

EMPLOYMENT TAXES

- Person earns wages working for a business as an employee.
 - Example: standard employer/employee relationship, some S-Corp owners.
 - Income taxes:
 - Employer withholds income taxes.
 - Employee pays income taxes.
 - Payroll taxes:
 - Employer withholds half of the FICA (SS and Medicare) from employee and employer pays the other half.
 - Employer also pays FUTA for employee.
 - Payroll tax rates:
 - Employer and employee each pay 6.2% (Soc. Sec.) and 1.45% (Medicare) on the first \$128,700 in wages (2018).
 - In addition, there is a supplemental Medicare tax for wages over \$200,000 at 2.35%.
- Person works for themselves as a sole proprietor, or as a shareholder in an LLC or partnership, and receives payments from the business.
 - Example: farm business, professional business, independent contractor.
 - Income taxes:
 - Profit (business income minus expenses) is reported on a separate schedule to individual income tax return (i.e., schedule C, schedule F, K-1) and income taxes are paid on those amounts.
 - Payroll taxes:
 - Profit is also reported as self-employment income on a separate schedule (schedule SE) and the individual pays the self employment taxes on those amounts.
 - The federal self employment tax is a separate tax from FICA, but is designed to mirror those same obligations, accounting for the fact that there is no employer. Compare 26 U.S.C. Chapter 21 (Federal Insurance Contributions Act) with 26 U.S.C. Chapter 2 (Tax on Self Employment Income)
 - Payroll tax rates:
 - SE person pays 12.4% (Soc. Sec.), 2.9% (Medicare) on 92.3% of their net earnings.
 - SE person can then deduct half of their payroll taxes as a business expense.
 - As a result, the SE person:
 - pays income tax on profits,
 - pays SE tax,
 - but does not owe FUTA.
- Note: the same person can have both wages from an employer, and self employment income from a side business, on the same return.