

Social Security/Medicare taxes

On Wages

	<i>Employer</i>	<i>Employee</i>	<i>Total</i>
Social Security	6.2%	6.2%	12.4%
Medicare	1.45%	1.45%	2.9%
Total	7.65%	7.65%	15.3%

- Social Security wage base for 2018: \$128,400
- Medicare surtax: 0.9% of wages, compensation, self-employment income greater than \$200,000 (single) or \$250,000 (married, joint return) - employee only - combined with regular Medicare tax, rate is 3.8%

On Net Earnings from Self-Employment

Social Security	12.4%
Medicare	2.9%
Total	15.3%

- Tax base: 92.35% of net earnings from self-employment
- Filing threshold: \$400 of net earnings from self-employment
- Social Security base for 2018: \$128,400 minus wages
- Medicare surtax: 0.9% of wages, compensation, and self-employment income greater than \$200,000 (single), or \$250,000 (married, joint return) - combined with regular Medicare tax, rate is 3.8%

Tax on Net Investment Income (~Medicare)

- 3.8% of net investment income
- Applicable only to extent adjusted gross income is greater than \$200,000 (single), or \$250,000 (married, joint return)
- Applicable to investment income (dividends from C corporations, interest, recognized gains on stocks, bonds, etc.), income from financial trading business, and passive activity income (such as rental)
- Not applicable to income from nonrental, non-financial-trading business activities in which taxpayer materially participates
- Not imposed on wages or self-employment income

Choice of Entity Considerations

- Wage tax is not applicable to partners
- Wage tax is imposed on S corporation shareholders only to the extent of wages paid
- Wage tax is not imposed on distributions with respect to stock (e.g., dividends)

- Self-employment tax *is* imposed on pass-through income from partnership business to general partners
- Self-employment tax is *not* imposed on pass-through income from partnerships to limited partners
- Some LLC members may be treated as general partners for this purpose
- Self-employment tax is *not* imposed on pass-through income from S corporation to shareholders

- Net investment income tax is *not* imposed on tax-free distributions from S corporations to shareholders, or from partnerships to partners
- Net investment income tax *is* imposed on investment income passing through from S corporations to shareholders, and from partnerships to partners
- Net investment income tax *is* imposed on dividends received by C corporation shareholders