

FICA Payroll Taxes Increase in 2017, But Companies Can Be Exempt When Paying Severance



As of January 1, 2017, the taxable wage base increased to \$127,200, up \$8,700 from the \$118,500 limit that had been in place since 2015. As a result, higher-income workers will pay more FICA taxes. According to the Social Security Administration, about 12 million of the estimated 173 million workers who will pay Social Security taxes in 2017 will pay more because of the increase in the taxable maximum.

This tax increase will show up in the FICA tax deducted from the paychecks of those individuals earning above the 2016 wage base of \$118,500. Although the tax rate for the Old-Age, Survivors and Disability Insurance portion of the tax under the FICA has held steady at 6.2% since 1990, the amount of wages subject to the tax increases each year based on increases in the national average wage.

Employers and employees each pay 7.65% of wages up to the taxable limit, meaning each could pay up to \$665.55 more ($\$8,700 \times 0.0765$) in Social Security payroll taxes per employee in 2017. The 1.45% Medicare portion of the FICA payroll tax is imposed on all wages, including those above the \$127,200 threshold.

This means there's the possibility for companies to pay more FICA tax dollars in 2017 when paying severance.

Did You Know?

With an Employment Transition Benefit ("ETB") Plan, you would be exempt from paying not just the increase in FICA, but ALL FICA taxes for employees involved in an involuntary reduction-in-force.

An ETB Plan is an "alternative severance plan" designed to assist a former employee's transition to new employment due to an involuntary reduction in force, job elimination, reorganization, or similar circumstance. A custom designed and administrated ETB Plan can be turnkey for nearly any company looking to improve employee benefits and save money at the same time.

Since ETB payments are taxed the same as state unemployment insurance ("UI") benefits, the company is also exempt from FICA taxes. The company is also exempt from FUTA and SUTA taxes as well. When ETB payments are coordinated with state UI benefits, the amount of benefit the company pays the former employee is supplemented by the amount of state UI benefits they receive. Companies may be

able to reduce their overall severance costs by as much as 45% while the former employees receive 100% of their pre-layoff wage through the combination of ETB payments and state UI benefits.

Added Benefits for the Former Employee, Too

ETB payments are designed to supplement a former employee's receipt of state UI benefits, and since ETB payments are taxed the same way as state UI benefits, they're exempt from employee FICA taxes too. This means more money in the pocket of the former employees – an extra \$76.50 gained for every \$1,000 of benefit they receive at a time when they need it most – while they're transitioning to new employment.

If state UI benefits run out before the former employee's ETB payments end, the company could still pay 100% of the remaining balance as ETB. The significant company savings generated by the ETB Plan can also be reinvested to possibly offer additional weeks of separation benefits or additional services to the former employee. Plus, while some employers believe that ETB payments must be terminated upon a former employee's transition to new employment, an employer may choose to pay the former employer their entire remaining benefit balance as an incentive bonus outside of the ETB Plan.

To learn how an ETB Plan can help you and your employees, contact us at (617) 600-3240 or info@subpay.com.

Helping Companies and Their Former Employees Manage Transitions

For 30 years, TMS has been a trusted advisor and partner to Fortune 1000 companies during challenging times by providing ETB plan design, implementation and administration services. In addition, TMS has helped its clients change the way they manage severance, reduce the workload and stress on corporate Human Resources and Payroll departments, help former employees transition to new employment with full support services, and help companies save millions of dollars in reduced severance cost.

We're proud of our proven track record, providing more of what companies want for their former employees transitioning to new employment – effectiveness, efficiency, and empathy – and less of what they don't – hassles, costs, and risks.