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# Program Memorandum Intermediaries/Carriers

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Department of Health &  
Human Services (DHHS)  
Centers for Medicare &  
Medicaid Services (CMS)

Transmittal AB-02-012

Date: FEBRUARY 1, 2002

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## CHANGE REQUEST 1832

**SUBJECT: Revised Backup Withholding Tax Rate**

Effective August 7, 2001, the United States Department of the Treasury has changed the backup withholding tax rate from 31 percent to 30 percent. This one percent reduction is due in part to the income tax withholding adjustments mandated by the Economic Growth and Tax Relief Reconciliation Act of 2001.

The Internal Revenue Service (IRS) has stated that the new 30 percent backup withholding rate is effective for payments made after August 6, 2001 (or as soon as possible thereafter).

Medicare contractors must withhold Federal income tax from the payments made on behalf of the Medicare program, if at the time of payment:

- You do not have a Taxpayer Identification Number (TIN) for your payee.
- You do not have your payee's certification under penalty of perjury that the TIN he or she has furnished is the correct TIN (interest, dividend, broker and barter exchange payments only; exception for window transactions).
- You do not have your payee's certification under penalty or perjury that he or she is not subject to backup withholding (interest and dividend payments only; exception for window transactions).
- You have been notified by the IRS that the TIN furnished by your payee is not correct ("B-Notice backup withholding") and after following the procedures in Internal Revenue Code §31.34006(d)-5 and Rev. Proc. 83-97 you haven't received the required new information from the payee.
- You have been notified by the IRS that your payee is subject to backup withholding due to previous underreporting of income ("C-Notice Backup Withholding," interest and dividend payments only).

In addition, due to the changing nature of tax rates, Medicare contractor systems must be able to accommodate tax rate percentages up to four decimal places (e.g., 30.25 percent).

**The effective date for this Program Memorandum (PM) is February 1, 2002.**

**The immediate rate change to 30 percent will be implemented on February 1, 2002, however, for users of the HPBSS; this date will be April 1, 2002. The systems changes to carry the rate to 4 decimal points will be implemented on July 1, 2002.**

**These instructions should be implemented within your current operating budget.**

**This PM may be discarded after August 13, 2002.**

**If you have any questions, contact Maria Montilla on (410) 786-7109.**

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