

Who Would Pay More if the Social Security Payroll Tax Cap Were Raised or Scrapped?

By Nicole Woo, Cherrie Bucknor, and John Schmitt*

On January 1st, the maximum amount of annual earnings subject to the Social Security tax – a.k.a. the payroll tax cap – increased to \$118,500. Every year, this cap is adjusted to keep up with inflation. However, many American workers are not aware that any wages above the cap are not taxed by Social Security.

That means that people who make twice the cap – \$237,000 per year – pay the Social Security tax on only half of their earnings, so they no longer pay it after July 1st. And those who are fortunate enough to make over \$1.2 million dollars annually are finished paying their Social Security taxes for the year by February 6th. In other words, workers who earn \$118,500 or less per year pay a *higher* Social Security payroll tax rate than those who make more.

The Social Security Trust Fund was set up to help pre-fund the retirement of the baby boomer generation, and according to trustees of the Social Security program¹ it currently has about \$2.8 trillion, held in Treasury bonds, and will continue to grow over the next few years to about \$2.9 trillion. However, in about 2033 these funds will be drawn down and, if no changes are made, beneficiaries then will receive about 75 percent of scheduled benefits. The gap between what the program will be able to pay and scheduled benefits is estimated to be about one percent of Gross Domestic Product over the next 75 years.

To help avoid a reduction in benefit payments, alleviate the program's budget shortfall, and avoid tax increases on the middle class, some policy makers have proposed raising – or even eliminating entirely – the cap on earnings that are subject to the Social Security payroll tax. By doing so, the highest-income workers would pay the same, or closer to the same, rate as the rest of us.

For example, during the 113th Congress, Senators Tom Harkin and Mark Begich as well as Representatives Linda Sanchez, Ted Deutch and Gwen Moore introduced bills that would have phased out the cap over five to ten years, so that eventually all workers would pay the same payroll tax rate. The Social Security Administration's Chief Actuary estimated that the payroll tax cap sections of these proposals would reduce the program's long-term shortfall by between 70 and 80 percent.²



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In addition, Senator Bernie Sanders and Representative Peter DeFazio introduced bills to apply the Social Security payroll tax to earnings above \$250,000 (but not to wages between the current cap and \$250,000). These bills were similar to a proposal by Barack Obama during the 2008 presidential campaign. They were projected to eliminate about 80 percent of the long-range shortfall.

Along the same lines, Representative John Larson introduced a bill that would have applied the regular payroll tax rate to wages above \$400,000, while Senators Patty Murray and Mark Begich introduced another that would have applied a lower tax rate to earnings above \$400,000. These proposals were estimated to alleviate over two-thirds and about one-ninth of the gap, respectively.

The tables and figures that follow analyze Census Bureau data from the most recently available American Community Survey to determine how many workers would be affected if the Social Security payroll tax cap were raised or phased out. We find that the richest 6.1 percent of workers (less than 1 in 15) would pay more if the cap were scrapped. Only the top 1.5 percent (1 in 67) and 0.7 percent (1 in 140) would be affected if the tax were applied to earnings over \$250,000 and \$400,000, respectively.

When we look at the wage earners 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, only the highest-income 1 in 32 (3.1 percent) of female workers would pay more if the cap were eliminated. The top 1 in 165 (0.6%) and 1 in 330 (0.3%) of women would be affected if the tax were applied to earnings over \$250,000 and \$400,000, respectively.

Similarly, only about the richest 1 in 43 black or Latino workers would pay more if the cap were lifted entirely. The top 1 in 200 and 1 in 500 would be affected if earnings above \$250,000 and \$400,000 were subjected to the tax, respectively.

TABLE 1

Workers with Annual Earnings over \$118,500, \$250,000, and \$400,000, by Race/Ethnicity

Race/Ethnicity	\$118,500		\$250,000		\$400,000	
	Percent	Number	Percent	Number	Percent	Number
All	6.1	9,034,430	1.5	2,278,795	0.7	1,032,121
White	7.4	7,214,871	2.0	1,911,968	0.9	855,022
Black	2.3	383,342	0.4	72,654	0.2	28,024
Latino	2.4	380,868	0.5	83,765	0.2	37,136
Asian	10.0	916,212	2.0	184,628	1.1	100,481
Other	1.6	139,137	0.3	25,780	0.1	11,458

Source: Authors' analysis of American Community Survey (ACS), 2013.

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. Data from this year are not directly comparable to prior year data because of two changes in methodology. ACS internal adjustment factors were used to make wages consistent over the entire calendar year. Also, in order to reflect 2014 earnings more accurately, we increased 2013 earnings as reported in the ACS by CBO inflation projections for 2014.

- 1 See "The 2014 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/2014/tr2014.pdf>.
- 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 2**Workers with Annual Earnings over \$118,500, \$250,000, and \$400,000, by Age Group**

Age Group	\$118,500		\$250,000		\$400,000	
	Percent	Number	Percent	Number	Percent	Number
All	6.1	9,034,430	1.5	2,278,795	0.7	1,032,121
16-24	0.1	23,933	0.0	6,909	0.0	2,447
25-34	2.4	783,626	0.4	127,847	0.2	58,431
35-44	7.4	2,370,546	1.7	552,120	0.9	271,941
45-54	9.2	3,071,818	2.4	791,406	1.1	362,921
55-64	8.9	2,180,529	2.4	592,650	1.0	251,032
65+	8.2	603,978	2.8	207,863	1.2	85,349

Source and notes: See Table 1.

TABLE 3**Workers with Annual Earnings over \$118,500, by Race/Ethnicity, Age Group and Gender**

Race/Ethnicity	Male		Female	
	Percent	Number	Percent	Number
All	8.8	6,899,979	3.1	2,134,451
White	10.8	5,612,121	3.5	1,602,750
Black	3.1	242,628	1.5	140,714
Latino	3.2	291,120	1.3	89,748
Asian	13.6	649,909	6.1	266,303
Other	2.0	104,201	0.9	34,936

Age Group	Male		Female	
	Percent	Number	Percent	Number
All	8.8	6,899,979	3.1	2,134,451
16-24	0.2	19,014	0.1	4,919
25-34	3.2	564,958	1.4	218,668
35-44	10.3	1,771,476	4.1	599,070
45-54	13.3	2,325,612	4.7	746,206
55-64	13.4	1,706,683	4.0	473,846
65+	12.5	512,236	2.8	91,742

Source and notes: See Table 1.

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

Race/Ethnicity	Male		Female	
	Percent	Number	Percent	Number
All	2.4	1,867,083	0.6	411,712
White	3.1	1,594,572	0.7	317,396
Black	0.6	49,546	0.3	23,108
Latino	0.7	65,509	0.3	18,256
Asian	2.9	138,068	1.1	46,560
Other	0.4	19,388	0.2	6,392
Age Group				
All	2.4	1,867,083	0.6	411,712
16-24	0.0	4,169	0.0	2,740
25-34	0.6	98,732	0.2	29,115
35-44	2.6	443,598	0.7	108,522
45-54	3.6	637,402	1.0	154,004
55-64	3.9	499,230	0.8	93,420
65+	4.5	183,952	0.7	23,911

Source and notes: See Table 1.

TABLE 5**Workers with Annual Earnings over \$400,000, by Race/Ethnicity, Age Group and Gender**

Race/Ethnicity	Male		Female	
	Percent	Number	Percent	Number
All	1.1	845,866	0.3	186,255
White	1.4	715,114	0.3	139,908
Black	0.2	18,191	0.1	9,833
Latino	0.3	27,261	0.1	9,875
Asian	1.6	77,198	0.5	23,283
Other	0.2	8,102	0.1	3,356
Age Group				
All	1.1	845,866	0.3	186,255
16-24	0.0	613	0.0	1,834
25-34	0.3	45,112	0.1	13,319
35-44	1.3	219,384	0.4	52,557
45-54	1.7	291,390	0.5	71,531
55-64	1.7	213,841	0.3	37,191
65+	1.8	75,526	0.3	9,823

Source and notes: See Table 1.

TABLE 6

Workers with Annual Earnings over \$118,500, \$250,000, and \$400,000, by State						
State	\$118,500		\$250,000		\$400,000	
	Percent	Number	Percent	Number	Percent	Number
All	6.1	9,034,430	1.5	2,278,795	0.7	1,032,121
AL	3.9	80,610	1.4	30,070	0.1	1,236
AK	6.0	23,220	1.1	4,171	0.0	150
AZ	4.9	141,320	1.6	45,157	0.1	1,822
AR	3.4	43,255	1.4	17,474	0.0	109
CA	8.4	1,468,301	1.7	301,886	1.3	229,716
CO	6.7	178,972	1.4	38,319	1.2	30,838
CT	9.6	172,387	2.8	49,776	1.1	19,255
DE	5.5	24,417	1.1	4,855	0.1	643
DC	15.6	53,214	3.2	10,818	1.4	4,785
FL	4.5	394,471	1.4	117,862	0.1	7,810
GA	5.2	233,748	1.4	62,661	1.2	52,664
HI	4.5	31,746	1.2	8,335	0.0	287
ID	3.6	25,880	1.5	10,663	0.1	792
IL	6.6	409,116	1.6	99,151	1.1	69,820
IN	3.7	114,830	1.3	40,730	0.1	2,312
IA	3.4	53,918	1.2	19,574	0.1	1,699
KS	4.5	65,360	1.6	22,870	0.1	1,057
KY	3.6	71,116	1.4	26,843	0.0	596
LA	4.8	98,645	1.5	31,536	0.0	980
ME	4.1	27,274	1.1	7,216	0.0	0
MD	9.4	286,333	1.5	46,564	1.1	32,191
MA	8.9	307,524	2.0	67,564	1.2	41,981
MI	4.4	195,075	1.2	54,813	0.0	1,582
MN	5.8	165,538	1.5	43,532	1.1	31,376
MS	3.1	38,389	1.4	17,427	0.0	315
MO	3.9	113,209	1.4	40,676	0.1	2,083
MT	3.8	18,582	1.6	7,858	0.1	597
NE	3.7	36,207	1.4	14,080	0.1	882
NV	3.9	51,134	1.3	16,924	0.1	915
NH	6.9	48,794	1.0	7,224	1.0	6,932
NJ	10.7	459,218	2.4	101,914	1.2	52,409
NM	4.2	37,725	1.6	14,229	0.0	244
NY	8.1	761,080	2.1	193,327	1.3	124,893
NC	4.8	216,762	1.2	54,935	0.1	2,393
ND	4.2	17,021	1.4	5,725	0.4	1,681
OH	4.4	241,581	1.3	71,569	0.0	2,507
OK	4.1	72,642	1.6	28,340	0.0	829
OR	4.7	85,312	1.4	26,172	0.1	1,196
PA	5.5	337,160	1.4	86,388	1.2	70,653
RI	5.6	29,961	1.2	6,295	1.1	5,875
SC	3.6	76,867	1.2	25,127	0.0	441
SD	3.6	16,109	1.5	6,508	0.0	44
TN	4.3	125,811	1.4	42,177	0.1	1,996
TX	6.1	749,510	1.4	173,378	1.1	134,484
UT	4.8	64,856	1.6	21,889	0.1	825
VT	3.6	11,903	0.6	1,844	0.6	1,844
VA	8.9	370,377	1.4	57,593	1.1	45,102
WA	7.2	241,010	1.4	47,362	1.1	37,681
WV	3.3	25,525	1.1	8,865	0.0	181
WI	3.8	110,209	1.3	37,456	0.0	1,418
WY	3.6	11,206	0.3	1,073	0.0	0

Source and notes: See Table 1.

TABLE 7

Workers with Annual Earnings over \$118,500, \$250,000, and \$400,000, by State and Gender

State	\$118,500				\$250,000				\$400,000			
	Male		Female		Male		Female		Male		Female	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number
All	8.8	6,899,979	3.1	2,134,451	2.4	1,867,083	0.6	411,712	1.1	845,866	0.3	186,255
AL	5.9	66,025	1.5	14,585	2.2	24,859	0.5	5,211	0.1	1,027	0.0	209
AK	9.6	20,706	1.5	2,514	1.8	3,846	0.2	325	0.1	150	0.0	0
AZ	7.1	110,083	2.4	31,237	2.4	36,387	0.7	8,770	0.1	1,684	0.0	138
AR	5.1	34,378	1.5	8,877	2.2	14,621	0.5	2,853	0.0	109	0.0	0
CA	11.2	1,072,124	5.0	396,177	2.5	241,499	0.8	60,387	1.9	184,861	0.6	44,855
CO	9.6	139,894	3.2	39,078	2.2	32,629	0.5	5,690	1.8	26,512	0.4	4,326
CT	14.1	132,203	4.7	40,184	4.5	41,802	0.9	7,974	1.8	16,470	0.3	2,785
DE	7.8	17,683	3.1	6,734	1.6	3,694	0.5	1,161	0.3	643	0.0	0
DC	19.9	33,630	11.3	19,584	4.6	7,743	1.8	3,075	2.4	4,037	0.4	748
FL	6.7	305,604	2.2	88,867	2.1	97,301	0.5	20,561	0.2	7,156	0.0	654
GA	7.5	177,873	2.6	55,875	2.1	50,433	0.6	12,228	1.8	41,911	0.5	10,753
HI	6.4	24,335	2.3	7,411	1.7	6,671	0.5	1,664	0.0	176	0.0	111
ID	5.5	22,369	1.1	3,511	2.5	9,989	0.2	674	0.2	792	0.0	0
IL	9.7	314,135	3.2	94,981	2.6	82,940	0.6	16,211	1.8	58,473	0.4	11,347
IN	5.8	94,407	1.4	20,423	2.1	33,750	0.5	6,980	0.1	2,312	0.0	0
IA	5.2	42,544	1.5	11,374	2.0	16,563	0.4	3,011	0.2	1,473	0.0	226
KS	6.6	51,401	2.1	13,959	2.3	18,160	0.7	4,710	0.1	925	0.0	132
KY	5.4	56,552	1.6	14,564	2.1	21,879	0.5	4,964	0.0	454	0.0	142
LA	7.8	85,813	1.3	12,832	2.4	26,328	0.5	5,208	0.1	959	0.0	21
ME	6.5	21,951	1.6	5,323	1.8	6,026	0.4	1,190	0.0	0	0.0	0
MD	13.1	201,950	5.6	84,383	2.3	36,007	0.7	10,557	1.6	24,624	0.5	7,567
MA	12.9	227,694	4.8	79,830	3.0	53,694	0.8	13,870	1.9	32,771	0.5	9,210
MI	6.6	154,178	1.9	40,897	1.9	43,207	0.5	11,606	0.1	1,569	0.0	13
MN	8.4	126,085	2.9	39,453	2.5	37,030	0.5	6,502	1.8	26,484	0.4	4,892
MS	5.1	32,928	0.9	5,461	2.5	15,832	0.3	1,595	0.0	315	0.0	0
MO	6.2	91,847	1.5	21,362	2.4	35,180	0.4	5,496	0.1	1,878	0.0	205
MT	5.4	14,321	1.9	4,261	2.3	5,942	0.8	1,916	0.2	597	0.0	0
NE	5.9	30,402	1.3	5,805	2.5	12,937	0.2	1,143	0.2	882	0.0	0
NV	5.6	39,235	2.0	11,899	2.1	14,375	0.4	2,549	0.1	719	0.0	196
NH	10.2	37,684	3.3	11,110	1.6	6,042	0.4	1,182	1.6	5,856	0.3	1,076
NJ	15.3	349,654	5.4	109,564	3.6	82,675	0.9	19,239	1.9	42,466	0.5	9,943
NM	6.4	30,289	1.8	7,436	2.4	11,605	0.6	2,624	0.1	244	0.0	0
NY	10.9	527,848	5.2	233,232	3.2	152,631	0.9	40,696	2.1	100,963	0.5	23,930
NC	7.0	165,693	2.4	51,069	1.9	44,716	0.5	10,219	0.1	2,148	0.0	245
ND	6.6	14,647	1.3	2,374	2.4	5,258	0.3	467	0.8	1,681	0.0	0
OH	6.7	189,855	2.0	51,726	2.1	58,744	0.5	12,825	0.1	2,253	0.0	254
OK	6.1	58,802	1.7	13,840	2.5	24,041	0.5	4,299	0.1	778	0.0	51
OR	7.0	66,862	2.2	18,450	2.2	20,987	0.6	5,185	0.1	1,131	0.0	65
PA	8.3	264,271	2.5	72,889	2.2	71,853	0.5	14,535	1.8	58,617	0.4	12,036
RI	8.6	23,495	2.5	6,466	1.9	5,244	0.4	1,051	1.8	4,824	0.4	1,051
SC	5.5	60,912	1.5	15,955	1.9	20,833	0.4	4,294	0.0	441	0.0	0
SD	5.9	14,012	1.0	2,097	2.7	6,253	0.1	255	0.0	44	0.0	0
TN	6.3	98,561	2.0	27,250	2.2	33,886	0.6	8,291	0.1	1,727	0.0	269
TX	8.8	599,720	2.7	149,790	2.1	143,080	0.5	30,298	1.7	112,021	0.4	22,463
UT	7.7	58,849	1.0	6,007	2.6	20,085	0.3	1,804	0.1	825	0.0	0
VT	5.7	9,775	1.3	2,128	0.9	1,558	0.2	286	0.9	1,558	0.2	286
VA	12.8	280,534	4.6	89,843	2.1	45,911	0.6	11,682	1.6	35,976	0.5	9,126
WA	10.3	186,969	3.5	54,041	2.2	39,155	0.5	8,207	1.7	31,098	0.4	6,583
WV	4.9	20,493	1.4	5,032	1.8	7,693	0.3	1,172	0.0	181	0.0	0
WI	5.9	88,949	1.5	21,260	2.1	32,436	0.4	5,020	0.1	1,071	0.0	347
WY	5.8	9,755	1.0	1,451	0.6	1,073	0.0	0	0.0	0	0.0	0

Source and notes: See Table 1.