

MEMO



DEC 07 2010

Senate of Pennsylvania

December 6, 2010

**TO:** ALL SENATORS  
**FROM:** Stewart J. Greenleaf *Stewart*  
**SUBJECT:** Cosponsorship -- Self-employment tax

I am reintroducing **Senate Bill 178**, amending the Tax Reform Code of 1971 (Act 2 of 1971) to allow self-employed individuals to deduct from their State personal income tax one-half of the self-employment tax they pay.

The self-employment tax is a Social Security and Medicare tax paid primarily by individuals who work for themselves. Self-employed individuals have to pay the Social Security and Medicare tax at a rate of 15.3% of gross earnings. The rate consists of two parts: 12.4% for Social Security (old age, survivors and disability insurance) and 2.9% for Medicare (hospital insurance).

The self-employment tax is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners with one large exception. Traditional employees only pay one-half of the tax while their employer pays the remaining one-half. For Social Security the employee pays at a rate of 6.2% and the employer pays at a rate of 6.2% for a total rate of 12.4% and for Medicare the employee pays at a rate of 1.45% and the employer pays at a rate of 1.45% for a total rate of 2.9%.

In both cases the rate is 15.3% but self-employed individuals must pay at the full rate while traditional employees only pay one-half of the rate. In order to level the playing field, the Internal Revenue Code permits self-employed individuals to deduct from their Federal income tax one-half of the self-employment tax they pay. Under current State law, individuals may not deduct from their State personal income tax the amount of any taxes they pay based on gross or net income, including the amount of self-employment tax. My legislation will allow self-employed individuals to deduct one-half of their self-employment tax.

By allowing self-employed individuals to deduct one-half of the self-employment tax, we are removing any unequal tax treatment and providing a deduction which is already available to taxpayers when filing a Federal tax return.

*If you would like to cosponsor this legislation, please contact Pat Snively of my office by e-mailing her at [psnively@pasen.gov](mailto:psnively@pasen.gov).*