

# 2017 Payroll Taxes Will Hit Higher Incomes

Wages subject to Social Security FICA rise to \$127,200



The maximum amount of earnings subject to the Social Security payroll tax will climb 7.3 percent in 2017 to \$127,200—up by \$8,700 from the \$118,500 maximum for 2016 and 2015, [the Social Security Administration \(SSA\) announced on Oct. 18](#). Of the estimated 173 million workers who will pay Social Security taxes in 2017, about 12 million will pay more because of the increase in the taxable-maximum amount.

This adjustment, which takes effect Jan. 1, is based on the government's estimate of real wage growth in the recent past. The 2017 jump in the taxable-earnings cap is the largest one-year increase since 1983, in part because federal law kept the taxable maximum unchanged for 2016 due to a lack of cost-of-living increase in Social Security benefits.

Social Security is financed by a 12.4 percent tax on wages up to the taxable-earnings cap, with half (6.2 percent) paid by workers and the other half paid by employers. This taxable wage base usually goes up each year—it rose from \$117,000 in 2014 to \$118,500 in 2015, but stayed put at that level for 2016.

By Jan. 1 of each year, U.S. employers must adjust their payroll systems to account for the higher taxable wage base under the Social Security payroll tax—and should notify affected employees that more of their paychecks will be subject to payroll withholding. Those whose compensation exceeds the previous \$118,500 maximum will see a decrease in net take-home pay if they don't receive an annual raise that makes up for the payroll tax's bigger bite.

Employers also will pay more, as their 6.2 percent share is applied to additional earnings. Those higher costs could depress wage increases, economists note. In their lingo, "The actual split in the real burden of the tax between employer and employee depends not at all on who nominally pays the tax; it depends entirely on the relative elasticities of supply and demand," according to the Atlanta-based Foundation for Economic Education.

## FICA Rates Set by Law

Social Security and Medicare payroll taxes are collected together as the Federal Insurance Contributions Act (FICA) tax. FICA tax rates are statutorily set and therefore require new tax legislation to be changed.

For employers and employees, the Medicare payroll tax rate is a matching 1.45 percent on all earnings, bringing the total Social Security and Medicare payroll withholding rate for employers and employees to 7.65 percent each—with only the Social Security portion (6.2 percent) limited to the \$127,200 taxable-maximum amount.

Those who are self-employed must pay both the employer and employee portions of FICA taxes.

2017 FICA Rate (Social Security + Medicare withholding)	
Employee	7.65%
Employer	7.65%
Self-Employed	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 an additional 0.9 percent in Medicare taxes paid by high-earners, addressed below.

### Additional Medicare Tax

For highly compensated employees, Medicare takes a larger bite. Under a provision of the Affordable Care Act, the employee-paid portion of the Medicare FICA tax subject to a 0.9 percent Additional Medicare Tax on amounts over a statutory threshold. 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 employee compensation in excess of these thresholds in a calendar year. These thresholds are not inflation-adjusted, and thus they apply to more employees each year.

This added tax raises the wage earner's Medicare portion of FICA 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 Additional Medicare Tax should not be confused with the Alternative Minimum Tax on high incomes, which does not involve mandatory payroll withholding.

## Benefit Payments Rise Marginally

Monthly Social Security and Supplemental Security Income (SSI) benefits for more than 65 million Americans will increase just 0.3 percent in 2017, the SSA also announced. The Social Security Act ties the annual cost-of-living adjustment (COLA) to increases in the Consumer Price Index, as determined by the Department of Labor's Bureau of Labor Statistics.

The maximum Social Security benefit for workers retiring at full retirement age in 2017 will be \$2,687 per month, up from \$2,639 per month in 2016.

The SSA estimates that the average monthly Social Security benefits payable in January 2017 for all retired workers will be \$1,360, up only \$5 from the 2016 average payment of \$1,355. While the 2017 benefit increase is small, SSI recipients had no cost-of-living adjustment in 2016 due to low inflation. Social Security benefits rose by 1.7 percent in 2015.

Information about Medicare premium increases for 2017, when announced, will be available at [www.Medicare.gov](http://www.Medicare.gov) (last year, changes for 2016 were announced in November). For many SSI recipients, their Social Security increase is likely to be offset by higher Medicare premiums, which could be even steeper for those covered by Medicare Part B if they have delayed taking Social Security because they are still working, for instance.

## Increases in Retirement Earnings Limit

For those claiming Social Security before reaching their full retirement age (age 66 for people born in 1943 through 1954), benefits are limited if they continue to work and receive earned income. These factors should be pointed out to employees who also are Social Security income recipients.

Until an individual reaches full retirement age, the SSA deducts \$1 dollar in Social Security benefits for every \$2 earned over the retirement earnings exemption limit. For 2017, the earnings limit will be \$16,920 per year (\$1,410 per month), up from \$15,720 per year (\$1,210 per month) in 2016.

A separate earnings test applies in the year an individual reaches full retirement age. During that year, in the months prior to attaining full retirement age the SSA deducts \$1 dollar in benefits for every \$3 earned over the limit until the month the worker turns age 66. The earnings limit for these individuals in 2017 will be \$44,880 per year (\$3,740 per month), up from \$41,880 per year (\$3,490 per month) in 2016.

There is no limit on earnings beginning the month an individual attains full retirement age.