TAX YEARS 2026-2027 · EXCEL + PDF GUIDE

True Cost of an Employee Calculator Guide

What one employee really costs: pay + employer taxes + insurance + benefits + other costs.

Quick answer (example): a full-time employee at $22/hour (40 hours, 52 weeks) with a $500 bonus, $400/month health insurance and a 3% retirement match costs about **$57,561 a year**, or **24.4% more than the $46,260 gross pay**. EXAMPLE VALUES

How to use this kit in 3 steps

1. **Open the Excel file** and go to the **Calculator** tab.
2. **Type 4 numbers** in the yellow boxes: tax year, hourly pay, hours per week, your state unemployment (SUTA) rate. Fill the grey optional boxes if you know them.
3. **Read the big green box**: total yearly cost. Then use Scenarios, Monthly Cost and Break-Even to plan.

What is inside this guide

- The true-cost formula and the 2026 and 2027 federal rates
- Each employer cost explained, and what is NOT your cost
- 3 worked examples, checked by hand
- Cost per hour actually worked and break-even sales
- Edge cases, key dates, a checklist and common mistakes

Important: Education and planning only. Not tax, legal or payroll advice, and no result is guaranteed. State and local payroll taxes, insurance prices and labor laws vary. Check your state agency, insurer and payroll provider before you decide.

Built by a US tax and bookkeeping practice with 20+ years of bookkeeping experience. Privacy: the files never ask for SSNs, bank account numbers or passwords.

1. The true-cost formula

```
True yearly cost = Gross pay
  + Social Security and Medicare (employer shares)
  + FUTA + SUTA (unemployment taxes)
  + Workers' comp + Health insurance (your share)
  + Retirement match + Other costs
```

Gross pay = hourly pay x hours per week x weeks paid, plus any bonus. If you pay a salary, gross pay = salary + bonus.

Federal employer rates used in the workbook

Item	2026	2027	Note
Social Security wage base	$184,500	$192,300	6.2% stops above this
Social Security, employer	6.2%	6.2%	Employee pays another 6.2%
Medicare, employer	1.45%	1.45%	No wage limit
FUTA	0.6% of $7,000	0.6% of $7,000	6.0% less up to 5.4% credit
Additional Medicare 0.9%	Employee	Employee	Over $200,000; employer does not match

Sources: IRS Publication 15 (Circular E) for 2026; SSA Contribution and Benefit Base page (2027 base announced October 2026). Reviewed November 2026.

The same math as spreadsheet formulas

If gross pay is in cell B1 and your SUTA rate in B2 (2027, $7,000 SUTA wage base):

```
Social Security: =MIN(B1,192300)*6.2%
Medicare: =B1*1.45%
FUTA: =MIN(B1,7000)*0.6%
SUTA: =MIN(B1,7000)*B2
Workers' comp (rate per $100 in B3): =B1/100*B3
```

> **Why it matters:** owners often budget only the hourly rate. Employer taxes alone usually add about 7.65% plus unemployment tax, and insurance and benefits can push the total 10% to 30% or more above pay.

2. Each employer cost, explained

Social Security and Medicare (FICA), employer share

You pay 6.2% Social Security on wages up to the yearly wage base and 1.45% Medicare on all wages. You also withhold the same amounts from the employee's pay, but that part is the employee's money, not your extra cost.

Federal unemployment (FUTA)

6.0% on the first $7,000 of each employee's wages each year. If you pay your state unemployment tax on time, you normally get up to a 5.4% credit, so the net rate is 0.6%: at most **$42 per employee per year**. In a **credit reduction state** the credit is smaller and you pay extra with Form 940. The Department of Labor publishes the final list each November; type the extra rate in Calculator row 21.

State unemployment (SUTA)

Each state sets its own rate and its own taxable wage base. New employers usually get a standard rate; later the rate depends on your history. Use the rate on your state notice. The workbook uses $7,000 only as an example base.

Workers' compensation insurance

Priced per $100 of payroll and by job class. Office jobs are cheap; kitchen, cleaning and construction jobs cost more. Ask your insurer for the rate.

Benefits and other costs

Your share of health insurance, retirement matching, payroll service fees, uniforms, equipment and training. Employer health premiums and retirement contributions are generally not wages for Social Security and Medicare, so the workbook does not add payroll tax on them.

> **Not your employer cost:** federal and state income tax withholding, the employee's 7.65% FICA and the 0.9% Additional Medicare Tax. You withhold and send these, but they come out of the employee's pay.

Not covered by the workbook: state disability, training or paid-leave payroll taxes, city taxes, overtime premiums and paid sick leave rules. Add them in "Other yearly costs" if they apply.

3. Three worked examples (2027)

ALL VALUES ARE EXAMPLES. These are the same three jobs on the Scenarios tab. Every number below was checked by hand.

Inputs	A	B	C
Pay	$17/hr, 25 hrs	$22/hr, 40 hrs	$200,000 salary
SUTA rate / wage base	3.4% / $7,000	2.5% / $40,000	1.5% / $7,000
Workers' comp per $100	$1.20	$3.50	$0.30
Health / retirement / bonus	none	$450/mo, 3%, $1,000	$900/mo, 4%, none
Other costs / paid days off	$300 / 6	$800 / 15	$2,000 / 20

Item	A Part-time cashier	B Full-time shop staff	C Senior manager
Gross pay (wages + bonus)	$22,100.00	$46,760.00	$200,000.00
Social Security, employer	$1,370.20	$2,899.12	$11,922.60
Medicare, employer	$320.45	$678.02	$2,900.00
FUTA	$42.00	$42.00	$42.00
SUTA	$238.00	$1,000.00	$105.00
Workers' comp	$265.20	$1,636.60	$600.00
Health insurance	$0.00	$5,400.00	$10,800.00
Retirement match	$0.00	$1,402.80	$8,000.00
Other yearly costs	$300.00	$800.00	$2,000.00
Total yearly cost	**$24,635.85**	**$60,618.54**	**$236,369.60**
Extra cost on top of pay	11.5%	29.6%	18.2%
Cost per hour actually worked	$19.40	$30.93	$123.11

Hand check for B (full-time shop staff)

Gross pay = $22 x 40 x 52 + $1,000 = **$46,760**. Social Security = $46,760 x 6.2% = $2,899.12. Medicare = $46,760 x 1.45% = $678.02. FUTA = $7,000 x 0.6% = $42. SUTA = $40,000 x 2.5% = $1,000. Workers' comp = $46,760 / 100 x $3.50 = $1,636.60. Health = $450 x 12 = $5,400. Retirement = $46,760 x 3% = $1,402.80. Other $800. **Total $60,618.54**.

C earns more than the 2027 wage base, so Social Security is $192,300 x 6.2% = $11,922.60, not $12,400.

4. Cost per hour worked and break-even sales

Paid hours vs hours actually worked

You pay for vacation, holidays and sick days, but no work gets done on those days. The workbook shows both numbers:

```
Cost per paid hour = total yearly cost / (hours per week x weeks)
Cost per hour worked = total yearly cost / (paid hours - paid days off x hours per day)
```

Example B: paid hours = 40 x 52 = 2,080. Days off = 15 x 8 = 120 hours. Worked hours = 1,960. Cost per worked hour = $60,618.54 / 1,960 = **$30.93**, even though the pay rate is $22. **EXAMPLE**

How much extra sales does the hire need?

An employee is paid from gross profit, not from sales. If you keep 60 cents of each sales dollar after the cost of goods (60% gross margin):

```
Extra sales needed per year = total yearly cost / gross margin %
Example: $57,561 / 60% = $95,934 a year, about $7,995 a month or $1,845 a week
```

The Break-Even tab also has a pay-rate What-If table, so you can see how the yearly cost and the sales you need change at $15, $20, $25 or $40 an hour.

The January cash spike

FUTA and most SUTA wage bases are small, so those taxes are paid on the first wages of each year. The Monthly Cost tab spreads pay evenly and shows that January and February cost more than later months. With a $46,260 example employee, January costs about $4,928 and March about $4,773.

> **Tip:** plan cash for the first quarter, and re-check your SUTA rate notice every January.

5. Edge cases and real-world situations

Situation	What to do in the workbook
High earner over the wage base	Nothing. The 6.2% stops automatically at $184,500 (2026) or $192,300 (2027).
Hired mid-year	Set the start month on Monthly Cost. FUTA and SUTA still apply to the first $7,000 (or your base) of that year's wages.
Hired in December	FUTA and SUTA start again in January on the same person. Budget them twice in a short time.
Part-time or seasonal staff	Each person has their own FUTA and SUTA base, so five part-timers cost more in unemployment tax than one full-timer with the same total pay.
Credit reduction state	Type the extra FUTA rate in Calculator row 21 (optional box).
Salaried employee	Type the salary in the optional "Annual salary" box; it replaces hourly pay.
Overtime	Not calculated. Add expected overtime pay to "Bonus / other cash pay" so taxes are included.
Tipped employees	Reported tips are wages for Social Security and Medicare. Add yearly tips to the bonus box to see employer FICA on them.
S-corp owner on payroll	Your own wages carry the same employer taxes. Health insurance for a 2% shareholder has special W-2 rules.
Your child or spouse	Special payroll tax rules can apply to family employees. Check before you rely on this file.
Household employee (nanny)	Different forms (Schedule H) and thresholds. This file is for business employees.
Employee in another state	Use that state's SUTA rate and wage base; you may need a new state account.

Contractor or employee? Paying someone as a 1099 contractor removes these costs only when the person really is a contractor. Misclassifying an employee can lead to back taxes and penalties.

6. Key dates and a before-you-hire checklist

Date	What is due (2026 payroll year)
Feb 1, 2027	Form W-2 to employees and to SSA (January 31 falls on a Sunday)
Feb 1, 2027	Form 940 (FUTA) and Form 941 for Q4 2026
Apr 30, 2027	Form 941 for Q1 2027
Early 2027	Your state mails the new SUTA rate notice; update the Calculator

General rule: a due date on a weekend or legal holiday moves to the next business day. Your deposit schedule (monthly or semiweekly) is separate; see IRS Publication 15.

Before you hire

1. Open your state unemployment account and note your SUTA rate and wage base.
2. Get a workers' comp quote for the job class.
3. Ask your payroll provider for monthly and year-end fees.
4. Check state disability, training or paid-leave payroll taxes, and city taxes.
5. Check local minimum wage, overtime and paid sick leave rules.
6. Decide benefits: health insurance share and retirement match.
7. Prepare new-hire paperwork: Form W-4, Form I-9 and the state new-hire report.
8. Run the Calculator and the Break-Even tab before you post the job.
9. Plan first-quarter cash for FUTA and SUTA.
10. Keep payroll records at least 4 years.

7. Common mistakes

1. **Budgeting only the hourly rate.** Use the green total, not the pay rate.
2. **Counting withheld taxes as your cost.** The employee's FICA and income tax come out of their pay.
3. **Using another state's SUTA rate.** Rates and wage bases differ a lot between states.
4. **Forgetting the wage base cap.** 6.2% on a $200,000 salary is not $12,400 in 2027.
5. **Ignoring paid time off.** Cost per hour worked is higher than cost per paid hour.
6. **Forgetting the January spike.** FUTA and SUTA restart every year.
7. **Using last year's numbers.** Update the year box and the SUTA rate every January.
8. **Calling an employee a contractor** to avoid these costs.

Where to check the official rules

- IRS Publication 15 (Circular E), Employer's Tax Guide
- IRS Topic 759, Form 940 and FUTA
- SSA Contribution and Benefit Base page
- US Department of Labor, FUTA credit reductions
- Your state unemployment insurance agency and workers' comp insurer

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