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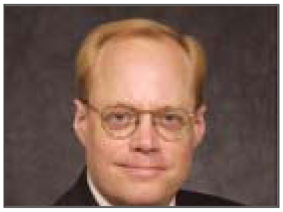

Robert W. Wood
THE TAX LAWYER

TAXES | 1/21/2014

The Incredible Shrinking Paycheck

Taxes are up in 2014. If you work for a paycheck, you already noticed that. If you make more than $100,000 a year, you are one of approximately 10 million Americans in that category. Some say you have it made. Yet when it comes to taxes in 2014, you are hit especially hard.

If you earn more than $200,000 (or $250,000 on a joint return) you pay even more. The culprit isn't one thing. Income taxes and payroll taxes are both up. But the biggest issue is Social Security and Medicare taxes. And you don't really see them since they are deducted automatically from your paycheck.

First, consider the amount of pay that is subject to Social Security taxes. The wage base was $113,700 in 2013 and now it is $117,000. That means up to an annual total of $117,000 of pay, you get hit with Social Security tax. The rate is 12.4 percent and it is split evenly between employers and employees.

If you do the math you'll see that your 6.2% share comes out to $7,254. If you are self-employed, you can double this, since in effect, you are treated both as employer and employee. But on paying that $14,508 at least a self-employed person is allowed to deduct half of these taxes at income tax return filing time.

Employment taxes don't end with the $117,000 wage base. In fact, that full $117,000–plus an unlimited amount beyond it–is subject to a 1.45 percent Medicare tax. Employers and employees each pay this tax on all wages. If you are self-employed, you don't just add them together, but instead pay a Medicare tax of 1.9 percent.

If you have a high income, you get hit harder. What's high income? Wages or self-employment income over $200,000 for individuals, $250,000 for married couples filing jointly, or $125,000 for married couples filing separately. People in these categories face an additional Medicare surcharge of 0.9 percent.

Unlike the other taxes noted here, this one doesn't actually come out of your paycheck so you won't see it on your paystub. This Medicare surcharge is calculated on your federal income tax return. It took effect for 2013 so you'll see it for the first time when you file your 2013 tax return in April or October of 2014.

Speaking of 2013, with all the complaining about increased payroll taxes in 2014, it is worth noting that payroll taxes went up even more steeply at the beginning of 2013. Some people didn't even regard that hike as a tax increase. Rather, they saw it as a failure to extend the temporary 2011 and 2012 payroll tax cut.

But however you phrased it, as of January 1, 2013, every employee in America started paying a 2% higher payroll tax. The payroll tax cut was in effect only for 2011 and 2012 tax years, and employees got used to counting on it. The employee's share of Social Security tax rose from 4.2% to 6.2% in 2013, yielding a smaller take-home. A $50,000 a year worker paid an extra $1,000. Someone earning more than the 2013 $113,700 wage base paid almost $2,500 more. For 2014, the wage base is $117,000.

With payroll taxes, it's worth noting that income tax is taken out of your pay in addition to payroll tax. Employees who feel strapped can consider filing a new Form W-4 with their employer to adjust their tax withholding. Ultimately, though, you don't want to be over withheld. That can mean having to write a bigger check when you file your return.

You can reach me at Wood@WoodLLP.com. *This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*