

W-2 and business income earnings are subject to Social Security and Medicare tax.

SOCIAL SECURITY TAX – is collected so that when individuals with enough work “credits” reach age 62 they can begin collecting a guaranteed income. For those that wait longer before they start collecting, the amount they will collect increases. However, at age 70, the benefits increase stops. Even if a person waits to collect past age 70, they will get the amount they would have received if they started collecting at age 70.



To cover social security payments, all working individuals are taxed. The tax is charged until an employee reaches an annual limit. When the worker earns above the annual limit, the balance of their earnings are NOT subject to Social Security tax. In 2023 the limit = \$ 160,200

MEDICARE TAX – pays for the health care system when people turn 65. To cover this expense, a tax is charged to those that work. All earned income is subject to Medicare tax; there is no limit.

For W-2 employees, the employee pays 50% of the tax, and their employer pays 50%.			
W-2 Employee	Employee	Employer	TOTAL
Medicare	1.45%	1.45%	2.90%
Social Security	6.20%	6.20%	12.40%
	<hr/> 7.65%	<hr/> 7.65%	<hr/> 15.30%

Self-employed pay double. This is called Self Employment tax

Medicare	2.90%
Social Security	12.40%
TOTAL = Self-Employment tax	<hr/> 15.30%

Self-Employment Tax for entrepreneurs is calculated using Schedule SE.

The calculation has some nuances which are worth noting:

1. When a corporation pays its share of Social Security tax and Medicare, they deduct it as a business expense. To give self-employed taxpayers the same benefit, the Schedule C Net Profit (line 31) is not entirely subject to tax; instead, the Net Profit is multiplied by 92.35%, and only that amount is taxed. See Form SE LINE 4a.
2. Some workers have both W-2 income and Business Net Profits. In that case, to be sure that a person does not pay Social Security tax above the “ANNUAL LIMIT,” Form SE performs a calculation. The form subtracts the taxpayer’s W-2 earnings (line 8a) from the annual LIMIT (line 7) to determine a “GAP” (line 7). Social Security tax is calculated on the SMALLER of the GAP or Business Net Profit (line 10).