

## Scrapping the Social Security Payroll Tax Cap: Who Would Pay More?

By Nicole Woo, Janelle Jones, and John Schmitt\*

According to the latest report of the Social Security Trustees,<sup>1</sup> there currently are \$2.7 trillion in the Social Security Trust Fund, held in Treasury bonds. Since the program is currently taking in more revenues (taxes on payroll and benefits as well as interest on the bonds) than it is paying out, the Trust Fund will continue to grow to about \$2.9 trillion.

The Trust Fund was set up to help pre-fund the retirement of the baby boomer generation. In about 2033, these funds will be drawn down, so after that point, if no changes are made, beneficiaries would receive about 75 percent of scheduled benefits. This gap between what the program would be able to pay and scheduled benefits is equivalent to about one percent of Gross Domestic Product over the next 75 years.

To help avoid a reduction in payments and alleviate the program's budget shortfall, one option is raising – or even abolishing – the cap on the maximum amount of earnings that are subject to the Social Security payroll tax. In 2014, that cap is set at \$117,000 per year (it is adjusted annually to keep up with inflation).

Many Americans do not realize that any income above the \$117,000 cap is not taxed by Social Security. That means that a worker who makes twice the cap – \$234,000 per year – pays the tax on only half of his or her earnings. And those fortunate enough to make over \$1.17 million per year are taxed by Social Security on only one-tenth or less of their earnings. In other words, workers who make \$117,000 or less per year pay a *higher* Social Security payroll tax rate than those who make more.

A number of policy makers have proposed raising or phasing out the cap in order to strengthen Social Security's finances. For example, Senators Tom Harkin and Mark Begich, as well as Representatives Linda Sanchez, Ted Deutch and Gwen Moore, have introduced bills that would phase out the cap over five to ten years. The Social Security Administration's Chief Actuary estimates that the payroll tax cap sections of these proposals would reduce the long-term budget shortfall by between 70 and 80 percent.<sup>2</sup>

In addition, Senator Bernie Sanders and Representative Peter DeFazio have introduced bills to apply the Social Security payroll tax to earnings above \$250,000 (but not to wages between \$117,000 and \$250,000). These bills are similar to a proposal by Barack Obama during the 2008 presidential campaign.



Center for Economic and Policy Research  
1611 Connecticut Ave. NW  
Suite 400  
Washington, DC 20009

tel: 202-293-5380  
fax: 202-588-1356  
[www.cepr.net](http://www.cepr.net)

\* Nicole Woo is Director of Domestic Policy at the Center for Economic and Policy Research in Washington, D.C. John Schmitt is a Senior Economist and Janelle Jones is a Research Assistant at CEPR.

They are also estimated to eliminate about 80 percent of the long-range shortfall.

The tables and figures that follow analyze Census Bureau data from the most recently available American Community Survey to ascertain how many workers would be affected if the Social Security payroll tax cap were raised or phased out. We find that about 1 in 18 workers (the top 5.6 percent) would pay more if the cap were scrapped, and only the top 1.4 percent (1 in 71 workers) would be affected if the tax were applied to earnings over \$250,000.

When we look at the working population according to gender, race or ethnicity, age, or state of residence, the share of workers who would be affected by increasing or phasing out the cap varies widely. For example, about 1 in 36 (2.8 percent) of female workers would pay more if the cap were eliminated, and half of one percent would be affected if the tax were applied to earnings over \$250,000. Similarly, only about 1 in 50 black or Latino workers would pay more if the cap were lifted entirely, and about 1 in 200 would be affected if earnings above \$250,000 were subject to the tax.

**TABLE 1**

**Workers with Annual Earnings over \$117,000 and \$250,000 by Race/Ethnicity**

Race/Ethnicity	\$117,000		\$250,000	
	Percent	Number	Percent	Number
All	5.6	8,252,290	1.4	2,090,056
White	6.9	6,679,663	1.8	1,765,422
Black	2.1	340,934	0.4	64,338
Latino	2.2	346,164	0.5	79,509
Asian	8.8	771,828	1.8	157,530
Other	1.3	113,701	0.3	23,257

Source: Authors' analysis of American Community Survey (ACS), 2012.

Notes: In order to focus on workers with significant attachment to work, calculations exclude those who are younger than 16, or who worked fewer than 14 weeks in the preceding 12 months, or usually worked fewer than 10 hours per week. This has the effect of making these estimates conservative; without these exclusions the percentages shown would be smaller.

**TABLE 2**

**Workers with Annual Earnings over \$117,000 and \$250,000, by Race/Ethnicity and Gender**

Race/Ethnicity	\$117,000				\$250,000			
	Male		Female		Male		Female	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
All	8.2	6,355,490	2.8	1,896,800	2.2	1,727,594	0.5	362,462
White	10.1	5,234,291	3.2	1,445,372	2.9	1,476,793	0.6	288,629
Black	2.8	211,211	1.5	129,723	0.6	42,349	0.2	21,989
Hispanic	3.0	264,919	1.2	81,245	0.8	66,111	0.2	13,398
Asian	12.1	559,602	5.1	212,226	2.7	123,930	0.8	33,600
Other	1.7	85,467	0.8	28,234	0.4	18,411	0.1	4,846

Source and notes: See Table 1.

- 1 See "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds" at <http://www.ssa.gov/oact/tr/>.
- 2 See Office of the Chief Actuary, Social Security Administration, "Proposals Affecting Trust Fund Solvency" page at <http://www.socialsecurity.gov/OACT/solvency/index.html>.

**TABLE 3****Workers with Annual Earning over \$117,000 and \$250,000, by Age Group**

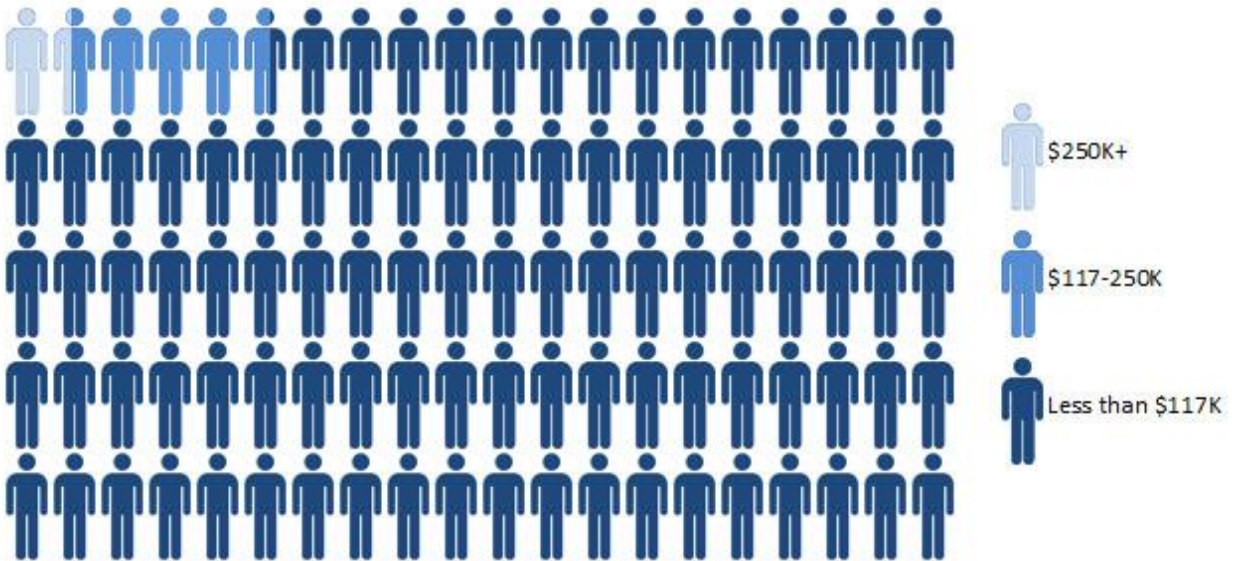
Age Group	\$117,000		\$250,000	
	Percent	Number	Percent	Number
All	5.6	8,252,290	1.4	2,090,056
16-24	0.1	19,964	0.0	7,278
25-34	2.0	652,521	0.3	107,989
35-44	7.0	2,218,312	1.6	509,304
45-54	8.5	2,858,277	2.2	746,163
55-64	8.4	1,984,767	2.3	549,530
65+	7.6	518,449	2.5	169,792

Source and notes: See Table 1.

**TABLE 4****Workers with Annual Earnings over \$117,000 and \$250,000, by Age Group and Gender**

Age Group	\$117,000				\$250,000			
	Male		Female		Male		Female	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
All	8.2	6,355,490	2.8	1,896,800	2.2	1,727,594	0.5	362,462
16-24	0.1	13,643	0.1	6,321	0.0	4,137	0.0	3,141
25-34	2.7	468,200	1.2	184,321	0.5	81,912	0.2	26,077
35-44	9.6	1,665,826	3.8	552,486	2.4	411,132	0.7	98,172
45-54	12.5	2,190,490	4.2	667,787	3.5	613,778	0.8	132,385
55-64	12.8	1,573,746	3.6	411,021	3.8	464,708	0.7	84,822
65+	11.6	443,585	2.5	74,864	4.0	151,927	0.6	17,865

Source and notes: See Table 1.

**FIGURE 1****Workers Earning Less than \$117K, \$117-250K, and \$250K**

Source and notes: See Table 1.

TABLE 5

## Workers with Annual Earnings over \$117,000 and \$250,000, by State

State	\$117,000		\$250,000	
	Percent	Number	Percent	Number
All	5.6	8,252,290	1.4	2,090,056
AL	3.7	76,103	1.4	29,050
AK	6.9	26,120	1.2	4,465
AZ	4.5	128,374	1.2	35,214
AR	2.8	35,832	1.2	14,843
CA	7.7	1,306,847	1.5	261,981
CO	6.3	165,135	1.3	33,462
CT	8.9	159,511	2.5	44,018
DE	4.8	20,868	1.1	4,898
DC	13.9	47,533	2.7	9,285
FL	4.3	368,279	1.6	132,374
GA	5.2	227,678	1.2	51,335
HI	3.4	23,254	1.1	7,781
ID	3.2	23,424	0.2	1,388
IL	6.1	372,605	1.3	79,056
IN	3.4	102,953	1.2	36,437
IA	3.5	54,896	1.7	26,106
KS	4.2	60,023	1.4	20,319
KY	3.3	64,421	1.2	24,013
LA	4.4	91,810	1.4	28,143
ME	3.3	21,193	0.9	5,996
MD	9.1	273,922	1.4	40,925
MA	8.7	293,996	1.9	64,262
MI	4.1	179,666	1.2	50,257
MN	5.3	149,845	1.3	36,623
MS	2.9	36,369	1.3	15,772
MO	3.7	104,109	1.3	36,752
MT	3.2	15,534	0.0	239
NE	3.5	34,192	1.2	11,969
NV	3.6	46,080	1.3	16,591
NH	6.7	47,290	1.4	9,569
NJ	10.0	424,914	2.1	89,192
NM	3.8	34,767	1.4	12,917
NY	7.2	668,682	1.8	169,611
NC	4.3	190,625	1.5	65,914
ND	5.3	20,610	2.6	10,131
OH	4.1	219,797	1.2	64,694
OK	3.3	59,067	1.4	23,992
OR	4.2	75,342	1.3	22,512
PA	5.1	310,566	1.3	79,547
RI	5.1	26,701	1.3	6,999
SC	3.7	76,121	1.2	25,081
SD	2.6	11,438	1.4	5,905
TN	3.8	112,344	1.4	42,251
TX	5.7	682,259	1.4	164,785
UT	3.9	52,002	1.4	18,791
VT	4.0	13,328	1.0	3,474
VA	8.9	363,799	1.3	54,207
WA	6.6	216,479	1.4	47,024
WV	3.2	25,073	1.4	10,878
WI	3.5	101,301	1.2	36,030
WY	3.0	9,213	1.0	2,998

Source and notes: See Table 1.

TABLE 6

## Workers with Annual Earnings over \$117,000 and \$250,000, by State and Gender

State	\$117,000				\$250,000			
	Male		Female		Male		Female	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
All	8.2	6,355,490	2.8	1,896,800	2.2	1,727,594	0.5	362,462
AL	5.7	63,559	1.3	12,544	2.3	25,304	0.4	3,746
AK	9.7	20,343	3.4	5,777	1.7	3,534	0.5	931
AZ	6.8	103,154	1.9	25,220	1.9	28,792	0.5	6,422
AR	4.4	29,921	1.0	5,911	1.8	11,888	0.5	2,955
CA	10.3	963,682	4.5	343,165	2.2	209,103	0.7	52,878
CO	9.1	131,689	2.8	33,446	1.9	27,550	0.5	5,912
CT	13.3	124,068	4.1	35,443	4.0	37,250	0.8	6,768
DE	7.0	15,525	2.5	5,343	1.7	3,728	0.5	1,170
DC	17.8	29,450	10.3	18,083	4.2	6,933	1.3	2,352
FL	6.6	294,022	1.8	74,257	2.5	110,296	0.5	22,078
GA	7.9	184,925	2.1	42,753	1.9	44,863	0.3	6,472
HI	4.3	15,862	2.4	7,392	1.6	6,047	0.6	1,734
ID	5.2	20,751	0.8	2,673	0.4	1,388	0.0	0
IL	8.8	281,800	3.1	90,805	2.0	65,333	0.5	13,723
IN	5.1	83,456	1.3	19,497	1.9	30,670	0.4	5,767
IA	5.5	45,682	1.2	9,214	2.5	20,916	0.7	5,190
KS	6.4	49,961	1.5	10,062	2.3	18,163	0.3	2,156
KY	4.8	49,817	1.6	14,604	1.8	18,473	0.6	5,540
LA	7.0	76,493	1.6	15,317	2.1	23,179	0.5	4,964
ME	4.7	15,954	1.7	5,239	1.3	4,482	0.5	1,514
MD	12.9	197,450	5.2	76,472	2.1	32,645	0.6	8,280
MA	12.5	215,305	4.8	78,691	3.1	52,905	0.7	11,357
MI	6.4	144,747	1.7	34,919	1.8	40,684	0.5	9,573
MN	8.0	119,015	2.3	30,830	2.1	31,713	0.4	4,910
MS	4.7	29,613	1.1	6,756	2.1	13,149	0.4	2,623
MO	5.8	85,321	1.4	18,788	2.2	31,589	0.4	5,163
MT	5.1	13,650	0.8	1,884	0.1	239	0.0	0
NE	5.4	27,652	1.4	6,540	2.0	10,232	0.4	1,737
NV	5.2	35,843	1.8	10,237	2.0	13,553	0.5	3,038
NH	10.2	37,743	2.8	9,547	2.2	8,143	0.4	1,426
NJ	14.3	322,620	5.1	102,294	3.3	74,301	0.7	14,891
NM	5.6	26,878	1.9	7,889	2.1	10,298	0.6	2,619
NY	9.9	474,175	4.4	194,507	2.8	134,345	0.8	35,266
NC	6.4	150,087	1.9	40,538	2.3	54,847	0.5	11,067
ND	8.3	18,478	1.3	2,132	4.3	9,410	0.4	721
OH	6.3	174,715	1.7	45,082	1.9	52,112	0.5	12,582
OK	5.3	50,525	1.0	8,542	2.2	20,436	0.4	3,556
OR	6.4	60,030	1.8	15,312	2.1	19,771	0.3	2,741
PA	7.5	239,221	2.5	71,345	2.1	67,066	0.4	12,481
RI	6.7	17,848	3.4	8,853	2.0	5,249	0.7	1,750
SC	5.4	59,009	1.7	17,112	1.9	21,166	0.4	3,915
SD	4.5	10,203	0.6	1,235	2.4	5,448	0.2	457
TN	6.0	91,424	1.5	20,920	2.3	35,612	0.5	6,639
TX	8.3	549,349	2.5	132,910	2.1	141,839	0.4	22,946
UT	6.1	45,459	1.1	6,543	2.2	16,333	0.4	2,458
VT	5.7	9,883	2.2	3,445	1.4	2,450	0.6	1,024
VA	12.7	274,529	4.6	89,270	2.1	44,881	0.5	9,326
WA	9.5	169,523	3.1	46,956	2.1	38,303	0.6	8,721
WV	4.8	20,061	1.4	5,012	2.3	9,600	0.4	1,278
WI	5.1	76,743	1.8	24,558	1.9	28,462	0.5	7,568
WY	5.0	8,277	0.7	936	1.8	2,921	0.1	77

Source and notes: See Table 1.