# BACKGROUND ON REVENUE SOURCES FOR THE SOCIAL SECURITY TRUST FUNDS

Scheduled for a Public Hearing
Before the
HOUSE COMMITTEE ON WAYS AND MEANS
on July 25, 2019

Prepared by the Staff
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# INTRODUCTION

The House Committee on Ways and Means has scheduled a hearing on July 25, 2019, on H.R. 860 (116th Congress), the "Social Security 2100 Act."[1]

The Federal government administers a number of social insurance programs (*e.g.* unemployment insurance, Social Security, Medicare) to provide benefits when certain insured events occur. Unlike welfare or public assistance programs, benefits under these programs are not based upon the income or assets of the recipient and are generally available to individuals who have made, or whose employers have made, contributions to the program through appropriate taxes. The Social Security, or the Old-Age, Survivors, and Disability Insurance ("OASDI") program, is one of the largest social insurance programs, with 176 million individuals and their employers paying into the system, and 63 million beneficiaries receiving monthly cash benefits totaling $988 billion in 2018.[2]

Social Security funding is accounted for in the Old-Age and Survivors Insurance ("OASI") Trust Fund and the Disability Insurance ("DI") Trust Fund (together, the "OASDI Trust Funds," also commonly referred to as the "Social Security Trust Funds"). Social Security benefits and certain Medicare benefits are financed primarily by payroll taxes on covered wages. Payroll taxes include taxes under the Federal Insurance Contributions Act ("FICA") and the Self Employment Contributions Act ("SECA"). In addition, Social Security is partially financed by Federal income taxes paid by some beneficiaries attributable to their Social Security benefits and by interest income on Treasury securities held by the OASDI Trust Funds.[3] Benefits are payable to retired or disabled workers and their family members and to family members of deceased workers when certain requirements are met, such as a minimum of ten years of covered employment in order to receive retirement benefits.

This document provides an overview of the major sources of revenue for the OASDI Trust Funds, a description of the revenue provisions of H.R. 860, the "Social Security 2100 Act," and data and projections relating to the OASDI Trust Funds and proposed changes to revenue sources.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Background on Revenue Sources for the Social Security Trust Funds*, (JCX-41-19), July 24, 2019. This document can be found on the Joint Committee on Taxation website at www.jct.gov. All section references herein are to the Internal Revenue Code of 1986, as amended (the "Code"), unless otherwise stated.

[2] Barry F. Huston, Congressional Research Service, *Social Security Overview* (Report IF10426), May 1, 2019, available at https://www.crs.gov/reports/pdf/IF10426.

[3] In addition, the OASDI Trust Funds receive reimbursements from the General Fund of the Treasury ("General Fund") and gifts; amounts from these sources totaled to less than 0.01 percent of revenue for the OASDI Trust Funds in 2018.

# I. DESCRIPTION OF PRESENT LAW REVENUE SOURCES

## A. Federal Insurance Contributions Act

**In general**

FICA imposes a tax on employers and employees based on the amount of wages paid to each employee during the year.[4] The tax imposed is comprised of two components: OASDI tax and HI tax (health insurance tax, also commonly referred to as "Medicare tax"). The OASDI and HI taxes are generally collected as a single tax with portions allocated by statute among separate trust funds: the OASDI Trust Funds, and Medicare's Hospital Insurance Trust Fund and Supplementary Medical Insurance Trust Fund.[5]

Under the OASDI component, the rate of tax is 12.4 percent, half of which (6.2 percent) is imposed on the employer and the other half of which is imposed on the employee.[6] The tax is imposed on covered wages up to the Social Security wage base ($132,900 in 2019). Generally, the Social Security wage base increases based on increases in the national average wage index.[7]

Under the basic HI component, the rate is 2.9 percent, also split equally (1.45 percent each) between the employer and the employee. The amount of wages subject to the basic HI component of the tax is not limited by the amount of the Social Security wage base. An additional HI tax applies to certain high-income individuals and is described below.

The employee portion of FICA taxes usually must be withheld and remitted to the Federal government by the employer.[8] The employer is liable for the amount of this tax whether or not the employer withholds the amount from the employee's wages.[9] In the event that the employer fails to withhold FICA tax from an employee's wages, the employee generally is not liable for the amount of the tax. If, however, the employer pays its liability for the amount of the tax not withheld, the employer has a right to collect that amount from the employee. If the employer withholds and pays the tax, the employer is indemnified against claims and demands of any person for the amount of any payment of the tax.[10]

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[4] Sec. 3111.

[5] Secs. 201 and 1817 of the Social Security Act, Pub. L. No. 74-271 as amended (42 U.S.C. secs. 401 and 1395i).

[6] Sec. 3101.

[7] Sec. 230 of the Social Security Act (42 U.S.C 230).

[8] Sec. 3102(a) and Treas. Reg. sec. 31.3121(a)-2.

[9] Sec. 3102(b).

[10] *Ibid.*

Additional tax on high income individuals

The employee portion of the HI tax is increased by an additional tax of 0.9 percent on wages received in excess of $250,000 in the case of a joint return or surviving spouse, $125,000 in the case of a married individual filing a separate return, or $200,000 in any other case.[11]

The employer is required to withhold the additional HI tax on wages and is liable for the tax if it is not withheld from wages. However, in determining the employer's requirement to withhold and its liability for the tax, only wages that the employee receives from the employer in excess of $200,000 for a year are taken into account and the employer must disregard the amount of wages received by the employee's spouse. Thus, the employer is only required to withhold on wages in excess of $200,000 for the year, even though the tax may apply to a portion of the employee's wages at or below $200,000 (for example, if the employee's spouse also has wages for the year, they are filing a joint return, and their total combined wages for the year exceed $250,000). The employee is liable for the additional tax to the extent that it is not withheld by the employer.

## Social Security and Medicare benefits

The OASDI program under the Social Security Act provides for the payment of Social Security benefits to individuals based on wages earned as an employee and credited to the employee's earnings record.[12] Eligibility for Medicare coverage under the Social Security Act generally is based on eligibility for Social Security benefits and, thus, on wages credited to an employee's earnings record.[13] The definitions of wages and employment for purposes of Social Security and Medicare eligibility are similar to these definitions for FICA tax purposes described below.[14]

## Definition of wages and exemptions

Generally, the term "wages" for purposes of FICA taxation means all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash.[15] FICA applies to wages paid to an employee by an employer during the year. Wages include salaries, vacation allowances, bonuses, deferred compensation, commissions, and fringe benefits. Amounts an employer pays as a bonus for signing or ratifying a contract in connection with the establishment of an employer-employee relationship and an

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[11] Sec. 3101(b)(2), added by the Patient Protection and Affordable Care Act ("PPACA"), Pub. L. No. 111-148.

[12] OASDI (Social Security) benefits are provided by Title II of the Social Security Act (42 U.S.C. secs. 401 *et. seq.*).

[13] Sec. 226 of the Social Security Act (42 U.S.C. sec. 426).

[14] Secs. 209 and 210 of the Social Security Act (42 U.S.C. secs. 409 and 410).

[15] Sec. 3121(a).

amount paid to an employee for cancellation of an employment contract and relinquishment of contract rights are also wages subject to FICA.

Numerous exceptions to the definition of wages that are subject to FICA exist. Several of the most prevalent exceptions are discussed below.

Retirement and pension plans

Employer contributions to a qualified retirement or pension plan are excluded from wages for purposes of withholding and employment taxes. This includes employer nonelective and matching contributions to 401(k) plans, and employer contributions to individual retirement accounts under a simplified employee pension ("SEP") plan. Distributions from qualified retirement and pension plans and section 403(b) annuities are also exempt from FICA.[16]

Accident and health benefits

Employer contributions towards accident and health insurance for employees, their spouses, and dependents, are not considered wages and are not subject to FICA. Generally, this exclusion also applies for qualified long-term care insurance.

Generally, medical care reimbursements paid by an employer for an employee under an employer's self-insured medical reimbursement plan are not wages and thus are not subject to FICA.[17]

Cafeteria plans

A section 125 cafeteria plan is a written plan that allows employees to choose between receiving cash or taxable benefits instead of certain qualified benefits which are excludable from wages (and thus not subject to FICA). Cafeteria plans may include adoption assistance, dependent care assistance, group-term life insurance coverage, flexible spending arrangements, and health savings accounts among other qualified benefits.

Fringe benefits

Certain fringe benefits are excluded from gross income if certain conditions are met.[18] There is a parallel exclusion from FICA if, at the time the benefit is provided, it is reasonable for the employer to believe that the benefit is excludable from gross income. Examples of nontaxable fringe benefits include no additional cost services, qualified employee discounts,

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[16] Sec. 3121(a)(5). Elective contributions (employer contributions made to a plan pursuant to a salary reduction election under a cash or deferred arrangement) are subject to FICA.

[17] There are special rules for certain highly compensated employees. See sec. 105(h).

[18] Sec. 132. Nondiscrimination rules (rules to prevent benefits in favor of certain highly compensated employees as compared to nonhighly compensated employees) may apply to certain fringe benefits in order for an exclusion to apply. Sec. 132(j).

working condition fringe benefits,[19] minimal value (*de minimis*) fringe benefits,[20] qualified transportation fringe benefits, on-premises athletic facilities, and qualified tuition reduction by educational institutions.

Other special rules

In addition to specific examples discussed above, there are special rules for various types of services and payments that may exclude such services and payments from FICA. These special rules encompass, among others, the following circumstances: (1) payments to general or limited partners of a partnership; (2) certain supplemental unemployment compensation plan benefits; (3) tips if the combined total is less than $20 in a month; (4) worker's compensation; (5) domestic services provided in private homes if payments of less than $2,100 (in 2019) were made during the calendar year or if performed by an individual under age 18 and whose principal occupation is not as a household employee; (6) certain income derived from Indian fishing rights; (7) remuneration received from the exercise of certain statutory stock options; and (8) certain outplacement services provided to employees to help them find new employment (*e.g.*, career counseling, resume assistance, and skills assessment).

## Definition of employment and exemptions

For purposes of FICA, the term "employment" generally means any service performed by an employee for an employer if the service is either performed within the United States, performed in connection with an American vessel or aircraft, performed outside the United States by an American citizen or resident for an American employer, or covered under an agreement governed by section 233 of the Social Security Act.[21]

Certain types of employment are specifically excluded from FICA coverage.[22] Common exceptions are described below.

[19] Working condition fringe benefits are property and services provided by an employer to its employees so that the employee can perform his or her job. Examples include an employee's use of the company car for business, and job-related education provided to an employee.

[20] *De minimis* fringe benefits are property and services provided by an employer to its employee whose value is so small that accounting for it is unreasonable or administratively impracticable. An example includes occasional coffee or donuts provided to employees.

[21] Secs. 3121(b) and 3121(l). Section 233 of the Social Security Act (42 U.S.C. sec. 433) authorizes the President to enter into a totalization agreement with a foreign country to coordinate the collection of payroll taxes and the payment of benefits under each country's social security system for individuals who divide their careers between multiple countries.

[22] Sec. 3121(b). Note, however, that exemption from FICA does not necessarily indicate exemption from SECA as well.

Foreign agricultural employees

Services performed by certain foreign agricultural workers lawfully admitted to the United States for the purpose of performing agricultural labor on a temporary basis are not considered employment for purposes of FICA. Agricultural labor includes, among other services, cultivating the soil and raising livestock, and the operation, management, and maintenance of farm tools and equipment.[23]

Student employees

Services performed in the employ of a school, college, or university (or an auxiliary nonprofit organization operated and controlled by a school, college, or university) are exempt from FICA if the services are performed by a student who is regularly attending classes at such educational institution.[24]

Excepted student employment includes domestic services performed for a local college club or local chapter of a college fraternity or sorority by a student who is enrolled in and regularly attending classes at an educational institution. Student employees of Federal hospitals, other than medical and dental interns, are excepted from FICA, as are student nurses performing part-time services in a hospital for nominal earnings and as an incidental part of their training.

Government employees

While FICA generally applies to employees of the United States or any of its instrumentalities for services performed after 1983, and to employees of State and local governments, or instrumentalities that are wholly owned by one or more State or political subdivisions (other than employees of the District of Columbia, Guam, and American Samoa) for services performed after July 1, 1991, various exceptions apply. For example, services performed by inmates of a Federal penitentiary, by student nurses and student employees (other than medical or dental interns or residents) for a Federal hospital, and by individuals serving on a temporary basis as a result of fire, storm, earthquake, or similar emergency, are exempt from FICA. An exception also applies for certain individuals who participate in a retirement program maintained by a State or local government, and whose benefits under that plan are comparable to the benefits they would have received under Social Security,[25] although such employees are still subject to the HI tax if their employment began (or restarted) after March 31, 1986.

Employees of foreign governments

Services performed by an employee of a foreign government (and, in some cases, foreign instrumentalities) are generally exempt from FICA, regardless of whether the foreign government grants similar exemptions with respect to services performed in the foreign country

[23] Sec. 3121(g) and Treas. Reg. sec. 31.3121(g)-1.

[24] Treas. Reg. sec. 31.3121(b)(10)-2.

[25] Treas. Reg. sec. 31.3121(b)(7)-2.

by a U.S. citizen.[26] This exception applies to ambassadors, ministers, diplomatic officers and employees, consular officers, and non-diplomatic representatives.

Employees of international organizations

Services performed by an individual employed by an international organization are generally exempt from FICA.[27] Special rules apply, however, to Federal employees who are temporarily transferred to an international organization after 1994.[28] International organizations are public organizations entitled to the privileges, exemptions, and immunities available to international organizations under the International Organization Immunities Act.[29] Examples of international organizations include the United Nations, the World Health Organization, and the World Bank.

Railroad employees

Services performed by an employee or employee representative whose compensation is subject to the Railroad Retirement Tax Act[30] are exempt from FICA.[31]

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[26] Sec. 3121(b)(11) and (12).

[27] Sec. 3121(b)(15). However, for U.S. citizens the income paid for services rendered to an international organization is reportable as self-employment income on their U.S. federal income tax returns, and is subject to self-employment tax to the extent such services are performed within the United States.

[28] Sec. 3121(y).

[29] Pub. L. No. 79-291.

[30] Secs. 3201 through 3233. Instead of FICA taxes, railroad employers and employees are subject, under the Railroad Retirement Tax Act ("RRTA"), to taxes equivalent to the OASDI and HI taxes under FICA. Under the RRTA, employers and employees are also subject to an additional tax, referred to as the "tier 2" tax, on compensation up to a certain amount.

[31] Sec. 3121(b)(9).

## B. Self Employment Contributions Act

**In general**

Generally, tax under SECA is imposed on the self-employment income of an individual. SECA tax has two components. Under the OASDI tax component, the rate of tax is 12.4 percent on self-employment income up to the Social Security wage base ($132,900 for 2019).[32] Under the basic HI tax component, the rate is 2.9 percent of all self-employment income (without regard to the Social Security wage base).[33] As is the case with employees, an additional HI tax applies to the HI portion of SECA tax on self-employment income in excess of the threshold amount. Thus, an additional tax of 0.9 percent is imposed on every self-employed individual on self-employment income in excess of the same threshold amount as described above for the additional HI tax.[34]

Self-employment income subject to the SECA tax is determined as the net earnings from self-employment.

**Net earnings from self employment**

Net earnings from self-employment is the gross income derived by an individual from any trade or business less allowed deductions which are attributable to the trade or business and allowed under the SECA rules. Certain passive income and related deductions are not taken into account in determining net earnings from self-employment, including rentals from real estate unless received in the course of a trade or business as a real estate dealer,[35] dividends and interest unless such dividends and interest are received in the course of a trade or business as a dealer in stocks or securities,[36] and sales or exchanges of capital assets and certain other property unless the property is stock in trade which would properly be included in inventory or held primarily for sale to customers in the ordinary course of the trade or business.[37]

For purposes of computing net earnings from self-employment, taxpayers are permitted a deduction equal to the product of the taxpayer's net self-employment income (determined without regard to this deduction) and one-half of the sum of the rates for OASDI and HI, *i.e.*, 7.65 percent of net earnings.[38] This deduction is determined without regard to the additional 0.9

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[32] Sec. 1401(a). In calculating the SECA tax for OASDI, the Social Security wage base taken into account is reduced by FICA wages paid to the individual during the taxable year.

[33] Sec. 1401(b)(1).

[34] Sec. 1401(b)(2), added by the PPACA.

[35] Sec. 1402(a)(1).

[36] Sec. 1402(a)(2).

[37] Sec. 1402(a)(3).

[38] Sec. 1402(a)(12).

percent HI tax that may apply to an individual. This deduction reflects the fact that the FICA rates apply to an employee's wages, which do not include FICA taxes paid by the employer, whereas the self-employed individual's net earnings are economically equivalent to an employee's wages plus the employer share of FICA taxes.[39] This is generally referred to as the "regular method" of determining net earnings from self-employment, and in Internal Revenue Service forms and publications is expressed as multiplying total net earnings from self-employment by 92.35 percent.

[39] The deduction is intended provide parity between FICA and SECA taxes because the employer may deduct, as a business expense, its share of the FICA taxes paid. As presently written, the deduction for SECA taxes is not the exact economic equivalent to the deduction for FICA taxes. See Joint Committee on Taxation, *Options to Improve Tax Compliance and Reform Tax Expenditures*, (JCS-2-05), January 27, 2005, for a detailed description of this issue.

## C. Income Taxation of Social Security Benefits

**In general**

Section 86 provides rules for determining what amount, if any, of a taxpayer's Social Security benefits are includible in gross income for purposes of the income tax. Social Security benefits that are not taxed under section 86 are excluded from gross income. For purposes of section 86, Social Security benefits generally include monthly retirement benefits payable under Title II of the Social Security Act and tier 1 Railroad Retirement benefits. If a taxpayer's Social Security benefits or Railroad Retirement benefits are offset by worker's compensation benefits, then the amount of the taxpayer's Social Security benefits for purposes of section 86 is increased by the amount of such offset.

The amount of Social Security benefits includible in gross income is determined under a two-tier system, under which provisional income is compared to threshold amounts. The first-tier threshold is $25,000 in the case of unmarried individuals and $32,000 in the case of married individuals filing joint returns.[40] The second-tier threshold is $34,000 in the case of unmarried individuals and $44,000 in the case of married individuals filing joint returns.[41] These thresholds are not indexed for inflation.

For purposes of these computations, a taxpayer's provisional income is defined as adjusted gross income increased by certain amounts, generally including: (1) tax-exempt interest; (2) excludable interest on educational savings bonds; (3) adoption assistance payments; (4) certain deductible student loan interest; (5) certain excludable foreign-source earned income; (6) certain U.S. possession income; and (7) one-half of the taxpayer's Social Security benefits.

Taxpayers receiving Social Security benefits are not required to include any portion of such benefits in gross income if their provisional income does not exceed the first-tier threshold.

If the taxpayer's provisional income exceeds the first-tier threshold but does not exceed the second-tier threshold, then the amount required to be included in gross income is the lesser of: (1) 50 percent of the taxpayer's Social Security benefits, or (2) 50 percent of the excess of the taxpayer's provisional income over the first-tier threshold.

If the amount of provisional income exceeds the second-tier threshold, then the amount required to be included in gross income is the lesser of: (1) 85 percent of the taxpayer's Social Security benefits; or (2) the sum of (a) 85 percent of the excess of the taxpayer's provisional income over the second-tier threshold, plus (b) the lesser of (i) the amount of benefits that would have been included in income under the first-tier threshold inclusion rule (described in the previous paragraph), or (ii) $4,500 in the case of unmarried individuals or $6,000 in the case of

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[40] In the case of a married individual who files a separate return, the first-tier threshold is generally zero. However, if the individual lives apart from his or her spouse for the entire year, the first-tier threshold is $25,000.

[41] In the case of a married individual who files a separate return, the second-tier threshold is generally zero. However, if the individual lives apart from his or her spouse for the entire year, the second-tier threshold is $34,000.

married individuals filing joint returns.[42] Tables 1 and 2 below summarize the income taxation of Social Security benefits.

**Table 1.–Summary of the Taxation of Social Security Benefits for Unmarried Taxpayers**

<table>
<tr><th>Provisional income level</th><th colspan="4">Amount included in gross income</th></tr>
<tr><td>$24,999 and below</td><td colspan="4">0%</td></tr>
<tr><td rowspan="2">$25,000 to 33,999</td><td colspan="4">First-tier inclusion is the lesser of…</td></tr>
<tr><td colspan="2">(1) 50% of Social Security benefit</td><td colspan="2">(2) 50% of provisional income exceeding $25,000</td></tr>
<tr><td rowspan="3">$34,000 and above</td><td colspan="4">Second-tier inclusion is the lesser of…</td></tr>
<tr><td rowspan="2">(1) 85% of Social Security benefit</td><td colspan="3">(2) 85% of the amount of provisional income exceeding $34,000 plus the lesser of…</td></tr>
<tr><td>(2a) $4,500</td><td colspan="2">(2b) amount of Social Security benefit that would have been included if the 50% rule applied</td></tr>
</table>

[42] These amounts are one-half of the difference between the taxpayer's second-tier threshold and first-tier threshold. In the case of a married individual who files a separate return and for whom the first-tier threshold and second-tier threshold are zero, this amount would also be zero.

**Table 2.–Summary of the Taxation of Social Security Benefits for Married Taxpayers Filing Jointly**

<table>
<tr><th>Provisional income level</th><th colspan="4">Amount included in gross income</th></tr>
<tr><td>$31,999 and below</td><td colspan="4">0%</td></tr>
<tr><td rowspan="2">$32,000 to $43,999</td><td colspan="4">First-tier inclusion is the lesser of…</td></tr>
<tr><td colspan="2">(1) 50% of Social Security benefit</td><td colspan="2">(2) 50% of provisional income exceeding $32,000</td></tr>
<tr><td rowspan="3">$44,000 and above</td><td colspan="4">Second-tier inclusion is the lesser of…</td></tr>
<tr><td rowspan="2">(1) 85% of Social Security benefit</td><td colspan="3">(2) 85% of the amount of provisional income exceeding $44,000 plus the lesser of…</td></tr>
<tr><td colspan="2">(2a) $6,000</td><td>(2b) amount of Social Security benefit that would have been included if the 50% rule applied</td></tr>
</table>

Special rules apply in some cases. In the case of nonresident individuals who are not U.S. citizens, 85 percent of Social Security benefits are includible in gross income and subject to the 30-percent withholding tax.[43] The taxation of Social Security benefits may also be specified in income tax treaties between the United States and other countries.

**<u>Trust funds</u>**

Revenues from the income taxation of Social Security benefits attributable to the second-tier (85-percent level) tax are credited quarterly to the Medicare Hospital Insurance Trust Fund.[44] The remainder of the proceeds from the income taxation of Social Security benefits are credited quarterly to the OASDI Trust Funds.[45]

[43] Sec. 871(a)(3).

[44] Revenue Reconciliation Act of 1993, Pub. L. No. 103-66, sec. 13215(c).

[45] Pub. L. No. 98-21 sec. 121(e).

## D. Interest

**In general**

Generally, interest income received by the OASDI Trust Funds arises from investments of the OASDI Trust Funds' balances.[46] The Secretary of the Treasury is required to invest the balance of the OASDI Trust Funds, less amounts necessary to meet current withdrawals, in interest-bearing securities backed by the U.S. government.[47] The securities currently held by the OASDI Trust Funds are two types of special issue securities only available to the Federal government trust funds that are backed by the full faith and credit of the U.S. government and redeemable at par: shorter-term certificates of indebtedness and longer-term bonds. As of December 31, 2018, the maturity dates of these securities range from 2019 to 2033, while interest rates range from 1.375 to 5.125 percent.[48]

[46] The OASDI Trust Funds also receive relatively small amounts of interest on adjustments in the allocation of administrative expenses between funds and on certain reimbursements to the OASDI Trust Funds.

[47] Sec. 201(d) of the Social Security Act (42 U.S.C. sec. 401(d)).

[48] See The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds,* Washington: U.S. Government Publishing Office, 2019. Print. 36-128. Available at https://www.ssa.gov/OACT/TR/2019/.

## II. DESCRIPTION OF REVENUE PROPOSALS OF H.R. 860, THE "SOCIAL SECURITY 2100 ACT"[49]

**<u>In general</u>**

H.R. 860 includes various proposals to increase Social Security benefits and the revenue sources of the OASDI Trust Funds. The revenue provisions are described below.

**<u>Revenue provisions</u>**

Section 104 of H.R. 860 changes the amount of Social Security benefits that are included in gross income for individual income tax purposes. The proposal replaces the present-law two-tier system of provisional thresholds with a single set of thresholds of $100,000 for joint filers and $50,000 for most other filers, and provides that as much as 85 percent of the benefits may be taxable. As is the case under present law, the proposed threshold amounts are not indexed for inflation. These changes under the proposal apply for taxable years beginning after December 31, 2019. Tables 3 and 4 below summarize the income taxation of Social Security benefits under the proposal.

**Table 3.–Summary of the Proposed Taxation of Social Security Benefits for Unmarried Taxpayers**

<table>
<tr><th>Provisional income level</th><th colspan="2">Amount included in gross income</th></tr>
<tr><td>$49,999 and below</td><td colspan="2">0%</td></tr>
<tr><td rowspan="2">$50,000 and above</td><td colspan="2">Inclusion is the lesser of…</td></tr>
<tr><td>(1) 85% of Social Security benefit</td><td>(2) 50% of provisional income exceeding $50,000</td></tr>
</table>

**Table 4.–Summary of the Proposed Taxation of Social Security Benefits for Married Taxpayers Filing Jointly**

<table>
<tr><th>Provisional income level</th><th colspan="2">Amount included in gross income</th></tr>
<tr><td>$99,999 and below</td><td colspan="2">0%</td></tr>
<tr><td rowspan="2">$100,000 and above</td><td colspan="2">Inclusion is the lesser of…</td></tr>
<tr><td>(1) 85% of Social Security benefit</td><td>(2) 50% of provisional income exceeding $100,000</td></tr>
</table>

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[49] 116th Congress, introduced January 30, 2019.

Section 201 of H.R. 860 changes the earnings base for the OASDI portion of FICA taxes and SECA taxes. Under the proposal, in addition to wages and net income from self-employment below the Social Security wage base, OASDI taxes apply to annual individual wages and net earnings from self-employment in excess of $400,000. Since under present law the Social Security wage base is expected to increase based on changes in the national average wage index, but the $400,000 threshold under the proposal remains the same, over time the gap between the two is expected to shrink. This proposal applies to wages or remuneration paid, and net earnings from self-employment derived, in calendar years after 2019.

Section 203 of H.R. 860 increases the total OASDI tax rate by 0.1 percentage point annually, beginning in calendar year 2020 and through calendar year 2043, after which the rate remains at the increased level. Thus, the employer and employee rates of 6.2 percent each increase annually by 0.05 percentage point after 2019 to reach 6.7 percent in 2029, and reach a cap of 7.4 percent to apply for calendar years after 2042; and the SECA rate increases from 12.4 percent in 2019 to 13.4 percent in 2029, and reaches a cap of 14.8 percent to apply for calendar years after 2042. This proposal applies to remuneration received, and taxable years beginning, after December 31, 2019.

## III. DATA AND PROJECTIONS

### A. The OASDI Trust Funds

Table 5 summarizes the income for the combined OASDI Trust Funds in the year 2018. In 2018, 88.2 percent of total income was from net payroll tax contributions. Net payroll tax contributions consist of taxes paid by employees and employers on wages, and by the self-employed on self-employment income, covered by Social Security.[50] Interest earned on the OASDI Trust Funds' asset reserves accounts for 8.8 percent of total income, and the tax on Social Security benefits accounts for 3.5 percent of total income. The remainder of total income, less than 0.01 percent, is attributable to reimbursements from the General Fund of the Treasury.

**Table 5.–Summary of 2018 Income of OASDI Trust Funds**
**[In billions]**

| | |
|---|---|
| Total Income in 2018……………………….……………… | $1,003.4 |
| Net Payroll Tax Contributions…………………………… | $885.1 |
| Interest………………………………………………… | $83.3 |
| Taxation of Benefits……………………………………… | $35.0 |
| Reimbursement from General Fund of the Treasury……. | [1] |

[1] Less than $50 million.

Note: Totals do not necessarily equal the sums of rounded components.

Source: Social Security Administration.

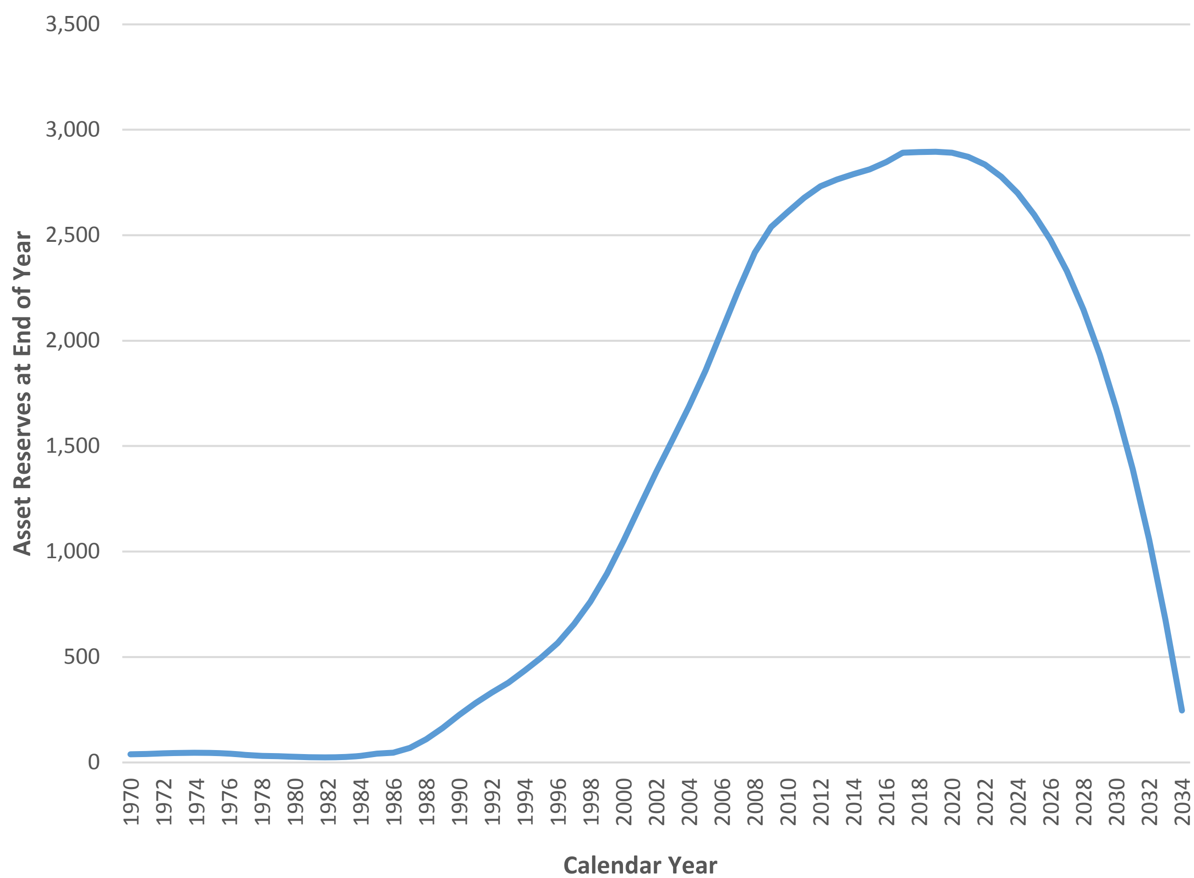
Figure 1 shows the estimated asset reserves at the end of each calendar year of the OASDI Trust Funds' operations, in current dollars, from 1970 to 2034. For the asset reserves, benefit payments which were scheduled to be paid on January 3rd for some past and future years were actually paid on December 31st, as required by the statutory provision for early delivery of benefit payments when the normal payment delivery date is Saturday, Sunday, or a legal public holiday. For comparability with the values of historical years and the projections in this report, all OASDI Trust Funds' operations and asset reserves reflect the 12 months of benefits scheduled for payment each year.

The asset reserves have generally increased annually from 1970 ($38.1 billion) to 2019 ($2,895.9 billion), except for the 1976 to 1981 period, when they declined. However, estimates of the OASDI Trust Funds' operations indicate that the asset reserves are projected to decrease in all years after 2019 and to deplete by the year 2034. During this period, OASI and DI program costs are projected to grow, while interest earned on the OASDI Trust Funds' asset reserves are

[50] The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Washington: U.S. Government Publishing Office, 2019. Print. 36-128.

expected to decline.[51] For example, in 2018 the asset reserves at the end of the year were $2,894.9 billion and costs were $1,000.2 billion. By 2034, asset reserves and costs are projected to be $246.6 billion and $2,419.9 billion, respectively, so estimates for later years are not shown.

**Figure 1.–Operations of the OASDI Trust Funds, in Current Dollars Calendar Years 1970-2034 [in billions]**




Source: Social Security Administration.

[51] The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Washington: U.S. Government Publishing Office, 2019. Print. 36-128.

## B. The Social Security Wage Base and Rates

Table 6 displays the Social Security wage base and the contribution rate for employers and employees, and for the self-employed, from 1975 to 2019. The Social Security wage base grew from $14,100 in 1975 to $132,900 in 2019. For employers and employees, and for the self-employed, the contribution rate is categorized by the total tax amount, the OASDI tax, and the HI tax. For employers and employees, the contribution rate for the OASDI tax equals 6.2 percent of wages up to the Social Security wage base and for the HI tax equals 1.45 percent of wages with no wage cap in all the years after 1990, with the exception of the years 2011 and 2012. Similarly, for the self-employed, the contribution rate for the OASDI tax equals 12.4 percent of self-employment income up to the Social Security wage base and for the HI tax equals 2.9 percent of self-employment income with no wage cap in all the years after 1990, with the exception of the years 2011 and 2012.

# Table 6.-Social Security Wage Base and Rates of Tax, 1975-2019

| Year | Annual Maximum Taxable Wage Base for OASDI | Contribution Rate for Both Employers and Employees (Percent of Covered Earnings) | | | Contribution Rate for Self-Employed Persons | | |
|---|---|---|---|---|---|---|---|
| | | Total | OASDI | HI | Total | OASDI | HI |
| 1975 | $14,100 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1976 | $15,300 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1977 | $16,500 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1978 | $17,700 | 6.05 | 5.05 | 1 | 8.1 | 7.1 | 1.0 |
| 1979 | $22,900 | 6.13 | 5.08 | 1.05 | 8.1 | 7.05 | 1.05 |
| 1980 | $25,900 | 6.13 | 5.08 | 1.05 | 8.1 | 7.05 | 1.05 |
| 1981 | $29,700 | 6.65 | 5.35 | 1.3 | 9.3 | 8 | 1.3 |
| 1982 | $32,400 | 6.70 | 5.4 | 1.3 | 9.35 | 8.05 | 1.3 |
| 1983 | $35,700 | 6.70 | 5.4 | 1.3 | 9.35 | 8.05 | 1.3 |
| 1984 [1] | $37,800 | 7.00 | 5.7 | 1.3 | 14 | 11.4 | 2.6 |
| 1985 | $39,600 | 7.05 | 5.7 | 1.35 | 14.1 | 11.4 | 2.7 |
| 1986 | $42,000 | 7.15 | 5.7 | 1.45 | 14.3 | 11.4 | 2.9 |
| 1987 | $43,800 | 7.15 | 5.7 | 1.45 | 14.3 | 11.4 | 2.9 |
| 1988 | $45,000 | 7.51 | 6.06 | 1.45 | 15.02 | 12.12 | 2.9 |
| 1989 | $48,000 | 7.51 | 6.06 | 1.45 | 15.02 | 12.12 | 2.9 |
| 1990 | $51,300 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1991 | $53,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1992 | $55,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1993 | $57,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1994 | $60,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1995 | $61,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1996 | $62,700 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1997 | $65,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1998 | $68,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1999 | $72,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2000 | $76,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2001 | $80,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2002 | $84,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2003 | $87,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2004 | $87,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2005 | $90,000 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2006 | $94,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2007 | $97,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2008 | $102,000 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2009 | $106,800 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2010 | $106,800 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2011 [2] | $106,800 | 7.65/5.65 | 6.2/4.2 | 1.45 | 13.3 | 10.4 | 2.9 |
| 2012 [2] | $110,100 | 7.65/5.65 | 6.2/4.2 | 1.45 | 13.3 | 10.4 | 2.9 |
| 2013 [3] | $113,700 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2014 [3] | $117,000 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2015 [3] | $118,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2016 [3] | $118,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2017 [3] | $127,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2018 [3] | $128,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2019 [3] | $132,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |

[1] For 1984 only, employees were allowed a credit of 0.3 percent of taxable wages against heir FICA tax liability, reducing he effec ive rate to 6.7 percent.

[2] The Tax Relief, Unemployment Reauthorization, and Job Crea ion Act of 2010, Pub. L. No. 111-312, reduced he FICA tax rate for employees. by two percent points for 2011. Specifically, the employer OASDI rate remained at 6.2 percent while he employee rate was reduced to 4.2 percent. Equivalent reduc ions were made to the SECA tax. Subsequent legislation extended such treatment to 2012.

[3] For 2013 and subsequent years, an additional employee HI tax of 0 9 percent applies to wages in excess of $250,000 for married taxpayers filing jointly ($125,000 for married taxpayers filing separately) and $200,000 in all other cases. Equivalent increases apply to he SECA tax. Therefore, for wages and self-employment income in excess of he threshold in these years, the HI contribution rate is 2.35 percent for employees and 3 8 percent for the self-employed, and he total HI and OASDI contribution rate is 8.55 percent (not the corresponding rates reflected in he table).

Source: Social Security Administra ion.

The Social Security wage base refers to the maximum amount of wages subject to the OASDI tax. The percentage of employees and self-employed who are not dependents and have wages or self-employment income under the Social Security wage base is projected to be 94 percent in calendar year 2020. Because of the Social Security wage base, the percentage of wages and self-employment income that is subject to FICA and SECA is only 81.8 percent. The remaining 19.2 percent represents wages and self-employment income that are above the Social Security wage base ($132,900). In general, the share of covered wages and self-employment income that is taxed has fallen from 90 percent in 1982.[52]

Tables 7 and 8 compare the projected amount of FICA and SECA taxes with and without the Social Security wage base by income group for calendar year 2020. Table 8 is included as an illustrative example to show the distribution of FICA and SECA taxes if the taxes generally applied to all wages and self-employment income with no limitation. The FICA and SECA taxes include the OASDI and HI portions of each tax, as well as taxes for the Railroad Retirement Tax Act. After the Social Security wage base is removed, taxpayers who pay FICA and SECA taxes with economic income[53] above $100,000 annually are subject to a greater amount of FICA and SECA taxes. The removal of the Social Security wage base creates more progressivity and a greater burden for those on the higher end of the income distribution.

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[52] Congressional Research Service, *Social Security: Raising or Eliminating the Taxable Earnings Base* (Report RL32896), October 26, 2018, available at https://fas.org/sgp/crs/misc/RL32896.pdf.

[53] Economic income includes the annual flow of all resources at the command of an individual and represents an individual's total well-being. As a practical matter, the income concept used in distributional analyses needs to balance the goal of a measure that accurately reflects economic well-being with a measure that can be accurately constructed using available data sources. The concept developed by the Joint Committee staff for this purpose expanded income which is the sum of adjusted gross income, tax-exempt interest, employer contributions for health plans and life insurance, the employer share of payroll taxes, workers' compensation, nontaxable Social Security benefits, value of Medicare benefits in excess of premiums paid, minimum tax preferences, individual share of business taxes, and excluded income of U.S. citizens living abroad. For a detailed discussion of expanded income see Joint Committee on Taxation, *Overview of the Definition of Income Used by the Staff of the Joint Committee on Taxation in Distributional Analyses*, (JCX-15-12), February 8, 2012.

## Table 7.–FICA and SECA Taxes With Social Security Wage Base Under Present Law in 2020 (Projected)

| Income Category [1] | Number of Taxpayer Units [2] | Amount of FICA/SECA taxes paid | Average FICA/SECA tax liability per Taxpayer Unit |
|---|---|---|---|
| | Thousands | Millions (Dollars) | (Dollars) |
| Less than $10,000................................ | 8,594 | 6,472 | 753 |
| $10,000 to $20,000............................... | 13,927 | 28,246 | 2,028 |
| $20,000 to $30,000............................... | 14,000 | 44,291 | 3,164 |
| $30,000 to $40,000............................... | 12,258 | 50,460 | 4,116 |
| $40,000 to $50,000............................... | 10,635 | 55,181 | 5,189 |
| $50,000 to $75,000............................... | 22,017 | 149,319 | 6,782 |
| $75,000 to $100,000............................. | 14,087 | 128,679 | 9,135 |
| $100,000 to $200,000........................... | 28,477 | 421,413 | 14,798 |
| $200,000 to $500,000........................... | 10,318 | 262,070 | 25,399 |
| $500,000 to $1,000,000........................ | 1,377 | 47,794 | 34,709 |
| $1,000,000 and over............................. | 678 | 39,962 | 58,941 |
| **Total, All Taxpayers............................** | 136,368 | 1,233,887 | 9,048 |

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) worker's compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2020 levels.

[2] Includes nonfilers, but excludes dependent filers and returns with negative income.

Source: Joint Committee on Taxation staff estimates.

**Table 8.–FICA and SECA Taxes With the Limitation of the Social Security Wage Base Removed in 2020 (Projected)**

| Income Category [1] | Number of Taxpayer Units [2] | Amount of FICA/SECA taxes paid | Average FICA/SECA tax liability per Taxpayer Unit |
|---|---|---|---|
| | Thousands | Millions (Dollars) | (Dollars) |
| Less than $10,000................................ | 8,594 | 6,477 | 754 |
| $10,000 to $20,000............................... | 13,927 | 28,257 | 2,029 |
| $20,000 to $30,000............................... | 14,000 | 44,309 | 3,165 |
| $30,000 to $40,000............................... | 12,258 | 50,470 | 4,117 |
| $40,000 to $50,000............................... | 10,635 | 55,194 | 5,190 |
| $50,000 to $75,000............................... | 22,017 | 149,371 | 6,784 |
| $75,000 to $100,000............................. | 14,087 | 128,773 | 9,141 |
| $100,000 to $200,000........................... | 28,477 | 426,683 | 14,983 |
| $200,000 to $500,000........................... | 10,318 | 321,550 | 31,164 |
| $500,000 to $1,000,000........................ | 1,377 | 94,401 | 68,555 |
| $1,000,000 and over............................. | 678 | 129,772 | 191,404 |
| **Total, All Taxpayers............................** | 136,368 | 1,435,257 | 10,525 |

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) worker's compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2020 levels.

[2] Includes nonfilers, but excludes dependent filers and returns with negative income.

Source: Joint Committee on Taxation staff estimates.

Table 9 shows the projected number of taxpayers paying individual income taxes on Social Security benefits and the projected amount and average amount of tax liability, with respect to the taxation of Social Security benefits, by income group for calendar year 2020. The greatest number of affected taxpayers and amount of tax liability lie toward the upper-middle of the income distribution or those with economic income of $50,000 to $500,000 annually. Social Security benefits cannot exceed certain amounts (due to the Social Security wage base and progressive benefit formula), which helps explain the average liability of taxpayers with economic income over $200,000 to only be increasing from approximately seven to twelve thousand dollars. Additionally, individuals at the low end of the income distribution are not subject to income taxation on their Social Security benefits due to minimum benefit thresholds for the taxation of Social Security benefits.

**Table 9.–Distribution of Income Taxation of Social Security Benefits in 2020 (Projected)**

| Income Category [1] | Number of Taxpayer Units [2] | Amount of Tax Liability | Average Tax Liability per Taxpayer Unit |
|---|---|---|---|
| | Millions | Millions (Dollars) | (Dollars) |
| Less than $10,000................................ | 0 | 0 | 0 |
| $10,000 to $20,000............................... | 0 | 0 | 0 |
| $20,000 to $30,000............................... | [3] | 6 | 500 |
| $30,000 to $40,000............................... | 0.1 | 26 | 239 |
| $40,000 to $50,000............................... | 0.8 | 189 | 236 |
| $50,000 to $75,000............................... | 4.3 | 3,807 | 893 |
| $75,000 to $100,000............................. | 4.7 | 8,759 | 1,872 |
| $100,000 to $200,000........................... | 9.0 | 33,585 | 3,746 |
| $200,000 to $500,000........................... | 2.6 | 18,508 | 7,247 |
| $500,000 to $1,000,000........................ | 0.3 | 3,432 | 10,792 |
| $1,000,000 and over............................. | 0.2 | 1,880 | 12,129 |
| **Total, All Taxpayers............................** | 21.9 | 70,192 | 3,211 |

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) worker's compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2020 levels.

[2] Includes nonfilers, but excludes dependent filers and returns with negative income.

[3] Less than 50 thousand.

Source: Joint Committee on Taxation staff estimates.

In contrast, Table 10 shows the projected number of taxpayer returns and value of Social Security benefits by income group for calendar year 2020. The majority of taxpayer units that receive Social Security benefits have economic income between $10,000 and $200,000 annually. The average value of Social Security benefits is increasing with economic income. Similar to Table 9, there exists minimum benefit thresholds for the taxation of Social Security benefits, and Social Security benefits cannot exceed certain amounts, which helps explain the relatively low number of returns and value of Social Security benefits at the low and high ends of the income distribution.

**Table 10.–Distribution of Social Security Benefits in 2020 (Projected)**

| Income Category [1] | Number of Taxpayers Units [2] | Value of Social Security Benefits | Average Value per Taxpayer Unit |
|---|---|---|---|
| | Millions | Billions (Dollars) | (Dollars) |
| Less than $10,000................................ | 0.4 | 3.0 | 6,879 |
| $10,000 to $20,000............................... | 2.9 | 24.0 | 8,155 |
| $20,000 to $30,000............................... | 6.0 | 81.2 | 13,537 |
| $30,000 to $40,000............................... | 5.3 | 96.5 | 18,172 |
| $40,000 to $50,000............................... | 4.7 | 96.7 | 20,619 |
| $50,000 to $75,000............................... | 9.0 | 228.3 | 25,335 |
| $75,000 to $100,000............................. | 5.9 | 164.7 | 28,065 |
| $100,000 to $200,000........................... | 8.6 | 263.4 | 30,453 |
| $200,000 to $500,000........................... | 2.3 | 82.7 | 35,407 |
| $500,000 to $1,000,000........................ | 0.3 | 11.5 | 38,224 |
| $1,000,000 and over............................. | 0.1 | 5.9 | 40,465 |
| **Total, All Taxpayers...........................** | 45.7 | 1,057.9 | 23,156 |

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) worker's compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2020 levels.

[2] Includes nonfilers, but excludes dependent filers and returns with negative income.

Note: Detail may not add to total due to rounding.

Source: Joint Committee on Taxation staff estimates.