

**From the desk of
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Social Security Taxes increase for 2017

The maximum amount of wages in 2017 subject to the 6.2% Social Security tax (old age, survivor, and disability insurance) as of January 1, 2017 is now \$127,200, up from \$118,500 in 2016, an increase of more than 7%.

This will be the first increase in the Social Security Payroll taxes in two years.

The maximum amount of Social Security tax a taxpayer could pay will increase from \$7,347 in 2016 to \$7,886.40 in 2017, an increase of \$539.40.

There is no limit on the amount of wages subject to the other portion of the FICA tax, the 1.45% Medicare tax.

The Federal Insurance Contributions Act (FICA) imposes two taxes on employers, employees, and self-employed workers, one for Old Age, Survivors and Disability Insurance (OASDI; commonly known as the Social Security tax), and the other for Hospital Insurance (HI; commonly known as the Medicare tax).

Impact for Employees

For 2017, the FICA tax rate for employers is 7.65% which is comprised of 6.2% for OASDI and 1.45% for HI.

For 2017 an employee will pay:

- 6.2% Social Security tax on the first \$127,200 of wages (maximum tax is \$7,886.40 [6.2% of \$127,200]), plus
- 1.45% Medicare tax on the first \$200,000 of wages (\$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return), plus
- 2.35% Medicare tax (regular 1.45% Medicare tax + 0.9% additional Medicare tax) on all wages in excess of \$200,000 (\$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return).
- For an employee with a salary of \$127,200 (or more), an employee and his employer each will pay \$7,886.40 in Social Security tax in 2017.

Impact for the Self-Employed

- For 2017, the self-employment tax imposed on self-employed people is:
- 12.4% OASDI on the first \$127,200 of self-employment income, for a maximum tax of \$15,772.80 (12.40% of \$127,200); plus
- 2.90% Medicare tax on the first \$200,000 of self-employment income (\$250,000 of combined self-employment income on a joint return, \$125,000 on a separate return), (Code Sec. 1401(a), Code Sec. 1401(b)), plus
- 3.8% (2.90% regular Medicare tax + 0.9% additional Medicare tax) on all self-employment income in excess of \$200,000 (\$250,000 of combined self-employment income on a joint return, \$125,000 for married taxpayers filing a separate return). (Code Sec. 1401(b)(2))

There is a maximum amount of compensation subject to the OASDI tax, but no maximum for HI.

For a self-employed person with at least \$127,200 in net self-employment earnings will pay \$15,772.80 in Social Security tax.

Self-employed individuals are allowed to deduct half of their self-employment tax above-the-line in arriving at adjusted gross income.

Despite the political rhetoric and scare tactics of the politicians including both of the highly misinformed candidates running for president, the Social Security fund will not go unfunded.

The Social Security Administration adjusts as necessary the payroll taxes to be collected so as to keep benefits paid.

In other words, don't listen to your politicians, they either are misinformed which is bad enough, or they are misinforming you.

Both scenarios are most likely.

Our emphasis at Muffoletto & Company is to provide you the proper guidance and understanding of the system so that you avoid taxes to the extent that the law allows.

Should you have questions relating to these matters, tax, financial, and accounting issues, give us a call at (818) 346-2160.

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