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Income Subject to FICA Payroll Tax Increases in 2015

Earnings up to \$118,500 hit by Social Security FICA tax; revise payroll systems by Jan. 1

By Stephen Miller, CEBS 10/23/2014

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High-earning employees will find more of their salary subject to Social Security payroll taxes starting on Jan. 1, 2015.

Based on the increase in average wages, the maximum amount of earnings subject to the Social Security tax (the “taxable maximum”) will **increase to \$118,500** from \$117,000 for 2015, the Social Security Administration (SSA) announced (<http://www.ssa.gov/news/#%21/post/10-2014-2>) on Oct. 22. Of the estimated 168 million workers who will pay Social Security taxes in 2015, about 10 million will pay higher taxes because of the increase in the taxable maximum, the SSA said.

Social Security and Medicare payroll withholding are collected together as the Federal Insurance Contributions Act (FICA) tax.

By Jan. 1, U.S. employers should:

- **Adjust their payroll systems** to account for the higher taxable maximum under the Social Security portion of FICA.

- **Notify affected employees** that more of their paychecks will be subject to FICA.

Withholding Rates Unchanged

For 2015:

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- The portion of the Social Security FICA tax that employees pay remains unchanged at the **6.2 percent** withholding rate up to the taxable maximum.
- Correspondingly, the portion of the tax that employers cover also remains at **6.2 percent** of employee wages up to the taxable maximum.
- This amounts to a total Social Security FICA tax of **12.4 percent**, paid on income up to \$118,500.

Self-employed individuals are responsible for paying the entire 12.4 percent.

With the higher income ceiling, the maximum yearly Society Security tax withholding amount in 2015 rises to **\$7,347** (6.2 percent withholding on earnings up to \$118,500), up from \$7,254 (6.2 percent withholding on earnings up to \$117,000).

A Social Security fact sheet

(<http://www.ssa.gov/news/press/factsheets/colafacts2015.html>) shows additional adjustments for 2015.

Medicare's Bite

For most Americans, the Medicare portion of the FICA tax remains at **2.9 percent**, of which half (**1.45 percent**) is paid by employees and half by employers.

Unlike Social Security, there is no limit on the amount of earnings (which includes salary and bonus income) subject to the Medicare portion of the tax. This results, for most American wage earners, in a **total FICA tax of 15.3 percent** (Social Security plus Medicare), half of which is paid by employees and half by employers.

Again, self-employed individuals are responsible for the entire FICA tax rate of 15.3 percent (12.4 percent Social Security plus 2.9 percent Medicare).

The SSA also posted additional information about Medicare cost increases for 2015 (<http://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html>).

FICA Rate

(Social Security + Medicare withholding)	2014	2015
Employee	7.65%	7.65%
Employer	7.65%	7.65%
Self-Employed	15.30%	15.30%

Note: The 7.65% tax rate is the combined rate for Social Security and Medicare. The Social Security portion is 6.20% on earnings up to the applicable taxable maximum amount. The Medicare portion is 1.45% on all earnings. The tax rates shown above do not include the additional 0.9 percent Additional Medicare Tax paid by those earning more than \$200,000 (discussed below).

Additional Medicare Tax

For high earners, Medicare takes a somewhat larger bite under a provision of the Affordable Care Act that makes the employee-paid portion of the Medicare FICA tax subject to a **0.9 percent** Additional Medicare Tax

(</hrdisciplines/compensation/Articles/Pages/MedicareTaxHike.aspx>) on amounts over the statutory threshold. The Additional Medicare Tax should not be confused with the Alternative Minimum Tax on high incomes, which does not involve mandatory payroll withholding.

The threshold annual compensation amounts that trigger the Additional Medicare Tax are:

- **\$250,000** for married taxpayers who file jointly.
- **\$125,000** for married taxpayers who file separately.
- **\$200,000** for single and all other taxpayers.

Additional Medicare Tax withholding applies only to compensation paid to an employee that is in excess of these thresholds in a calendar year. These thresholds are not inflation-adjusted, and thus they apply to more employees each year.

The Additional Medicare Tax raises the wage earner's portion on compensation above the threshold amounts to **2.35 percent**; the

employer-paid portion of the Medicare tax on these amounts remains at **1.45 percent**.

The IRS has posted responses to frequently asked questions (<http://www.irs.gov/Businesses/Small-Businesses-%26-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>) regarding the Additional Medicare Tax.

Net Investment Income Tax

Although it is not a payroll tax, HR professionals also should be aware of the net investment income tax (NIIT) (<http://www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs>) that high earners must pay when they file their income tax returns. This tax consists of a **3.8 percent surtax** on investment income, including capital gains, to be paid by those with modified adjusted gross income above \$200,000 (single filers) or \$250,000 (joint filers).

Individuals that expect to be subject to the tax should adjust their income tax withholding or estimated payments to account for the tax increase in order to avoid underpayment penalties.

Higher Social Security Payments

While the tax bite on employees will be rising, retirees and others who rely on Social Security and Supplemental Security Income (SSI) benefits—nearly 64 million Americans—will see their payments **increase by 1.7 percent** in 2015 due to the annual cost of living adjustment (COLA), slightly more than the 1.5 percent COLA that took effect in 2014. The Social Security Act governs how the COLA is calculated (<file:///D:/1-Edited/www.socialsecurity.gov/cola>).

2015 Income Tax Rates and Ranges

The IRS issued Revenue Procedure 2014-61 (<http://www.irs.gov/pub/irs-drop/rp-14-61.pdf>) on Oct. 30, 2014, with annual inflation adjustments for more than 40 tax provisions, including tax rates and income ranges for singles, married (filing jointly), married (filing separately), and heads of households (<http://www.investopedia.com/financial-edge/0213/what-does-filing-as-head-of-household-mean-for-your-taxes.aspx>), among others:

If Taxable Income Is:	The Tax Rate Is:
Not over \$9,225	10% of taxable income
Over \$9,225 but not over \$37,450	\$922.50 plus 15% of the excess over \$9,225
Over \$37,450 but not over \$90,750	\$5,156.25 plus 25% of the excess over \$37,450
Over \$90,750 but not over \$189,300	\$18,481.25 plus 28% of the excess over \$90,750
Over \$189,300 but not over \$411,500	\$46,075.25 plus 33% of the excess over \$189,300
Over \$411,500 but not over \$413,200	\$119,401.25 plus 35% of the excess over \$411,500
Over \$413,200	\$119,996.25 plus 39.6% of the excess over \$413,200
Source: IRS, Revenue Procedure 2014-61 (http://www.irs.gov/pub/irs-drop/rp-14-61.pdf)	

2015 Tax Rates: Married Filing Joint Return	
If Taxable Income Is:	The Tax Rate Is:
Not over \$18,450	10% of taxable income
Over \$18,450 but not over \$74,900	\$1,845 plus 15% of the excess over \$18,450
Over \$74,900 but not over \$151,200	\$10,312.50 plus 25% of the excess over \$74,900
Over \$151,200 but not over \$230,450	\$29,387.50 plus 28% of the excess over \$151,200
Over \$230,450 but not over \$411,500	\$51,577.50 plus 33% of the excess over \$230,450
Over \$411,500 but not over \$464,850	\$111,324 plus 35% of the excess over \$411,500
Over \$464,850	\$129,996.50 plus 39.6% of the excess over \$464,850
Source: IRS, Revenue Procedure 2014-61 (http://www.irs.gov/pub/irs-	

Source: IRS, Revenue Procedure 2014-61 (<http://www.irs.gov/pub/irs-drop/rp-14-61.pdf>)

2015 Tax Rates: Married Filing Separate Returns

If Taxable Income Is:	The Tax Rate Is:
Not over \$9,225	10% of taxable income
Over \$9,225 but not over \$37,450	\$922.50 plus 15% of the excess over \$9,225
Over \$37,450 but not over \$75,600	\$5,156.25 plus 25% of the excess over \$37,450
Over \$75,600 but not over \$115,225	\$14,693.75 plus 28% of the excess over \$75,600
Over \$115,225 but not over \$205,750	\$25,788.75 plus 33% of the excess over \$115,225
Over \$205,750 but not over \$232,425	\$55,662 plus 35% of the excess over \$205,750
Over \$232,425	\$64,989.25 plus 39.6% of the excess over \$232,425

Source: IRS, Revenue Procedure 2014-61 (<http://www.irs.gov/pub/irs-drop/rp-14-61.pdf>)

2015 Tax Rates: Heads of Households

(<http://www.investopedia.com/financial-edge/0213/what-does-filing-as-head-of-household-mean-for-your-taxes.aspx>)

If Taxable Income Is:	The Tax Rate Is:
Not over \$13,150	10% of taxable income
Over \$13,150 but not over \$50,200	\$1,315 plus 15% of the excess over \$13,150
Over \$50,200 but not over \$129,600	\$6,872.50 plus 25% of the excess over \$50,200
Over \$129,600 but not over	\$26,722.50 plus 28% of the excess over

\$209,850	\$129,600
Over \$209,850 but not over \$411,500	\$49,192.50 plus 33% of the excess over \$209,850
Over \$411,500 but not over \$439,000	\$115,737 plus 35% of the excess over \$411,500
Over \$439,000	\$125,362 plus 39.6% of the excess over \$439,000
Source: IRS, Revenue Procedure 2014-61 (http://www.irs.gov/pub/irs-drop/rp-14-61.pdf)	

Additional 2015 Tax Adjustments

Revenue Procedure 2014-61 (<http://www.irs.gov/pub/irs-drop/rp-14-61.pdf>) included these additional tax provisions, among others:

- The standard deduction rises to \$6,300 for singles and married persons filing separate returns and \$12,600 for married couples filing jointly, up from \$6,200 and \$12,400, respectively, for tax year 2014. The standard deduction for heads of household rises to \$9,250, up from \$9,100.
- The limitation for itemized deductions to be claimed on tax year 2015 returns of individuals begins with incomes of \$258,250 or more (\$309,900 for married couples filing jointly).
- The personal exemption for tax year 2015 rises to \$4,000, up from the 2014 exemption of \$3,950. However, the exemption is subject to a phase-out that begins with adjusted gross incomes of \$258,250 (\$309,900 for married couples filing jointly). It phases out completely at \$380,750 (\$432,400 for married couples filing jointly.)
- The Alternative Minimum Tax exemption amount for tax year 2015 is \$53,600 (\$83,400, for married couples filing jointly). The 2014 exemption amount was \$52,800 (\$82,100 for married couples filing jointly).
- The 2015 maximum Earned Income Credit amount is \$6,242 for taxpayers filing jointly who have 3 or more qualifying children, up from a total of \$6,143 for tax year 2014. The revenue procedure has a table providing maximum credit

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For 2015, Higher Limits for HSA Contributions and Deductibles (</hrdisciplines/benefits/Articles/Pages/2015-HSA-Limits.aspx>), *SHRM Online Benefits*, April 2014;

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