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SEP 30 1986

MEMORANDUM 1986-32

TO: Heads of Departments and Agencies

ATTENTION: Payroll/Personnel Offices

FROM: Hideo Murakami, Comptroller

SUBJECT: Medicare Withholding Tax

Earlier in 1986, we were informed that the compensation of State government (as well as local government) employees hired after March 31, 1986 is subject to the hospital insurance portion (that is, the Medicare portion) of social security tax. This new tax requirement was included in the Consolidated Omnibus Budget Reconciliation Act passed by the U.S. Congress and enacted by the President.

This new tax requirement does not affect State government employees who are already subject to social security tax. The Department of Personnel Services has issued a memorandum dated September 25, 1986 to all departmental personnel officers, instructing them on identifying those employees who did become subject to the new tax requirement.

Our department is beginning withholding of the Medicare tax in the October 15, 1986 payroll. Because preparation for the withholding could not be completed earlier, a retroactive deduction is also being prepared for a later payroll; that retroactive deduction should cover any Medicare tax that should have been deducted from State government employees beginning with the April 15, 1986 payroll and ending with the September 30, 1986 payroll. It is also anticipated that similar cash recoveries will need to be made for any Medicare tax due from former State government employees for that retroactive period.

The current rate of the Medicare tax is 1.45%. Deductions from employees' compensation must be matched by the State of Hawaii as employer, in the same manner social security tax is matched by the employer. The maximum amount of gross wages subject to the Medicare tax is $42,000.00 per year; therefore, the maximum amount of Medicare tax per year is $609.00 for the employee's portion. The same maximum amount applies to the employer's portion.

It is important that deductions be implemented as accurately as possible, as adustments and collection of underpayments will create difficulties for employing departments. A verification list (entitled "Active Employees Affected by Medicare") is currently under review by employing departments. Sufficient care should be taken in the verification process to assure that the correct classification coding will be made for each employee, according to the instructions from the Department of Personnel Services as referred to earlier.

The completed verification list is to be forwarded by your personnel office to your payroll office for updating of the October 15, 1986 payroll change schedules. After the verification process is complete, the 3 copies of the verification listing are to be distributed as follows:

Original copy to be sent to Central Payroll by October 6, 1986, no later than 12:00 noon.

2 copies to be retained by the employing department.

Further information on the retroactive deduction will be given to payroll offices as planning for it is completed. Payroll offices may contact Central Payroll for any other information that may be needed currently.

HIDEO MURAKAMI
Comptroller