



DEPARTMENT OF THE TREASURY  
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OFFICE OF THE CHIEF COUNSEL

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The Honorable Chuck Grassley  
United States Senate  
Washington, DC 20510

Attention:

Dear Senator Grassley:

I am responding to your inquiry dated August 3, 2016, on behalf of one of your constituents. Your constituent expressed a concern that the taxes imposed on self-employed persons under the Self-Employment Contributions Act (SECA) are not the same as the taxes imposed on employees and employers under the Federal Insurance Contributions Act (FICA).

Generally, under the FICA the employer and employee each pay a Social Security tax of 6.2 percent and a Medicare tax of 1.45 percent of the employee wages for a total of 15.3 percent. When the Congress extended coverage under Social Security and Medicare to the self-employed, a different tax structure under SECA was required since no employer-employee wage paying structure existed. In general, under SECA the self-employed person pays the same 15.3 percent rate as employers and employees pay under FICA. Though under SECA, the tax rate is based on net self-employment income rather than wages.

The Congress recognized that some differences between the taxes under SECA and FICA existed. To achieve parity between self-employed persons and employers and employees, the Congress enacted deductions under sections 164(f) and 1402(a)(12) of the Internal Revenue Code (Code).

Under section 1402(a)(12), a self-employed person may deduct 7.65 percent when computing net earnings from self-employment subject to SECA. This deduction reflects that an employee does not pay FICA tax on their employer's portion of FICA tax for wages paid to an employee. Additionally, under section 164(f), self-employed persons

can deduct one-half of the SECA tax when computing their income subject to income taxes. This deduction reflects that an employee does not pay income tax on the value of the employer's portion of FICA tax for wages paid to an employee.

I hope this information is helpful. Please contact me or \_\_\_\_\_ at \_\_\_\_\_ if we can be of further assistance.

Sincerely,

Michael Swim  
Senior Technician Reviewer  
Employment Tax Branch 1  
Office of the Associate Chief Counsel  
(Tax Exempt and Government Entities)