

Payroll tax compliance: New Social Security wage base for 2027

If your small business has employees, you may need to budget for higher payroll costs next year, especially if you employ many high earners. The Social Security Administration recently announced that the wage base for computing Social Security tax will increase to $192,300 for 2027 (up from $184,500 for 2026). Wages and self-employment income above this amount aren't subject to Social Security tax.

What's the Social Security wage base?

The Federal Insurance Contributions Act (FICA) imposes two taxes on employers and employees. One is for Old Age, Survivors and Disability Insurance, commonly known as the Social Security tax, and the other is for Hospital Insurance, commonly known as the Medicare tax.

The Social Security wage base is the maximum amount of compensation subject to Social Security tax, but there's no maximum for Medicare tax. For 2027, the FICA tax rate for employers will be 7.65%. This includes 6.2% for Social Security and 1.45% for Medicare (the same as in 2026).

Employers generally must *withhold* income tax and employees' share of Social Security and Medicare taxes (which equals the employer's share noted above) from wages and *pay* the employer's share of Social Security and Medicare taxes. You're also responsible

for depositing these amounts with the IRS and reporting them on the appropriate payroll tax returns. (By contrast, self-employed individuals generally pay Social Security and Medicare taxes through the *self-employment tax* rather than through payroll withholding and must pay both the employer's and employee's shares.) Additional rules apply to the 0.9% additional Medicare tax, federal unemployment tax, and various state and local taxes.

Nowadays, the Social Security wage base is adjusted annually, but it hasn't always been. When the federal government introduced the Social Security payroll tax 90 years ago in 1937, the wage base was only $3,000. It remained that amount through 1950. As the U.S. economy grew and wages rose, the wage base needed to be adjusted to maintain Social Security funding. By 1980, it had risen to $25,900, and by 2020, it was $137,700. Inflation and wage growth were key factors in these adjustments.

How much will it increase next year?

For 2027, an employee will pay:

- 6.2% Social Security tax on the first $192,300 of wages, for a maximum tax of $11,922.60 (6.2% × $192,300), plus
- 1.45% Medicare tax on all covered wages, plus
- 0.9% additional Medicare tax on all wages in excess of $200,000 ($250,000 for married taxpayers filing joint returns, $125,000 for married taxpayers filing separate returns).

Employers must match the 6.2% Social Security taxes on wages up to the annual wage base and 1.45% Medicare tax on all covered wages. There's no employer match for the additional Medicare tax, but the employer must withhold it when an employee's compensation exceeds $200,000, regardless of the employee's filing status.

For 2027, the self-employment tax imposed on self-employed people will be:

- 12.4% Social Security tax on the first $192,300 of net earnings from self-employment, for a maximum tax of $23,845.20 (12.4% × $192,300), plus
- 2.9% Medicare tax on all net earnings from self-employment, plus
- 0.9% additional Medicare tax on net earnings from self-employment in excess of $200,000 ($250,000 of combined self-employment income on a joint return, $125,000 for separate filers).

Can you modify withholding for employees with more than one employer?

If you have employees who work for your business and have second jobs, those workers may have payroll taxes withheld by two different employers. However, you can't stop withholding Social Security tax once their combined wages reach the wage base threshold.

Each employer must withhold Social Security taxes from an employee's wages, up to the annual wage base for wages that employer pays, even if the combined withholding exceeds the maximum amount that can be imposed for the year. Fortunately, an employee can generally claim a tax credit on his or her return for any excess Social Security tax withheld by multiple employers.

For more information

Do you have additional questions about your payroll tax obligations? Contact us. We'll help you comply with all applicable reporting and withholding requirements.

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