



DEFENSE FINANCE AND ACCOUNTING SERVICE
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APR 4 2006

DFAS-DOP

MEMORANDUM FOR DIRECTOR, ACCOUNTING AND FINANCE POLICY AND
ANALYSIS, OFFICE OF THE UNDER SECRETARY OF
DEFENSE (COMPTROLLER)
DIRECTOR, FINANCE, DEFENSE FINANCE AND
ACCOUNTING SERVICE

SUBJECT: Interim Change to the DoDFMR, Volume 7A, Provides the 2006 Calendar Year
Federal Income Contribution Act (FICA) Percentages, Maximum Taxable Wages
and Maximum Tax (DFAS Item # P-75)

Attached is Interim Change 20-06 to Chapter 45 of the Department of Defense Financial
Management Regulation (DoDFMR), Volume 7A. This change provides the new FICA rates for
calendar 2006.

Assignment of the interim change number is authority for the Director for Finance to
initiate a procedural modification to implement this change. It is requested that the Director for
Accounting and Finance Policy and Analysis post a copy of this interim change to the DoDFMR
web site.

A handwritten signature in cursive script, appearing to read "Lydia Moschkin".

Lydia Moschkin
Director, Policy and
Performance Management

Attachment:
As stated

cc:
DFAS-AMO (Pat McGriff)
DFAS-DE/DGM
DFAS-PM/IN (Cindy Garcia)
DFAS-PMA/CL
DoD-DHRA/OGC
ODUSD(MPP)(Comp)
Service Liaisons
USCG/NOAA/PHS Liaisons

FICA RATES FOR CY 2006

1. Replace Table 45-1 with the following:

FICA PERCENTAGES AND MAXIMUM TAXABLES WAGES AND MAXIMUM TAX				
Year	Social Security (OASDI) Tax	Medicare Hospital Insurance (HI) Tax	Maximum FICA Wages	Maximum Tax
2000	6.20		76,200	4,724.40
		1.45	unlimited	
2001	6.20		80,400	4,984.80
		1.45	unlimited	
2002	6.20		84,900	5,263.80
		1.45	unlimited	
2003	6.20		87,000	5,394.00
		1.45	unlimited	
2004	6.20		87,900	5,449.80
		1.45	unlimited	
2005	6.20		90,000	5,580.00
		1.45	unlimited	
★2006	6.20		94,200	5,840.40
		1.45	unlimited	

★Table 45-1. FICA Percentages and Maximum Taxable Wages and Maximum Tax

number of withholding allowances permitted for a specific employee.

After the IRS issues a lock-in letter, if the employee wants to claim complete exemption from withholding or claim a number of withholding allowances more than the maximum number specified by the IRS in the lock-in letter, the employee must submit a new Form W-4 and a written statement to support the claims made by the employee on the Form W-4 to the IRS.

If, after you receive the lock-in letter, your employee provides you with a subsequent Form W-4 that does not claim exemption from federal income tax withholding and claims fewer allowances than the number shown in the lock-in letter, resulting in more withholding, withhold based on the subsequent Form W-4 if it is a valid form. Otherwise, disregard any subsequent Forms W-4 provided by the employee and withhold based on the lock-in letter. For additional information about these new rules, see Treasury Decision 9196. You can find Treasury Decision 9196 on page 1,000 of Internal Revenue Bulletin 2005-19 at www.irs.gov/pub/irs-irbs/irb05-19.pdf.

Substitute Forms W-4. You are encouraged to have your employees use the official version of Form W-4 to claim withholding allowances or exemption from withholding. Call the IRS at 1-800-829-3676 or visit the IRS website at www.irs.gov to obtain copies of Form W-4.

You may use a substitute version of Form W-4 to meet your business needs. However, your substitute Form W-4 must contain language that is identical to the official Form W-4 and your form must meet all current IRS rules for substitute forms. At the time that you provide your substitute form to the employee, you must provide him or her with all tables, instructions, and worksheets from the current Form W-4. You may refuse to accept a substitute form developed by an employee.

You may require the employee to use the official Form W-4 or your substitute version. See Treasury Decision 9196 for details.

Invalid Forms W-4. Any unauthorized change or addition to Form W-4 makes it invalid. This includes taking out any language by which the employee certifies that the form is correct. A Form W-4 is also invalid if, by the date an employee gives it to you, he or she indicates in any way that it is false. An employee who submits a false Form W-4 may be subject to a \$500 penalty.

When you get an invalid Form W-4, do not use it to figure federal income tax withholding. Tell the employee that it is invalid and ask for another one. If the employee does not give you a valid one, withhold taxes as if the employee was single and claiming no withholding allowances. However, if you have an earlier Form W-4 for this worker that is valid, withhold as you did before.

Amounts exempt from levy on wages, salary, and other income. If you receive a Notice of Levy on Wages, Salary, and Other Income (Forms 668-W(c), or 668-W(c)(DO)), you must withhold amounts as described in the instructions for these forms. Publication 1494, Table for Figuring Amount Exempt From Levy on Wages, Salary, and Other Income (Forms 668-W(c), 668-W(c)(DO), and 668-W(ICS)) 2006, shows the exempt amount. If a levy issued in a prior year is still in effect and the taxpayer submits a new Statement of Exemptions and Filing Status, use the current year Publication 1494 to compute the exempt amount.

Social Security and Medicare Taxes

The Federal Insurance Contributions Act (FICA) provides for a federal system of old-age, survivors, disability, and hospital insurance. The old-age, survivors, and disability insurance part is financed by the social security tax. The hospital insurance part is financed by the Medicare tax. Each of these taxes is reported separately.

Generally, you are required to withhold social security and Medicare taxes from your employees' wages and you must also pay a matching amount of these taxes. Certain types of wages and compensation are not subject to social security taxes. See sections 5 and 15 for details.

Generally, employee wages are subject to social security and Medicare taxes regardless of the employee's age or whether he or she is receiving social security benefits. If the employee reported tips, see section 6.

Tax rates and the social security wage base limit.

Social security and Medicare taxes have different rates and only the social security tax has a wage base limit. The wage base limit is the maximum wage that is subject to the tax for the year. Determine the amount of withholding for social security and Medicare taxes by multiplying each payment by the employee tax rate. There are no withholding allowances for social security and Medicare taxes.

The employee tax rate for social security is **6.2% (amount withheld)**. The employer tax rate for social security is also 6.2% (12.4% total). The 2005 wage base limit was \$90,000. For 2006, the wage **base limit is \$94,200**.

The employee tax rate for Medicare is **1.45% (amount withheld)**. The employer tax rate for Medicare tax is also 1.45% (2.9% total). There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax.

Successor employer. If you received all or most of the property used in the trade or business of another employer, or a unit of that employer's trade or business, you may include the wages that the other employer paid to your acquired employees before the transfer of property when you figure the annual wage base limit for social security. You should determine whether or not you should file Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations, by reviewing the Instructions for Schedule D (Form 941). See Regulations section 31.3121(a)(1)-1(b) for more information. Also see Rev. Proc. 2004-53 for more information. You can find Rev. Proc. 2004-53 on page 320 of Internal Revenue Bulletin 2004-34 at www.irs.gov/pub/irs-irbs/irb04-34.pdf.

Example. Early in 2006, you bought all of the assets of a plumbing business from Mr. Martin. Mr. Brown, who had been employed by Mr. Martin and received \$2,000 in wages before the date of purchase, continued to work for you. The wages that you paid to Mr. Brown are subject to social security taxes on the first \$92,200 (\$94,200 minus \$2,000). Medicare tax is due on all of the wages that you pay him during the calendar year.

Withholding of social security and Medicare taxes on nonresident aliens.

In general, if you pay wages to nonresident alien employees, you must withhold federal social security and Medicare taxes as you would for a U.S. citizen. However, see Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, for exceptions to this general rule.

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