PAYROLL **ACCOUNTING**

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FICA Taxes and Voluntary Deductions

LABYRINTH LEARNING®

Learning Objectives

- Calculate Social Security tax
- Calculate Medicare tax
- Identify states in which state disability insurance is withheld
- Apply various voluntary deductions
- Record employee payroll journal entries

Social Security Tax

- This is also known as *OASDI*.
- It provides retirement benefits and financial support to employee's survivors and disabled employees.
- The rate started at 1% and has been steadily increasing to the current rate of 6.20%.

SOCIAL SECURITY TAX RATES BY YEAR	
Years	**Rates**
1974–1977	4.95%
1978	5.05%
1979–1980	5.08%
1981	5.35%
1982–1983	5.40%
1984–1987	5.70%
1988–1989	6.06%
1990–today	6.20%

The Social Security Wage Base

- This is the maximum threshold of year-to-date earnings on which Social Security tax is levied.
- The first taxable wage base was $3,000 – the current one is $184,500.

Only the first $184,500 in earnings will be taxed for Social Security.

SOCIAL SECURITY WAGE BASE BY YEAR	
Years	**Bases**
2017	$127,200
2018	$128,400
2019	$132,900
2020	$137,700
2021	$142,800
2022	$147,000
2023	$160,200
2024	$168,600
2025	$176,100
2026	$184,500

Taxable Earnings for Social Security Tax

- Certain expenses are deducted from gross pay to arrive at taxable earnings.
- There is a three-step process to calculate Social Security tax:
    1. Determine the current period's taxable earnings.
    2. Add the current earnings to the year-to-date taxable earnings.
    3. If the result is not above the threshold, multiply it by the current rate.

Medicare Tax

- The taxable earnings for Medicare tax are the same as for Social Security tax.
- The initial Medicare rate was 0.35% – the current one is 1.45%.

HISTORY OF MEDICARE TAX RATES	
1966	0.35%
1967	0.50%
1968–1972	0.60%
1973	1.00%
1974–1977	0.90%
1978	1.00%
1979–1980	1.05%
1981–1984	1.30%
1985	1.35%
1986–today	1.45%

Additional Medicare Tax

- Beginning in 2013 there is an additional 0.9% Medicare tax imposed on certain earnings.
- This is the result of the Patient Protection and Affordable Care Act.
- The threshold is based on the employee's filing status.

EARNINGS THRESHOLD FOR ADDITIONAL MEDICARE TAX ACCORDING TO FILING STATUS	
Filing Status	**Earnings Threshold**
Single/head of household/qualifying widower	$200,000
Married filing jointly	$250,000
Married filing separately	$125,000
The IRS instructs employers to collect the additional tax on all employee earnings that surpass $200,000, without regard to the employee's filing status.	

Additional Withholding Tax Considerations

Other amounts may be withheld from gross pay:

- State disability insurance
- Wage garnishment
- Retirement plans
- Cafeteria plans
- Union dues
- Charitable contributions

State Disability Insurance

- This is short-term benefits for those unable to work due to off-the-job circumstances.
- Certain states require disability insurance.
- Employees may be required to contribute toward insurance coverage.

Wage Garnishments

- This is withholding of part of an employee's earnings in compliance with a court order or other legal proceeding.
- Common reasons for this are overdue child support, alimony, bankruptcy, and student loans.
- The amount of a wage garnishment is limited.

NOTE! *Wage-garnishment state regulations take precedence over federal regulations.*

Contributing to Retirement Plans

- 401(k) plan
  - Tax-deferred
  - Employer contribution optional
- 403(b) plan
  - Available to certain employees at public education institutions and certain tax-exempt organizations

TIP! *Both plans allow for catch-up withholdings (additional withholdings based on age and/or years of service).*

Contributing to Retirement Plans (cont.)

- SIMPLE IRA Plan
  - For employees of small businesses (<100 employees)
  - Contribution limit is lower
  - Employer contribution is required
  - Deductions exempt from federal income tax withholding
- Payroll Deduction IRA
  - Usually used by self-employed individuals
  - Not exempt from federal income tax withholding
  - Employee may receive tax deduction on year-end return

The Employee Retirement Income Security Act of 1974

- The Employee Retirement Income Security Act of 1974 (ERISA) regulates plans employers offer.
- The ERISA sets forth requirements for retirement plans:
  - How the plan is funded
  - Fiduciaries may be held accountable for breaches
  - Plan participation
  - Accumulation of benefits
  - Timeframe for when benefits become nonforfeitable

Cafeteria Plans

- The employer must offer a choice of at least one taxable and one nontaxable option.
- Nontaxable deductions can include:
  - Medical care reimbursements
  - Adoption assistance
  - Group-term life insurance
  - Health savings account
  - Flexible spending account (funds set aside for health care during the year)

Charitable Contributions, Union Dues, and Insurance Premiums

- Charitable contributions are deducted from gross earnings and are then remitted directly to the charity.
- For certain employees eligible to join a union, dues are withheld from gross earnings.
- Insurance premiums may be withheld and then remitted to the insurance company.

Completing the Payroll Register

A completed payroll register includes:

- Identified and calculated withholding amounts
- Net pay (final figure)
- Check number

Payroll Register

Pay Period 12/6/26

Pay Date 12/10/26

	Earnings							*Deductions*						
Employee Name	Regular Hours	Regular Rate	Regular Earnings	Overtime Hours	Overtime Rate	Overtime Earnings	Total Earnings	FWT	SWT	Social Security	Medicare	Vol. With.	Check Number	Net Pay
Rogers, P	35	$ 11.50	$ 402.50	0	n/a	$ -	$ 402.50	$ 14.00	$ 18.52					

Withholdings

Check number

Net pay

Accounting for Payroll (Employee Portion)

- An employer must record a journal entry for each element in a payroll register.
- Each payroll deduction is owed to a corresponding entity; for example:
  - Federal income tax withheld is immediately owed to the US Government.
  - Charitable contributions withheld are immediately owed to the intended charity.