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LEGISLATIVE UPDATE

## Eye on Washington



# Social Security Taxable Wage Limit And Employee Rate Increased For Year 2013

### Social Security Tax

On October 16, 2012, the Social Security Administration announced an upward cost-of-living adjustment for the Social Security taxable wage limit. For year 2013, the amount of earnings taxable for Social Security (Old Age, Survivors and Disability Insurance, or "OASDI") will increase from \$110,100 to \$113,700. The temporary decrease in the employee tax rate from 6.2% to 4.2%, last extended under the Middle Class Tax Relief and Job Creation Act of 2012, will expire on December 31, 2012 absent Congressional action to extend it further. ADP will monitor year-end tax legislation closely for potential changes. Therefore, the 2013 tax rate for employees will increase to 6.2% from the 2012 rate of 4.2%. The employer rate will remain unchanged at 6.2%. With this increase in taxable wages, the maximum Social Security tax payable by an employee will be \$7,049.40, an increase of \$2,425.20 from the current maximum tax of \$4,624.20. Employers will match the employee's 2013 contribution of \$7,049.40, an increase of \$223.20 from their 2012 maximum of \$6,826.20.

### Medicare Tax

For employees, all covered wages will be subject to Medicare tax at a rate of 1.45%. For high-income earners who have wages in excess of certain filing status thresholds (\$250,000 if married filing jointly, \$125,000 if married filing separately, and \$200,000 if filing single), an Additional Medicare Tax of 0.9% will be imposed. However, for withholding tax purposes, covered wages in excess of \$200,000 will be taxed at a tax rate of 2.35% (1.45% + 0.9%), regardless of filing status. There is no maximum employee or employer contribution amount for Medicare tax.

Employers are not subject to the Additional Medicare Tax. They will continue to be subject to the Medicare tax at the rate of 1.45% on all taxable wages.

### Combined Tax Rates

Depending on the amount of taxable wages, the combined Social Security and Medicare employee tax rate will range from 7.65% (6.20% + 1.45%) to a combination of 6.2%, 1.45% and 0.9% if the employee is a high-income earner. The combined employer rate will remain 7.65%.

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