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Social Security and Medicare Taxes

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 part is financed by the social security tax. The hospital insurance part is financed by the Medicare tax.

Generally, employer is required to withhold social security and Medicare taxes from employees' wages and pay the employer's share of these taxes. Certain types of wages and compensation aren't subject to social security and Medicare taxes. 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.

Social security and Medicare taxes have different rates and only the social security tax has a wage base limit. The wage base limit is the maximum wage subject to the tax for the year. Determine the amount of withholding for social security and Medicare taxes by multiplying each payment by the employee tax rate.

For 2020, the social security tax rate is 6.2% (amount withheld) each for the employer and employee (12.4% total). The social security wage base limit is \$137,700. The tax rate for Medicare is 1.45% (amount withheld) each for the employee and employer (2.9% total). There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax.

In addition to withholding Medicare tax at 1.45%, employer must withhold a 0.9% Additional Medicare Tax from wages paid to an employee in excess of \$200,000 in a calendar year. Employer is required to begin withholding Additional Medicare Tax in the pay period in which the employer pays wages in excess of \$200,000 to an employee and continue to withhold it each pay period until the end of the calendar year. Additional Medicare Tax is only imposed on the employee. There is no employer share of Additional Medicare Tax. All wages that are subject to Medicare tax are subject to Additional Medicare Tax withholding if paid in excess of the \$200,000 withholding threshold.

However, an employee may owe more Additional Medicare Tax than the amount withheld by the employer. An individual is liable for Additional Medicare Tax if the individual’s wages, compensation, or self-employment income exceed the threshold amount for the individual’s filing status as following. In that case, the individual should make estimated tax payments and/or request additional income tax withholding using Form W-4, Employee's Withholding Certificate.

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separate	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$200,000

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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