

FICA wage base remains \$118,500 in 2016

The Social Security Administration has announced that the 2016 taxable wage base for the Social Security portion of FICA will remain \$118,500. The 6.2% Social Security tax is payable by both employers and employees; in 2016, the maximum tax is \$7,347. Except for pretax medical and tax-free fringe benefits, all wages are subject to the 1.45% Medicare portion of FICA or the 2.35% Medicare portion of FICA for employees earning more than \$200,000, since there's no wage base. (*SSA Fact Sheet, 10-15-15*)

Exempt amounts for retirees. Retirees who want to return to work are a reliable resource, since they already know the ropes. However, they may lose some of their Social Security benefits. How much they'll lose depends on an earnings test. *Tip:* Retirees usually think they'll lose more benefits than they actually will, so informing them of the 2016 figures can ease their minds.

Retirees who return to work during the year they reach full retirement age—between 65 and 67, depending on when they were born—are subject to a modified earnings test that applies *only* to earnings for the months before that birthday. Wages earned after that birthday don't reduce Social Security benefits. For 2016, the exempt amount remains \$41,880 a year; \$3,490 a month. For them, \$1 in benefits is lost for every \$3 they earn.

A separate earnings test applies to early retirees. Employees who retire before they reach full retirement age and who then return to work can continue to earn up to \$15,720 a year, or \$1,310 a month, without losing benefits. For these retirees, \$1 in benefits is lost for every \$2 they earn.

***2016 PENSION COLAS ARE NEXT:** The IRS has yet to release the 2016 cost of living adjustments for pretax contributions into 401(k) plans, pretax catch-up contributions and other inflation-adjusted pension amounts. Business Management Daily and *Payroll Legal Alert* will report these figures as soon as the IRS releases them.*