

Percentages & Payroll Taxes

The two most common federal payroll taxes support Social Security and Medicare and can be known as the Federal Insurance Contributions Act (FICA) and Medicare Federal Insurance Contributions Act (MEDFICA). Here is how payroll taxes are collected:

Tax	Collected from Employee's Paycheck	Collected from the Employer	Total
Social Security (FICA)	6.2%	6.2%	12.4%
Medicare (MEDFICA)	1.45%	1.45%	2.9%
Total	7.65%	7.65%	15.3%

- Wilfredo is an employee of Swifty Car Wash, Inc in their corporate legal department. Her annual salary is \$114,800.**
 - How much will Wilfredo pay in Social Security taxes this year?
 - How much will Swifty Car Wash contribute to Medicare for Wilfredo's salary?
- Alexis works part-time at a movie theater making his state's minimum wage of \$10.10 per hour. He receives a paycheck every 2 weeks.**
 - If he works 20 hours over the course of the first two weeks in February, how much should he expect to have taken out of his paycheck for payroll taxes?
 - The second half of February is much busier with local schools closed for the entire week of Presidents Day, and Alexis's boss schedules him for 27 hours instead. Other than payroll taxes, Alexis doesn't have any other money withheld from his paycheck. How much can he expect his take-home pay to be? Note: Take-home pay is gross earnings minus any deductions.

Payroll taxes are shared by traditional employees and their employers. Alternatively, if you are self-employed, which includes gig workers or those with a side-hustle, you have to pay the employer's portion as well as the employee's portion. These taxes are then called Self-Employment Contributions Act (SECA) taxes, which are taxed at the rates shown below.

Tax	Total
Social Security	12.4%
Medicare	2.9%
Total	15.3%

Let's say Wilfredo also has a side-gig selling elaborate, expensive birthday cakes to customers.

- 3. In June, one of her busiest months, Wilfredo sells 7 cakes, collecting a total of \$795 from her customers. How much does she need to pay for her SECA taxes?**
- 4. After reading more about self-employment taxes, Wilfredo realizes she can deduct the cost of the ingredients she used to bake the cakes before she determines how much tax she owes! If ingredients for those 7 cakes cost a total of \$82, how much does Wilfredo actually owe for SECA?**

Glenn lives in Massachusetts and is doing some holiday shopping at his local retail superstore, and he picks up some general items for home, too. He spent \$255.74 and \$16.58 was the sales tax.

- 1. In 2020, the median household income for MA was \$84,385, or \$3516 per paycheck if paid twice per month. If Glenn's family has the median household income, what percent of his recent paycheck went toward sales tax on this purchase?**
- 2. While the median income is nearly \$85,000, a very large percent of MA households actually make closer to \$35,000 per year or \$1458 per pay period. If that were Glenn's recent paycheck, what percent of his pay would go to paying for this trip to All-You-Need?**
- 3. Income taxes scale based on how much you earn, but sales tax rates are the same regardless of household income. How does this system impact households differently?**