

5.4 Social Security & Payroll Taxes

- ▶ Calculate Social Security & Medicare taxes.
- ▶ Evaluate the benefits of Social Security.
- ▶ Analyze the viability of Social Security.

Calculating Social Security & Medicare Taxes

Social Security is a social insurance program that is funded through dedicated payroll taxes. The original Social Security Act of 1935 has been broadened to include several programs, including the following.

- Old-Age, Survivors, and Disability Insurance
- Unemployment benefits
- Temporary Assistance for Needy Families
- Health Insurance for the Aged and Disabled (Medicare)
- Grants to States for Medical Assistance Programs (Medicaid)
- State Children's Health Insurance Program (SCHIP)
- Supplemental Security Income (SSI)



Social Security and Medicare Rates

The Social Security and Medicare tax rates for 2010 are as follows.

	Social Security	Medicare
Employees:	6.2% up to \$106,800	1.45% (no salary cap)
Employers:	6.2% up to \$106,800	1.45% (no salary cap)
Self-Employed:	12.4% up to \$106,800	2.90% (no salary cap)

Study Tip

In reality, it is rare to have the same taxable income for federal, state, Social Security, and Medicare taxes. Taxable income is determined by various deductions, exemptions, and credits dictated by the tax code. To keep calculations simple, the same taxable income is used for all four taxes in Example 1.

EXAMPLE 1 Calculating Total Payroll Taxes

You live in California and are self-employed. You report a taxable income of \$105,000. Estimate your total income tax, including federal, state, Social Security, and Medicare. What percent of your taxable income goes to these four taxes?

SOLUTION

Federal income tax:	\$23,109.25	(See page 212.)
California income tax:	\$ 7,737.27	(See page 213.)
Social Security tax:	\$13,020.00	(12.4% of \$105,000)
Medicare tax:	\$ 3,045.00	(2.9% of \$105,000)
Total:	\$46,911.52	

You pay $46,911.52/105,000 \approx 44.7\%$ of your taxable income to these 4 taxes.

✓ Checkpoint

Help at Math.andYOU.com

Rework Example 1 using taxable incomes of (a) \$75,000 and (b) \$200,000.

Discuss how your percent toward taxes changes as your income changes.