

## 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 2025: \$176,100
- Medicare surtax: 0.9% of wages, compensation, self-employment income greater than \$200,000 (single) or \$250,000 (married, joint return) - employee, not employer - 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 2025: \$176,100 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) - IRC § 1411

- 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, 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

## S Corporations

- Pass-through income is neither “wages” nor self-employment income
- Only “wage” payments are subject to tax
- Distributions generally not taxed because not gross income
- Cases: When corporation pays money to shareholders who perform services, reasonable amount must be treated as compensation for purposes of Social Security/Medicare taxes
- Net investment income tax (IRC § 1411) applies to high-income shareholder who does not materially participate

## Partnerships

- Partner's income is rarely, if ever, “wages”
- But partnership income may be “net earnings from self-employment”
  - General partners are taxed on pass-through items whenever partnership carries on trade or business
  - Section 707 payments for services rendered are taxable to any partner
  - “Limited partners” not taxable on pass-through items: IRC § 1402(a)(13)
  - Tax Court: State law “limited partner” label not controlling
- LLC members
  - Not automatically protected by IRC § 1402(a)(13) as “limited partners”
  - If LLC conducts a business:
    - Member taxed if actively participates or has controlling vote
    - IRS may seek to tax if member has power to contract on behalf of firm
    - IRS may seek to tax if member is actually liable for firm debts
- Distributions to any partner generally not taxed because not gross income

## Partnerships (cont'd)

- Net investment income tax (IRC § 1411)
  - Pass-through investment income included in partner's NII tax base
  - Pass-through business income also included if partner does not materially participate