

SOCIAL SECURITY TAXES WILL RISE IN 2005

The Social Security Administration has announced that earned income ceilings on which both FICA and self-employment taxes are imposed will rise in 2005. The tax rates will remain unchanged 7.65% (FICA rate and 15.3% self-employment rate).

FICA and self-employment taxes have two components. Of the 7.65% FICA tax, 6.2% is social security tax and 1.45% goes for the medicare hospital insurance tax. The corresponding figures for self-employment tax are 12.4% for social security and 2.9% for medicare.

The earned income ceiling on which the social security tax is collected will rise to \$90,000 (from the 2004 ceiling of \$87,900). This means any employee and their employer each will have to pay \$160.65 more in social security tax in 2005 than in 2004. There is no cap on earned income subject to medicare tax. Therefore, all wages and self-employment income will be subject to medicare tax.

- For income tax purposes, self-employed individuals can deduct one-half of their self-employment tax in computing adjusted gross income, i.e., an above the line deduction.

The Social Security Administration has announced that for 2005, cash remuneration paid by an employer for domestic service in the employer's private home isn't FICA wages if the amount paid during the year is less than \$1,400.

PENNSYLVANIA EMPLOYEE WITHHOLDING TAX RATE

Beginning January 1, 2005, the Pennsylvania State income tax withholding rate will remain at 3.07%. The rate after June 30, 2005 will depend on the state's budget.

EARNINGS LIMITATIONS FOR SOCIAL SECURITY BENEFICIARIES WILL INCREASE TO THE FOLLOWING LEVELS:

For those under age 65	\$12,000
For those ages 65 to full retirement age	\$31,800
For those who have reached full retirement age	No Limit

STANDARD MILEAGE RATES IN 2004

The standard mile rate for the use of a car for business purposes increases from 37.5 cents per mile to 40.5 cents per mile in 2005.

Please visit our web site at PKACPA.com for future tax updates and additional information about 2004 tax changes.

If there are any questions, please contact us.

Very truly yours,

Palermo/Kissinger & Associates, P.C.