

Social Security Tax

- The Old-Age, Survivors, and Disability Insurance (OASDI) portion of the social security tax is imposed on employee compensation and self-employment income, but only to the extent of the maximum wage base set by the Social Security Administration (\$137,700 for 2020 and \$142,800 for 2021 by the Social Security Administration).
- The OASDI program is funded by contributions from employees and employers through FICA tax. The FICA tax rate for both employees and employers is 6.2% of the employee's gross pay. Self-employed persons pay a similar tax, called SECA (or self-employment tax), based on 12.4% of the net income of their businesses.
- On August 8, 2020, President Trump issued an executive order allowing employers to defer the withholding, deposit and payment of certain employee payroll taxes from September 1 to December 31, 2020. Further guidance is contained under Notice 2020-65.
- Employers, employees and self-employed persons also pay a tax for Medicare/Medicaid hospitalization insurance (HI), which is part of the FICA tax, but is not capped by the OASDI wage base. The HI payroll tax is 2.9%, which applies to earned income only. Self-employed persons pay the full amount, while employers and employees each pay 1.45%.
- Some high earners must pay an extra 0.9% HI payroll tax on earned income that is above certain adjusted gross income (AGI) thresholds, i.e., \$200,000 for individuals, \$250,000 for married couples filing jointly and \$125,000 for married couples filing separately in 2020. However, employers do not pay that extra tax. This tax, also known as the Additional Medicare Tax, was enacted as part of the Affordable Care Act (ACA). The constitutionality of the ACA has been challenged in *California v. Texas*, No. 19-840, for which oral arguments were presented before the Supreme Court on November 10, 2020. Specifically, the issue before the Court is whether the ACA became unconstitutional when Congress reduced the individual mandate penalty to \$0. The effective date of the penalty repeal was January 1, 2019. Accordingly, the Court's ruling in *California v. Texas* could ultimately impact the Additional Medicare Tax.