FICA TAX

The Social Security and Medicare benefit programs are financed by taxes paid by employers and employees under the Federal Insurance Contributions Act (FICA), and by self employed individuals through the self employment tax.

FICA taxes are levied on both the employer and the employee. The employer is responsible for the employer's share of FICA taxes, and also is required to collect and pay the employee's part of the tax, which is withheld from the employee's pay in much the same way as income tax is withheld. Self employed individuals compute their self employment tax on Internal Revenue Service Schedule SE of Form 1040.

The FICA tax rate for 2012 (combining the rates for Social Security and Medicare) is 7.65 percent of the first $110,000 in wages paid the employee plus an additional 1.45 percent of wages paid over $110,000 since there is no ceiling on taxable wages for the Medicare tax.

For 2012 the self employment tax rate (combining the rates for Social Security and Medicare) is 15.3 percent of earnings between $400 and $110,000 with an additional rate of 2.9 percent for earnings over $97,500, without a taxable maximum. A self employed individual may deduct one half of the self employment tax in computing adjusted gross income for income tax purposes.

Special rules apply to tipped employees, and to persons who receive both wages and self employment income. Special rules also apply to payments in kind made by employers, such as the furnishing of meals, lodging, clothing or services to employees.

It should be noted that the FICA rates and wage base limitations are subject to change by congressional action. Typically wage base limitations change each year. It is therefore wise to consult the IRS for the correct rate at the time of withholding or payment.

The following IRS publications can provide additional information on FICA contributions, withholding and self employment taxes: Publication 15, *Employer's Tax Guide (Circular E);* and *Publication 15-A, Employer's Supplemental Tax Guide.* To obtain these publications contact the Internal Revenue Service at the address and telephone number provided in the Resource Directory section of the Small Business Assistance Office publication, *A Guide To Starting A Business In Minnesota,* or visit their website at www.irs.gov.