

## SOCIAL SECURITY WAGE BASE INCREASES TO \$113,700 FOR 2013

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The Social Security Administration has announced that the wage base for computing the Social Security tax (OASDI) in 2013 increases to \$113,700 from \$110,100, which was the wage base for 2012. The \$3,600 increase, which is about 3.27%, is due to an increase in average total wages.

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).

For 2013, the FICA tax rate for employers is 7.65% each—6.2% for OASDI and 1.45% for HI. For 2013, an employee pays:

1. 6.2% Social Security tax on the first \$113,700 of wages (maximum tax is \$7,049.40 [6.20% of \$113,700]), plus
2. 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
3. 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). (Code Sec. 3101(b)(2))

For 2012, the OASDI rate for employees is 4.2%; the OASDI rate for employers is 6.2% and the HI rate for both employers and employees is 1.45%.

For 2013, the self-employment tax imposed on self-employed people is:

- 12.4% OASDI on the first \$113,700 of self-employment income, for a maximum tax of \$14,098.80 (12.40% of \$113,700); 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))

For 2012, the self-employment tax rate is 13.3%: 10.4% for OASDI, reflecting the two percentage point drop in the OASDI rate for employees, plus 2.9% for HI.

**Observation:** While many tax issues remain in dispute between the political parties, there seems to be a consensus that the two percentage point drop in the OASDI rate for

employees and the equivalent reduction for self-employed persons will not be continued for 2013.

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

**Illustration :** On a salary of \$113,700 (or more), an employee and his employer each will pay \$7,049.40 in Social Security tax in 2013. For 2012, an employer pays \$6,826.20 on a salary of \$110,100 (or more) but an employee pays only \$4,624.20.

**Illustration :** A self-employed person with at least \$113,700 in net self-employment earnings will pay \$14,098.80 for the Social Security part of the self-employment tax in 2013. For 2012, a self-employed person with at least \$110,100 of net self-employment earnings pays only \$11,450.40 for the Social Security part of the self-employment tax.

**Observation:** Self-employed workers deduct half of their self-employment tax above-the-line in arriving at adjusted gross income.