

Social Security wage base increases for 2012

Social Security News Release, 10/19/2011

The Social Security Administration has announced that the wage base for computing the Social Security tax (OASDI) in 2012 increases to \$110,100 from \$106,800, which was the wage base for 2009 through 2011. The \$3,300 increase, which is about 3%, 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).

The FICA tax rate for employees and employers normally is 7.65% each—6.2% for OASDI and 1.45% for HI. However, for 2011, the OASDI rate for employees is 4.2%.

For self-employed workers, the FICA tax normally is 15.3%—12.4% for OASDI and 2.9% for HI. However, for 2011, 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.

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

Illustration: On a salary of \$110,100 (or more), an employee and his employer each will pay \$6,826.20 in Social Security tax in 2012. For 2011, an employer pays \$6,621.60 on a salary of \$106,800 (or more) but an employee pays only \$4,485.60.

Illustration: A self-employed person with at least \$110,100 in net self-employment earnings will pay \$13,652.40 for the Social Security part of the self-employment tax in 2012. For 2011, a self-employed person with at least \$106,800 of net self-employment earnings pays only \$11,107.20 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.

Observation: In an effort to stimulate the economy, the Administration has called for reductions in both the employer and employee Social Security tax rate for 2012.

The FICA tax rates have remained unchanged since '90.

The Social Security press release can be viewed at <http://www.ssa.gov/pressoffice/pr/2012cola-pr.html>.