

Important Tax Update – Please Read Immediately

City of Lancaster Qualifying Wages for 2004 Withholding

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

Medicare Wages

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 Box** of the Form W-2.

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

City of Lancaster Income Tax Office
PO Box 128, Lancaster, OH 43130

Questions: Contact us at (740) 687-6606 or E-mail to taxrequest@ci.lancaster.oh.us