfer from one Department to another Department, without an interruption in the employment relationship with the Commonwealth, may continue to be exempted from Medicare tax deductions.

Refunding of Medicare Tax

If a Department determines that an employee is owed a current or prior year Medicare tax refund, the Department is required to submit a completed "Medicare Tax Refund Request" form, with the appropriate attachments, to the Office of the Comptroller for each tax year affected. Medicare tax refunds can only be processed for the current tax year, and the three consecutive prior tax years.

The "Medicare Tax Refund Request" form can be found on the Comptroller's website:

<http://www.mass.gov/osc/docs/forms/payroll-lcm/medicarererefund-frm.pdf>

Chargebacks

In order for the Office of the Treasurer to fulfill its obligation to match the amount of the employee's Medicare Tax contribution on behalf of Commonwealth employees, the Office of the Comptroller processes a monthly chargeback for each state Department at a rate published each year by the Office of the Comptroller (See [Fiscal Year Memo](#) for current rate amount). The allocation of money received by this chargeback is then transferred to the Treasurer's Medicare Tax account. The Treasurer's office then uses this account to pay the employer's portion of the Medicare tax contributions due on behalf of all employees to the Social Security Administration.

Internal Controls

See [Best Practices For Payroll](#).

Information Sources

Related Procedure - None

- Legal Authority
 - 26 USC §3121 (FICA)
 - IRC Section 3121(b)(10)(A)
 - Consolidated Omnibus and Reconciliation Act of 1986 (COBRA), Section 13205
 - IRS Revenue Ruling 86-88
 - Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
 - IRS Publication 963 Federal-State Reference Guide Social Security Coverage and FICA Reporting by State and Local Government Employers
- Attachments – [Guidelines for Determining Medicare Tax Status](#)
- Links - None
- Contacts – CTR Help Desk 617-973-2468
- [Comptroller Web Portal Homepage](#)

Revisions

October 17, 2008 - Updated chargeback.

April 7, 2007 – Clarified retirement as an action that creates a break in service.

November 1, 2006 – Removed language referencing Knowledge Center and updated relevant links to mass.gov/osc portal site.