Title:
Feeling FICA

Word Count:
689

Summary:
Explores the origination of FICA

Keywords:
FICA, taxes

Article Body:
<p>What does FICA stand for?

<p>FICA stands for the Federal Insurance Contributions Act. The history of the act reverts back to the year 1935, when the government implemented the social security program. A provision to include social security taxes was included in this act. However, due to concerns over the constitutionality of the 1935 act, there were amendments made and the provision for collecting social security taxes was moved to the Internal Revenue Code in 1939. At this time it was renamed the Federal Insurance Contributions Act.

<P> What is FICA exactly?

<p>The Federal Insurance Contributions Act authorizes the IRS to collect taxes for the benefit of the social security program. Intuitively, we might think of these taxes as social security taxes, but more commonly they are referred to as FICA taxes. These FICA taxes serve as deposits into the federal social insurance program we think of today as Social Security.

<p>According to FICA, you must contribute 12.4 percent of your earned income up to the predetermined limit of contributions, and another 2.9 percent must be contributed to Medicare. It is important to note that there is no earnings limit on the Medicare portion of the tax, and thus in practice one is taxed 2.9 percent of all earned income, regardless of your total income level.

<p>For those working for hourly wages the tax levels are different. Hourly employees contribute 6.2 percent for Social Security and 1.45 percent for Medicare. Hopefully you noticed that this is just half of the standard rates.

There is good reason for this as your employer is required to pay the other half of the rate for Social Security and Medicare contributions. In other words, for those working at hourly wages, the employer must match the employee contributions.

<p>How would you spend your FICA?

<p>Let's imagine we live in a perfect world, and we don't have to pay taxes. That means no more contributions to FICA . Now, after the excitement settles down we must decide what to do with our extra income. Let's pretend we work a part time job, because we are still studying to get our degree in economics. Fortunately, we have a decent job paying $11 bucks an hour assisting an up and coming lawyer. Typically, we put in a 25 hour work week, meaning we make about $275 a week. That is exactly $1100 dollars every month. If we made $1100 every month, the FICA taxes we would normally contribute would break down like this:

<p>Social Security: $1100 X 6.2% = $68.20
Medicare: $1100 X 1.45% = $15.95
$84.15

<p>So by not having to pay taxes, particularly FICA, we would increase our cash flow by $84.15 each month. Now the fun begins. What are the ways we could spend our hard earned cash. I know what I would do. I would begin by signing a lease agreement with TiVO for one of their popular digital video recording options. With this contract, I allocate $12.95 of my savings each month to the TiVO service. To complement my new DVR, I would go ahead and splurge on the best satellite service in the area. I estimate the cost would come in around $50 a month. As a college student I would likely be coerced into filling the music void in my life by signing up for an all you can consume digital music subscription service, running approximately $9.95 a month. Just like that I am only left with about $10 more in cash flow each month, which could easily be spent seeing one or two movies every month.

<p>Snap Back to Reality

<p>Well, unfortunately life is not that easy. We do have to pay FICA, and the contributions we make go a long way in improving the living conditions of others. So for now, plan on paying those FICA taxes, or should I say

contributions.