FICA Explained

Why 7.65% Leaves Every Paycheck — and What You Get Back

"Two small lines on your paystub fund the two oldest promises in American law. Learn what they cost, what they buy, and how the math changes when you work for yourself."

5

A PREMIUM LESSON · CHARTS · REAL EXAMPLES · ACTION STEPS · GLOSSARY

WHAT YOU WILL MASTER

- Decode the Social Security (OASDI) and Medicare lines on any paystub and verify the 6.2% and 1.45% math yourself.
- Explain the employer's invisible matching 7.65% and why 15.3% of every covered wage dollar reaches the trust funds.
- Apply the 2026 Social Security wage base ($184,500) and the 0.9% Additional Medicare Tax thresholds to real incomes.
- Compute self-employment tax on a 1099 profit — the 92.35% adjustment, the 15.3% rate, and the half-of-SE-tax deduction.
- Weigh the S corporation reasonable-compensation trade-off: lower payroll tax today versus a smaller Social Security earnings record tomorrow.

Two Lines, Two Promises: What FICA Actually Is

In 1935, Franklin Roosevelt signed the Social Security Act — a promise that a working life in America would not end in poverty. Thirty years later, in 1965, Medicare added a second promise: hospital and medical coverage after 65. The funding mechanism for both is FICA, the Federal Insurance Contributions Act, and it appears on your paystub as two separate lines. The first — often labeled 'Social Security,' 'OASDI,' or 'FICA-OASDI' — takes 6.2 cents of every covered dollar. The second, labeled 'Medicare,' takes 1.45 cents. Together they are the 7.65% slice that leaves every paycheck of your working life.

FICA is not income tax, and that distinction matters mechanically. Income tax climbs a staircase of brackets after subtracting deductions; FICA is a flat slice off the top of gross covered wages — before your 401(k) election, before the standard deduction, before everything else on the income-tax side. (One narrow exception: Section 125 'cafeteria plan' items like employer health premiums escape FICA too.) There are no FICA deductions to chase and no FICA refund for most workers. It is the steadiest, simplest tax in the American system.

Where does it go? Picture your own street. The retired grandmother whose deposit arrives the first Wednesday of the month, the veteran whose Medicare card opened a hospital door last week, the widow whose survivor benefit fed her kids through high school, the neighbor whose disability benefit covers rent — every one of those checks is funded by the slice that left your pay this morning. Roughly nine decades on, the machine still runs monthly.

WORKED EXAMPLE: A NURSE EARNING $60,000 (ILLUSTRATIVE)

A hospital nurse earns $60,000 in wages in 2026 with no pre-tax health premium. Her FICA is a flat calculation — no deductions, no brackets.

Social Security withheld (6.2%)	$3,720
Medicare withheld (1.45%)	$870
Total employee FICA (7.65%)	$4,590
Per monthly paycheck	$382.50

The Invisible Half: Your Employer's Matching 7.65%

The part that confuses almost everyone: what you see is only half the machine. For every dollar of covered wages, your employer pays an identical 6.2% for Social Security and 1.45% for Medicare out of its own pocket — on top of your wage, never printed on your stub. Total FICA flowing to the trust funds is 15.3% of every covered wage dollar. You see 7.65%. The other 7.65% lives behind the wall.

Why split it? Congress in 1935 wanted workers to feel ownership of the contribution — your stub, your slice, your future benefit — and wanted employers to carry half the cost inside their wage decisions. The math is identical either way; the psychology is not. Economists generally treat the employer half as part of your total compensation: it is money your labor generated that you never see as cash.

This invisible half is why comparing a W-2 salary to a 1099 contract rate at face value is a mistake. A $60,000 W-2 job quietly includes $4,590 of employer FICA paid on your behalf. Take the same work as a contractor and that half becomes your bill (next section). Founders and freelancers learn this arithmetic the first April it lands on them.

WORKED EXAMPLE: THE FULL 15.3% FLOW ON $60,000 (ILLUSTRATIVE)

Same nurse, same $60,000. Now count both sides of the wall — what she pays and what the hospital pays on her behalf.

Employee share (7.65%)	**$4,590**
Employer match (7.65%)	**$4,590**
Total into the trust funds (15.3%)	**$9,180**
Share of that total she ever sees on a stub	**50%**

→ The trust funds do not care which side paid. They receive 15.3% of every covered wage dollar — half visible, half invisible.

✓ Negotiating a move from W-2 to 1099? Add roughly 7.65% to your target rate just to stand still on payroll tax — before pricing in benefits, unemployment insurance, and workers' comp you also leave behind.

The Cap, the Bump, and the Regressive Tilt

Social Security tax has a ceiling. In 2026 it collects 6.2% only on the first $184,500 of wages — the 'contribution and benefit base,' which indexes upward nearly every year (it was $176,100 in 2025). Above the cap, the Social Security line simply stops. Medicare never stops: 1.45% applies all the way up. And on wages above $200,000 (single or head of household), $250,000 (married filing jointly), or $125,000 (married filing separately), an extra 0.9% Additional Medicare Tax kicks in — employee-only, with no employer match. So the slice is not flat across all incomes: it tapers at the cap, then bumps at the thresholds.

That taper makes FICA regressive at the high end. A nurse earning $60,000 pays 7.65% on every dollar she earns. An executive earning $500,000 pays Social Security on only the first $184,500, so her total FICA works out to roughly 4.3% of income. Same country, same programs, lower effective rate as wages climb past the cap — which is exactly why the cap is debated every election cycle. This book states the mechanics and takes no side.

Two practical traps live here. First: each employer withholds Social Security up to the cap independently, so if you change jobs or hold two jobs and your combined wages pass $184,500, too much Social Security is withheld — you recover the excess as a credit on your Form 1040. Second: employers must start withholding the 0.9% Additional Medicare Tax once your wages at that employer pass $200,000, regardless of your filing status — married couples reconcile the true amount (over- or under-withheld) on Form 8959 at filing time.

Both Halves Yourself: FICA When You Are 1099

Work for yourself — freelancer, consultant, landlord-adjacent side businesses, any Schedule C operator — and both halves of the machine are yours. Self-employment tax is 15.3%: 12.4% Social Security (up to the same $184,500 base, combined with any W-2 wages) plus 2.9% Medicare, with the same 0.9% additional tax at the high-income thresholds. It applies once net self-employment earnings reach just $400 for the year, and it rides on Schedule SE alongside your income tax.

Two mechanics soften it. First, the tax applies to 92.35% of your net profit, not 100% — the law backs out the equivalent of the employer half before taxing. Second, you deduct the employer-equivalent half of the SE tax above the line on Schedule 1, which lowers your income tax (though never the SE tax itself). Between those two adjustments, the true bite is milder than a naive '15.3% of profit' estimate — but it is still, for most profitable freelancers, a bigger line than their income tax.

Because no employer is withholding for you, the IRS expects the money quarterly: April, June, September, and January estimated payments via Form 1040-ES, generally hitting a safe harbor of 90% of this year's tax or 100% of last year's (110% if your prior-year AGI topped $150,000). A working rule from the founder's own 1099 years: sweep 25-30% of every self-employment deposit into a separate tax account the day it lands, and April becomes boring — which is the goal.

WORKED EXAMPLE: A FREELANCE DESIGNER WITH $100,000 NET PROFIT (ILLUSTRATIVE)

A full-time freelancer clears $100,000 of net Schedule C profit in 2026 with no W-2 wages. Compute SE tax the way Schedule SE does.

Net earnings subject to SE tax (92.35%)	**$92,350**
SE tax at 15.3%	**$14,129.55**
Deduction for half of SE tax (above the line)	**$7,064.78**
Income-tax value of that deduction at a 22% marginal rate	**$1,554**

→ Both halves land on the owner — then the code hands part back through the 92.35% adjustment and the half-SE-tax deduction.

✓ Set aside 25-30% of every 1099 payment for taxes the day it arrives, and pay quarterly (Apr / Jun / Sep / Jan) to the safe harbor. Underpaying triggers a penalty that compounds the pain of a surprise April bill.

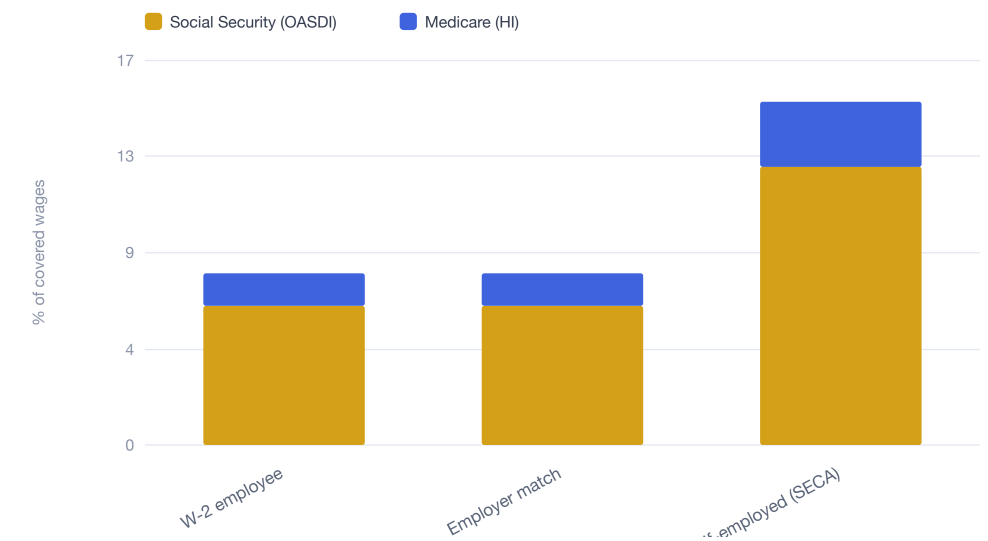
What You Get Back — and the Owner's Balancing Act

Here is the most-overlooked fact about FICA: it is not only a tax, it is a deposit into your own benefit record. The Social Security Administration logs every covered dollar you earn, and your retirement benefit is calculated from your highest 35 years of earnings. Fewer than 35 working years means zeros in the average; higher-earning years push it up. You can review your earnings record and projected benefits anytime with a free my Social Security account at ssa.gov — check it yearly, because unreported or misposted wages are fixable, and the burden of catching them is yours. Will the system be there? The honest answer: almost certainly, but with adjusted rules. In 1960 about five workers supported each beneficiary; today it is under three, so Congress will eventually move the rate, the cap, the age, or the formula. The promise survives because politically it must — but the parameters will drift.

Now the owner's move that every profitable founder eventually studies. A sole proprietor pays SE tax on essentially

THE NUMBERS, VISUALIZED

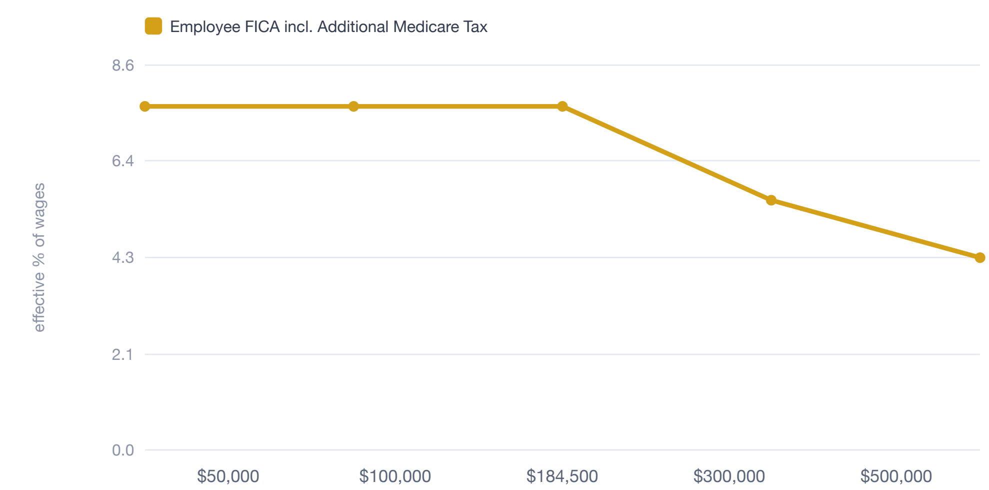
Who Pays What Into FICA (2026)



Employees see 7.65% withheld while employers quietly match it; the self-employed pay both halves (15.3%) through SECA. Social Security applies up to the $184,500 2026 wage base; Medicare has no cap.

Source: Topic No. 751, Social Security and Medicare Withholding Rates · Internal Revenue Service (2026) · https://www.irs.gov/taxtopics/tc751

The Regressive Tilt: Effective Employee FICA Rate by Wage (2026, single filer)



Illustrative computation from 2026 parameters: a flat 7.65% up to the $184,500 Social Security cap, then a falling effective rate as only Medicare (1.45% plus 0.9% over $200,000) applies to additional wages.

Source: Topic No. 751 and Topic No. 560 (Additional Medicare Tax), 2026 parameters · Internal Revenue Service (2026) · https://www.irs.gov/taxtopics/tc560

STORY BREAK

The Slice Behind the Wall

MARCUS
FICA took another slice. Where does it actually go?

Warm suburban kitchen at breakfast. Marcus, a dad in his mid-30s, sits at the table holding up a paystub envelope, brow furrowed, coffee mug steaming beside him.

1. Every payday, the same mystery line.

LEDGER
Social Security and Medicare. Your employer quietly matches every dollar.

Ledger's oak-paneled study, golden afternoon light. Ledger, a silver-haired mentor in a vest, stands behind his desk stacking two equal columns of gold coins beside an open ledger book.

MARCUS
So the real flow is double what I see?

2. Ledger stacks the visible half — and the hidden one.

LEDGER
Your slice becomes a neighbor's check the first Wednesday each month.

A tree-lined residential sidewalk at golden hour. Ledger and Marcus walk past tidy front porches with mailboxes, Ledger gesturing toward the houses down the street.

MARCUS
So it is a promise, not a fee.

3. The slice becomes someone's first-Wednesday deposit.

MARCUS
And it builds my own benefit record too?

Back in the kitchen at dusk. Marcus sits at a laptop, relaxed and smiling, while Ledger stands beside him tapping the screen with one finger.

LEDGER
A deposit, not just a deduction. Check yours anytime.

4. The deposit has your name on it too.

DO IT NOW

The Paystub Audit and Earnings-Record Check

Time: 25-35 minutes · You need: Your most recent paystub (or your latest 1099/Schedule C profit estimate if self-employed) · Calculator or spreadsheet · Computer or phone for ssa.gov · Last year's tax return (optional, for the self-employed check)

1. Find the Social Security line (may say OASDI or FICA-OASDI). Divide it by your FICA-taxable gross for the period — it should equal 6.2%. If your stub shows a lower FICA wage than gross, identify the pre-tax health premium causing the gap.
2. Find the Medicare line and verify 1.45% the same way. If you earn over $200,000 at this employer, confirm the extra 0.9% started at the threshold.
3. Write down your period FICA total, multiply by your pay periods per year, then double it — that is the full 15.3% flowing to the trust funds on your labor, including the employer half you never see.
4. Self-employed? Take your projected net profit, multiply by 0.9235, then by 15.3% — that is your SE tax estimate. Confirm your quarterly set-aside (25-30% of deposits) covers it plus income tax.
5. Create or log into your free my Social Security account at ssa.gov. Open your earnings record and verify the last three years match your W-2s or returns exactly — misposted wages shrink your future benefit and only you will catch them.
6. Note your projected retirement benefit at 62, full retirement age, and 70. File the number where you plan — it is the return side of every 7.65% slice.

Check yourself

- [ ] **Your paystub shows 6.2% and 1.45% lines. What is the total percentage of your covered wages actually reaching the trust funds, and why?**
  15.3% — your 7.65% plus an identical, invisible 7.65% employer match paid on top of your wage.

- [ ] **In 2026, on what wages does the 6.2% Social Security tax stop, and what happens to Medicare above that point?**
  Social Security stops at the $184,500 wage base; Medicare's 1.45% continues on all wages, plus 0.9% more above $200,000 single / $250,000 married filing jointly.

- [ ] **A freelancer nets $100,000. Why is her SE tax $14,130 rather than $15,300?**
  SE tax applies to only 92.35% of net profit ($92,350 x 15.3% = $14,129.55) — the law backs out the employer-half equivalent first; she also deducts half the SE tax against income tax.

- [ ] **An S corporation owner takes a $25,000 salary out of $150,000 of profit to minimize FICA. What is the risk?**
  The IRS requires reasonable compensation for services; unreasonably low salaries invite recharacterization of distributions as wages, back payroll taxes, and penalties — and low wages also shrink the owner's Social Security earnings record.

WORDS TO KNOW

FICA
Federal Insurance Contributions Act — the payroll tax funding Social Security (6.2%) and Medicare (1.45%), matched by employers.

OASDI
Old-Age, Survivors, and Disability Insurance — the formal name for Social Security; a common paystub label for the 6.2% line.

Wage base (contribution and benefit base)
The annual cap on wages subject to Social Security tax — $184,500 for 2026; it indexes upward most years.

Additional Medicare Tax
An extra 0.9% employee-only Medicare tax on wages and SE income above $200,000 single / $250,000 MFJ / $125,000 MFS; reconciled on Form 8959.

Employer match
The identical 6.2% + 1.45% an employer pays on top of your wage — never shown on your stub but part of your total compensation cost.

Self-employment (SE) tax
Both halves of FICA (15.3%) paid by self-employed people on 92.35% of net profit, once net earnings reach $400; filed on Schedule SE.

Half-of-SE-tax deduction
An above-the-line income-tax deduction for the employer-equivalent half of SE tax; it lowers income tax but not the SE tax itself.

Estimated taxes (Form 1040-ES)
Quarterly payments (April, June, September, January) self-employed people make in place of withholding, generally to a 90% / 100% / 110% safe harbor.

Earnings record
SSA's year-by-year log of your covered earnings; your retirement benefit is computed from your highest 35 years. Reviewable free at ssa.gov.

Regressive (at the cap)
Describes how the effective FICA rate falls as wages exceed the Social Security cap, since only Medicare applies above it.

Reasonable compensation
The wage an S corporation must pay an owner-employee for services before payroll-tax-free distributions — judged by duties, time, and comparable pay, and closely watched by the IRS.

Trust funds
The Social Security and Medicare accounts that receive FICA and pay current benefits — funded by today's workers for today's beneficiaries.

SOURCES & MATERIALS USED

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