



## **Federal Insurance Contributions Act (FICA) – Social Security and Medicare Taxes**

### **Overview**

Social Security is largely a "pay-as-you-go" system with today's taxpayers paying for the benefits of today's retirees.

Social Security payroll taxes are collected under the authority of the Federal Insurance Contributions Act (FICA). As a result, the related payroll taxes are sometimes called "FICA taxes."

In the original 1935 law, the benefit provisions were provided under Title II of the Social Security Act. This is why Social Security is sometimes called the "Title II" program. The taxing provisions were under a separate title, Title VIII. As part of the 1939 Amendments, the Title VIII taxing provisions were taken out of the Social Security Act and placed under the Internal Revenue Code. Since it didn't make any sense to call this new section of the Internal Revenue Code "Title VIII," it was renamed the "Federal Insurance Contributions Act." The payroll taxes collected for Social Security are of course taxes, but they can also be described as contributions to the social insurance system that is Social Security. Hence, the name "Federal Insurance Contributions Act." So, FICA is nothing more than the tax provisions of the Social Security Act, as they appear in the Internal Revenue Code.

The Federal Insurance Contributions Act (FICA) provides for a federal system of old-age, survivors, disability, and hospital insurance. The old-age, survivors, and disability insurance (OASDI) part is financed by the social security tax. The hospital insurance (HI) part is financed by the Medicare tax.

### **Background**

The state of the economy during the great depression led to passage of the Social Security Act in 1935. This law provided payments known as "unemployment compensation" to workers who lost their jobs. Other sections of the Act gave public aid to the aged, the needy, the handicapped, and to certain minors. These programs were financed by a 2 percent tax, one half of which was subtracted directly from an employee's paycheck and one half collected from employers on the employee's behalf. The tax was levied on the first \$3,000 of the employee's salary or wage.

The Social Security system remained essentially unchanged from its enactment until 1956. However, beginning in 1956 Social Security began an almost steady evolution as more and more benefits were added, beginning with the addition of Disability Insurance benefits. In 1958, benefits were extended to dependents of disabled workers. In 1967, disability benefits were extended to widows and widowers. The 1972 amendments provided for automatic cost-of-living benefits.

In 1965, Congress enacted the Medicare program, providing for the medical needs of persons aged 65 or older, regardless of income. The 1965 Social Security Amendments also created the Medicaid programs, which provide medical assistance for persons with low incomes and resources.

The benefit expansions Congress enacted in previous years led the Social Security program to an acute funding crisis in the early 1980s. Eventually, Congress legislated some minor programmatic changes in Social Security benefits, along with an increase in the total payroll tax rate to 15.3 percent by 1990.

### **Tax Calculation, Rates and Annual Wage Maximum**

Social security and Medicare taxes are determined by multiplying taxable wages by the applicable tax rate. There are no withholding allowance deductions for social security and Medicare taxes.

The employee Social Security Old Age, Survivors, and Disability Insurance (OASDI) tax is 6.20 percent of earnings up to the applicable maximum taxable wage amount. The employer tax rate for social security is also 6.2 percent, for a total of 12.4 percent.

The employee tax rate for Medicare is 1.45 percent. The employer tax rate for Medicare tax is also 1.45 percent, for a total of 2.9 percent. There is no wage base limit for Medicare tax. All covered wages are subject to Medicare tax.

The FICA tax rates, which are set by law, haven't changed since 1990.

The 2005 social security wage base limit is \$90,000. For 2006, the social security wage base limit is \$94,200. The wage base limit is the maximum wage that is subject to the tax for the year.

For 2006, the tax rates, as well as the maximum wage and tax figures, are as follows:

Description	Social Security (OASDI)			Medicare Health Insurance		
	Wage Limit	Tax Rate	Maximum Tax	Wage Limit	Tax Rate	Maximum Tax
Employer	\$94,200	6.20%	\$ 5,840.40	(Unlimited)	1.45%	(Unlimited)
Employee	\$94,200	6.20%	\$ 5,840.40	(Unlimited)	1.45%	(Unlimited)
Total		12.40%	\$11,680.80		2.90%	

**Note:** Employers who fail to withhold the employee social security or Medicare tax will be liable for the uncollected tax.

### Subject Wages

Employers are required to withhold social security and Medicare taxes from their employees' wages. Generally, employee wages are subject to social security and Medicare taxes regardless of the employee's age or whether he or she is receiving social security benefits. However, certain types of wages and compensation are not subject to social security taxes.

### Successor Employer

If you received all or most of the property used in the trade or business of another employer, or a unit of that employer's trade or business, you may include the wages that the other employer paid to your acquired employees before the transfer of property when you figure the annual wage base limit for social security. You should determine whether or not you should file Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations, by reviewing the Instructions for Schedule D (Form 941). See Regulations section 31.3121 (a) (1)-1 (b) for more information. Also see Rev. Proc. 2004-53 for more information. You can find Rev. Proc. 2004-53 on page 320 of Internal Revenue Bulletin 2004-34 at [www.irs.gov/pub/irs-irbs/irb04-34.pdf](http://www.irs.gov/pub/irs-irbs/irb04-34.pdf).

For example, early in 2006, you bought all of the assets of a plumbing business from Mr. Martin. Mr. Brown, who had been employed by Mr. Martin and received \$2,000 in wages before the date of purchase, continued to work for you. The wages that you paid to Mr. Brown are subject to social security taxes on the first \$92,200 (\$94,200 maximum for 2006 minus \$2,000). Medicare tax is due on all of the wages that you pay him during the calendar year.

### Withholding of Social Security and Medicare Taxes on Nonresident Aliens

In general, if you pay wages to non-resident alien employees, you must withhold federal social security and Medicare taxes as you would for a U.S. citizen. However, see IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, for exceptions to this general rule.

### International Social Security Agreements

The United States has social security agreements with many countries that eliminate dual taxation and dual coverage. Compensation subject to social security and Medicare taxes may be exempt under one of these agreements. You can get more information and a list of agreement countries from SSA at [www.socialsecurity.gov/international](http://www.socialsecurity.gov/international) or see section 7 of IRS Publication 15-A, Employer's Supplemental Tax Guide.

### Religious Exemption

An exemption from social security and Medicare taxes is available to members of a recognized religious sect opposed to insurance. This exemption is available only if both the employee and the employer are members of the sect.

For more information, see IRS Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

**Part-Time Workers**

For federal income tax withholding and social security, Medicare, and federal unemployment (FUTA) tax purposes, there are no differences among full-time employees, part-time employees, and employees hired for short periods. It does not matter whether the worker has another job or has the maximum amount of social security tax withheld by another employer. Income tax withholding may be figured the same way as for full-time workers. Or it may be figured by the part-year employment method explained in section 9 of IRS Publication 15-A.

**Reporting**

FICA taxable wages and related taxes are reported quarterly on IRS Form 941. Generally, employers must file by January 31 of the year following the year for which the report is applicable.

The same wages and taxes are reported annually on IRS Form W-2. Employee copies must be furnished by January 31 of the subsequent year. Copies must be filed with the Social Security Administration by the last day of the second month following the end of the year. Employers who file electronically are given additional time to file.

**Depositing FICA Taxes**

Employers who choose not to enroll in the Electronic Federal Tax Payment System (EFTPS) and are not required to use EFTPS must use Form 8109, Federal Tax Deposit Coupon to make each tax deposit. Employers who are required or choose to file using EFTPS will receive instructions from the IRS on how to use the system.

If any deposit due date falls on a Saturday, Sunday, or legal holiday, employers may make their deposits on the next business day.