

Who Pays if We Raise the Social Security Payroll Tax Cap?

By Alan Barber and Cherrie Bucknor*

February 2017

Most Americans know that their earnings are subject to the Social Security payroll tax. Not as many are aware that the amount of earnings subject to the tax, while subject to change,¹ is capped at the same level for everyone, regardless of total earnings. This year, the maximum wage earnings subject to the payroll tax is \$127,200.²

The cap on the Social Security payroll tax means that those with the highest earnings pay a lower rate. People who earn a million dollars a year pay this tax on about an eighth of their earnings. People who earn a quarter of a million dollars pay the tax on just over half of their earnings. It is important to note that this just applies to wage earnings, not other forms of income. If an individual earning \$250,000 a year makes another \$250,000 from investments, then they end up paying the Social Security income tax on about a fourth of their income. The vast majority of workers fall below the \$127,200 cap and have significantly less stock or other income, if any. As a result, all — or the majority — of their income is typically subject to the payroll tax.

The Social Security payroll tax essentially finances what is commonly called Social Security, the Old-

1 Dean Baker. 2014. "The Big Tax Increase Nobody Noticed." Washington, D.C.: Center for Economic and Policy Research. <http://cepr.net/documents/ss-poll-2014-08.pdf>.

2 This amount is pegged to national wage data and had held steady in 2015 and 2016 at \$118,500. When wage growth is flat, the increase becomes cumulative in years where there is growth, hence the jump in the cap for 2017.



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

Age, Survivors, and Disability Insurance program (OASDI). The contributions from the tax (6.2 percent paid by employees and employers, 12.4 percent by the self-employed) are held by the Social Security Trust Fund as Treasury bonds and are the source of Social Security benefits for retirees.

The latest Social Security Trustees report showed the Trust Fund at \$2.8 trillion. This is enough to pay full benefits to retirees through 2034. At that point, the fund will still be able to pay just under 80 percent of full benefits for the next 75 years. Over this period of time, the gap between full benefits and payable benefits comes out to roughly one percent of GDP over this period.³

There are a number of ways this gap can be eliminated to not only ensure that full benefits are paid beyond 2034, but expanded to provide additional retirement security for millions of workers. Proposals to raise or totally eliminate the payroll tax cap would have a significant impact on benefit payments and the program's projected shortfall after 2034. Such proposals ensure that high-income earners pay as much, or closer to, the same rate as everyone else, thus addressing the regressive nature of the tax.

Raising the cap also addresses the impact of rising wage inequality on financing Social Security benefits. While wages for the top 1 percent of wage earners have continued to grow at a strong pace over the past few decades, they have slowed considerably for low- and moderate-income earners.⁴ As of 2013, this rising inequality in earnings was responsible for 43.5 percent⁵ of the projected 75-year shortfall in Social Security funding.

A number of bills⁶ were authored in the 114th Congress to shore up and strengthen Social Security—several looked, at least in part, at the Social Security payroll tax cap. Senator Bernie Sanders authored legislation similar to a bill he introduced the previous year and featured it in his 2016 presidential campaign platform that would have applied the payroll tax cap to earnings above \$250,000. According to an analysis⁷ from the Social Security office of the Chief Actuary, this would have eliminated 80 percent of the projected Trust Fund shortfall. Other legislation by Senator Richard Blumenthal and Representative John Larson would have lifted the cap for those earning more than \$400,000. Another bill, sponsored by Senator Patty Murray, would have imposed a 2.0

3 Social Security Administration. 2016. "The 2016 OASDI Trustees Report." Woodlawn, MD: Social Security Administration. <https://www.ssa.gov/oact/tr/2016/index.html>.

4 Kathleen Romig. 2016. "Increasing Payroll Taxes Would Strengthen Social Security." Washington, D.C.: Center on Budget and Policy Priorities. <http://www.cbpp.org/research/social-security/increasing-payroll-taxes-would-strengthen-social-security>.

5 Dean Baker. 2013. "The Impact of the Upward Redistribution of Wage Income on Social Security Solvency." Washington, D.C.: Center for Economic and Policy Research. <http://cepr.net/blogs/cepr-blog/the-impact-of-the-upward-redistribution-of-wage-income-on-social-security-solvency>.

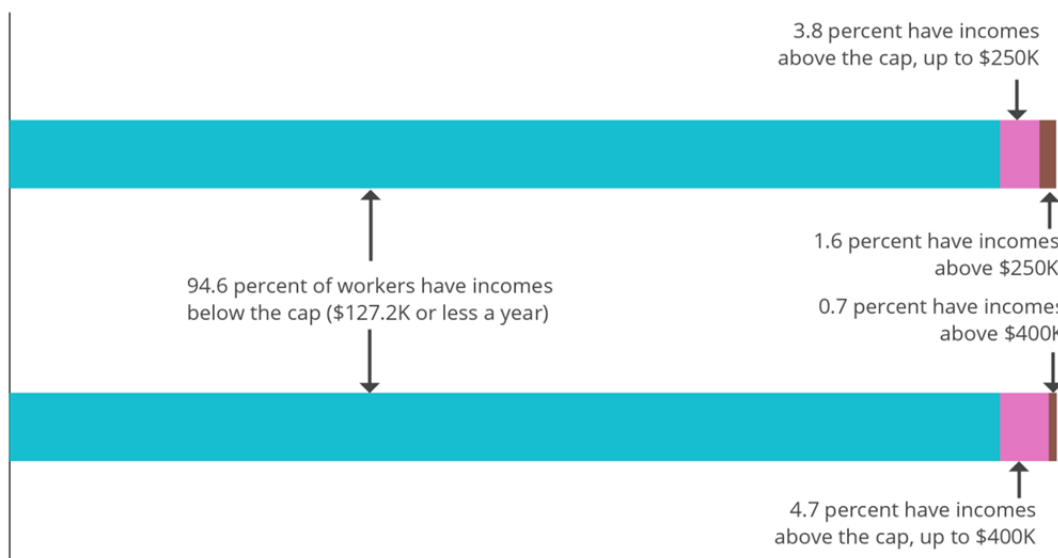
6 Social Security Works. 2016. "114th Congress Expansion Bills - Social Security Works." Washington, D.C.: Social Security Works. <http://www.socialsecurityworks.org/wp-content/uploads/2015/05/114th-Bill-Fact-Sheet-12.0.pdf>.

7 Social Security Administration, Office of the Chief Actuary. 2015. "Letter to Senator Sanders." Washington, D.C.: Social Security Administration. https://www.ssa.gov/oact/solvency/BSanders_20150323.pdf.

percent surtax on employers and employees if the employee’s earnings were above \$400,000 and a surtax of 4.0 percent if an individual were self-employed.

Using Census Bureau data from the latest American Community Survey (ACS), this issue brief updates previous CEPR research to determine how many people would be affected if the payroll tax cap were raised or eliminated. Based on this data, the vast majority of workers would not be impacted. Roughly 1 in 18 people, or 5.4 percent of workers, earn more than the current cap and would be affected if it were eliminated (**Figure 1**). If workers who earn over \$250,000 in wages paid the tax, the top 1.6 percent of workers would be affected. If the cap applied to people who earn over \$400,000 in wages, only the top 0.7 percent would be affected.

FIGURE 1
5.4 Percent of Workers Have Incomes Above the Payroll Tax Cap



Source and notes: Authors' analysis of American Community Survey (ACS), 2015. 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. In order to reflect 2016 earnings more accurately, we increased 2015 earnings as reported in the ACS by CBO inflation projections for 2016.

The effects of eliminating or raising the Social Security payroll tax cap vary widely when looking at race, gender, age, and state of residence. For instance, about 1 in 53 black and Latino workers would pay more if the cap were completely scrapped. A little more than 1 in 35 women would pay additional taxes if the cap were eliminated.

Tables 1 through 5 below offer a closer look at the impact of raising or eliminating the cap. As noted above, raising or eliminating the cap would go far in shoring up and strengthening Social Security.

TABLE 1**Workers with Annual Earnings over \$127,200, \$250,000, and \$400,000, by Race/Ethnicity**

Race/Ethnicity	\$127,200		\$250,000		\$400,000	
	%	Number	%	Number	%	Number
All	5.4	8,346,593	1.6	2,435,471	0.7	1,145,546
White	6.7	6,571,351	2.1	2,017,919	0.9	933,089
Black	1.9	346,322	0.4	79,617	0.2	38,069
Latino	1.9	486,813	0.5	118,277	0.2	62,481
Asian	9.1	887,954	2.1	205,073	1.1	106,233
Other	3.0	54,153	0.8	14,585	0.3	5,674

Source and notes: Authors' analysis of American Community Survey (ACS), 2015. 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. In order to reflect 2016 earnings more accurately, we increased 2015 earnings as reported in the ACS by CBO inflation projections for 2016.

TABLE 2**Workers with Annual Earnings over \$127,200, \$250,000, and \$400,000, by Race/Ethnicity and Gender**

Race/Ethnicity	\$127,200				\$250,000				\$400,000			
	Male		Female		Male		Female		Male		Female	
	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number
All	7.8	6,351,265	2.8	1,995,328	2.4	1,976,114	0.6	459,357	1.1	936,506	0.3	209,040
White	9.7	5,107,013	3.2	1,464,338	3.2	1,664,479	0.8	353,440	1.5	778,125	0.3	154,964
Black	2.5	216,330	1.3	129,992	0.6	50,390	0.3	29,227	0.3	23,477	0.1	14,592
Latino	2.6	367,190	1.1	119,623	0.7	95,706	0.2	22,571	0.4	50,785	0.1	11,696
Asian	12.1	619,563	5.8	268,391	3.0	153,546	1.1	51,527	1.5	79,477	0.6	26,756
Other	4.4	41,169	1.5	12,984	1.3	11,993	0.3	2,592	0.5	4,642	0.1	1,032

Source and notes: See Table 1.

TABLE 3**Workers Age of 16 and older who earned over \$127,200, \$250,000, and \$400,000, by Age Group**

Age Group	\$127,200		\$250,000		\$400,000	
	%	Number	%	Number	%	Number
All	5.4	8,346,593	1.6	2,435,471	0.7	1,145,546
16–24	0.1	23,945	0.0	9,089	0.0	3,994
25–34	2.0	690,500	0.4	133,148	0.2	58,507
35–44	6.6	2,131,718	1.7	555,900	0.8	261,293
45–54	8.3	2,774,923	2.5	826,516	1.2	410,253
55–64	8.2	2,108,128	2.6	673,933	1.2	308,095
65+	7.7	617,379	3.0	236,885	1.3	103,404

Source and notes: See Table 1.

TABLE 4**Workers with Annual Earnings over \$127,200, \$250,000, and \$400,000, by Age Group and Gender**

Age Group	\$127,200				\$250,000				\$400,000			
	Male		Female		Male		Female		Male		Female	
	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number
All	7.8	6,351,265	2.8	1,995,328	2.4	1,976,114	0.6	459,357	1.1	936,506	0.3	209,040
16–24	0.2	18,744	0.1	5,201	0.1	6,108	0.0	2,981	0.0	2,236	0.0	1,758
25–34	2.7	502,494	1.2	188,006	0.6	103,234	0.2	29,914	0.2	44,598	0.1	13,909
35–44	8.9	1,560,020	3.8	571,698	2.5	434,833	0.8	121,067	1.2	208,848	0.4	52,445
45–54	12.1	2,117,367	4.2	657,556	3.8	669,780	1.0	156,736	1.9	334,382	0.5	75,871
55–64	12.2	1,634,679	3.9	473,449	4.2	557,474	0.9	116,459	1.9	256,640	0.4	51,455
65+	11.5	517,961	2.8	99,418	4.5	204,685	0.9	32,200	2.0	89,802	0.4	13,602

Source and notes: See Table 1.

TABLE 5**Workers with Annual Earnings over \$127,200, \$250,000, and \$400,000, by State**

State	\$127,200		\$250,000		\$400,000	
	%	Number	%	Number	%	Number
All	5.4	8,346,593	1.6	2,435,471	0.7	1,145,546
AL	3.3	68,988	1.2	24,691	0.0	654
AK	5.0	18,972	1.3	4,945	1.0	3,856
AZ	4.3	129,591	1.3	39,818	0.1	2,253
AR	3.3	42,495	1.4	18,351	0.0	462
CA	7.5	1,373,003	1.8	337,269	1.1	201,088
CO	6.0	168,758	1.5	43,823	1.0	27,684
CT	8.6	155,570	2.9	52,533	1.1	20,538
DE	4.5	20,425	1.1	5,155	0.9	4,161
DC	13.5	50,581	3.3	12,249	1.4	5,348
FL	4.1	377,605	1.3	123,369	1.1	103,801
GA	4.7	222,550	1.4	67,319	1.2	54,935
HI	3.5	25,336	1.4	9,809	0.0	240
ID	2.5	19,318	1.4	10,884	0.1	501
IL	6.0	376,503	1.7	106,688	1.0	64,927
IN	3.4	106,695	1.4	43,342	0.1	2,983
IA	3.3	52,042	1.5	24,659	0.1	2,097
KS	4.0	59,408	1.4	21,102	0.1	1,511
KY	3.1	61,546	1.4	27,866	0.1	1,212
LA	4.4	92,937	1.4	30,208	0.1	1,980
ME	3.3	21,701	1.2	7,964	0.1	358
MD	8.1	249,075	1.7	53,336	1.1	34,071
MA	8.2	290,602	2.2	76,371	1.0	35,456
MI	4.0	183,938	1.1	50,101	0.1	4,159
MN	5.3	155,582	1.5	44,394	1.1	31,401
MS	2.3	28,448	1.4	17,872	0.0	411
MO	3.8	111,907	1.4	41,515	0.1	2,501
MT	3.1	15,547	1.2	5,910	0.1	267
NE	3.7	36,446	1.3	13,001	0.1	1,145
NV	3.3	44,622	1.4	18,518	0.1	1,233
NH	6.9	49,517	1.5	10,998	1.1	8,209
NJ	9.4	416,131	2.5	111,279	1.1	49,913
NM	3.1	28,136	1.2	11,086	0.0	223
NY	7.1	677,619	2.2	210,030	1.1	105,530
NC	4.3	200,347	1.1	53,280	1.1	50,154
ND	4.1	16,908	0.9	3,638	0.3	1,258
OH	3.7	209,268	1.3	75,540	0.1	5,375
OK	3.8	67,593	1.5	26,526	0.1	1,816
OR	4.4	84,282	1.1	20,854	0.0	664
PA	4.9	303,033	1.5	91,737	1.2	73,456
RI	4.7	25,046	1.4	7,243	0.1	372
SC	3.1	68,938	1.2	25,994	0.0	834
SD	3.2	14,291	1.5	6,672	0.0	64
TN	3.7	112,462	1.3	39,587	0.1	2,697
TX	5.7	735,381	1.6	211,081	1.1	146,282
UT	4.8	67,909	1.4	20,016	0.1	1,793
VT	4.0	13,242	1.3	4,469	0.1	424
VA	7.5	320,345	1.5	61,589	1.0	41,015
WA	6.8	237,591	1.6	56,467	1.1	39,388
WV	2.7	21,106	1.4	10,484	0.0	95
WI	3.5	106,514	1.3	39,618	0.1	1,766
WY	3.5	10,743	1.4	4,221	1.0	2,985

Source and notes: See Table 1.