

Notes and Brief Reports

A Comparison of Social Security Taxes and Federal Income Taxes, 1980-90*

In recent years, with the implementation of the tax rate increases and ad hoc earnings base increases included in the 1977 amendments to the Social Security Act, many observers have noted that Social Security taxes (for the Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Hospital Insurance (HI) programs combined) now exceed Federal income taxes for many families. A comparison of Social Security taxes and Federal income taxes for selected years from 1937, the first year of Social Security taxes, through 1980 was presented in the July 1981 issue of the *Social Security Bulletin*.¹ This note extends that analysis through 1990.

One should note that there is no inherent reason for Social Security taxes to be lower (or higher) than Federal income taxes. In many ways, these two forms of taxation are not comparable. Social Security taxes may be

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considered as payments for social-insurance protection (although this aspect should not be emphasized to the extent that such taxes are viewed as purchasing benefits on an individual-equity basis). Federal income taxes may be considered as payments for most other services and benefits provided by the Government.

Tables 1-4 present a comparison of estimated Social Security employee taxes and Federal income taxes for workers at three earning levels—low, average, and maximum—for the years 1980-90. These amounts of future taxes were estimated both for single workers and for married workers with nonworking spouses. In all cases, no additional dependents were assumed to be present, all income was assumed to be earned in covered employment, and the standard deduction was assumed to be taken.

The low earnings level is defined as earnings equal to one-half of the national average wage, as used for purposes of wage indexing. The average level is defined as earnings equal to the national average wage. The maximum earnings level is defined as earnings equal to the taxable earnings base in each year. For future years, these earnings amounts were projected on the basis of the Alternative II-B assumptions of the 1981 OASDI Trustees Report.

Table 1.—Social Security employee taxes and Federal income taxes for workers, by wage levels, 1980-90

Year	Low earners ¹				Average earners ¹				Maximum earners ¹			
	Wages	Social Security tax	Federal income tax ²		Wages	Social Security tax	Federal income tax ²		Wages	Social Security tax	Federal income tax ²	
			Single	Married ³			Single	Married ³			Single	Married ³
1980	\$6,228	\$382	\$463	⁴ \$116	\$12,454	\$763	\$1,717	\$1,148	\$25,900	\$1,588	\$5,061	\$4,316
1981	6,864	456	573	⁴ 204	13,729	913	1,992	1,356	29,700	1,975	7,303	5,436
1982	7,522	504	627	⁴ 268	15,045	1,008	2,117	1,476	32,100	2,151	7,601	5,656
1983	8,254	553	680	⁴ 339	16,509	1,106	2,238	1,548	35,400	2,372	8,030	6,079
1984	8,980	602	748	⁴ 408	17,961	1,203	2,462	1,740	38,700	2,593	8,878	6,790
1985	9,709	684	811	⁴ 442	19,418	1,369	2,657	1,877	42,600	3,003	9,869	7,557
1986	10,419	745	865	⁴ 469	20,838	1,490	2,844	2,010	46,200	3,303	10,758	8,264
1987	11,126	796	925	⁴ 501	22,252	1,591	3,039	2,148	49,800	3,561	11,658	8,975
1988	11,812	845	979	⁴ 531	23,625	1,689	3,220	2,276	53,400	3,818	12,593	9,718
1989	12,458	891	1,040	⁴ 567	24,917	1,782	3,404	2,405	57,000	4,076	13,556	10,494
1990	13,130	1,004	1,106	⁴ 610	26,261	2,009	3,621	2,562	60,600	4,636	14,565	11,318

¹ Low earnings level equal to one-half the national average wage, as used for purposes of wage indexing. Average earnings level equal to national average wage. Maximum earnings level equal to the taxable earnings base in each year.

² Assumes no income other than wages, standard deduction, and

one exemption for single person, two for married persons. Tax rates are based on the Economic Recovery Tax Act of 1981 (Public Law 97-34).

³ Assumes spouse has no income and joint return is filed.

⁴ Social Security tax exceeds Federal income tax.

Table 2.—Social Security employee taxes as a percent of Federal income taxes, 1980–90

Year	Low earner ¹		Average earner ¹		Maximum earner ¹	
	Single	Married	Single	Married	Single	Married
1980 ..	83	329	44	66	31	37
1981 ..	80	224	46	67	27	36
1982 ..	80	188	48	68	28	38
1983 ..	81	163	49	70	30	39
1984 ..	80	148	49	69	29	38
1985 ..	84	155	52	73	30	40
1986 ..	86	159	52	74	31	40
1987 ..	86	159	52	74	31	40
1988 ..	86	159	52	74	30	39
1989 ..	86	157	52	74	30	39
1990 ..	91	165	55	78	32	41

¹ See table 1 for definition of earnings level and the assumptions used to calculate the Federal income tax.

The Social Security taxes shown are the employee taxes only and are derived by applying the combined OASDI and HI tax rates in the present law to the projected earnings amounts. The Federal income taxes shown are approximate and are based on a summary of the provisions of The Economic Recovery Tax Act of 1981 (Public Law 97-34). For the years 1985 and later, when the income tax brackets, the zero bracket amounts (standard deduction), and the personal exemption will be adjusted for changes in the Consumer Price Index, the assumed changes in the CPI are those of Alternative II-B of the 1981 Trustees Report, adjusted to a 12-month average basis for each fiscal year.

The relationship between Social Security taxes and Federal income taxes in future years is expected to continue the recent trend in that Social Security taxes will exceed Federal income taxes only in those cases of married workers with low earnings. This is especially noteworthy considering the magnitude of the income tax reductions included in Public Law 97-34 and the fact that Social Security taxes are scheduled to increase significantly through 1990.

Table 3.—Social Security employee taxes as a percent of gross wages up to maximum taxable earnings base, 1980–90

Year	Tax rate ¹	Year	Tax rate ¹
1980	6.13	1986	7.15
1981	6.65	1987	7.15
1982	6.7	1988	7.15
1983	6.7	1989	7.15
1984	6.7	1990	7.65
1985	7.05		

¹ For the Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Hospital Insurance (HI) programs combined.

Table 4.—Federal income taxes as a percent of gross wages, 1980–90

Year	Low earner ¹		Average earner ¹		Maximum earner ¹	
	Single	Married	Single	Married	Single	Married
1980 ..	7.4	1.9	13.8	9.2	19.5	16.7
1981 ..	8.3	3.0	14.5	9.9	24.6	18.3
1982 ..	8.3	3.6	14.1	9.8	23.7	17.6
1983 ..	9.1	4.1	13.6	9.6	22.7	17.2
1984 ..	8.3	4.5	13.7	9.7	22.9	17.5
1985 ..	8.4	4.6	13.7	9.7	23.2	17.7
1986 ..	8.3	4.5	13.6	9.6	23.3	17.9
1987 ..	8.3	4.5	13.7	9.7	23.4	18.0
1988 ..	8.3	4.5	13.6	9.6	23.6	18.2
1989 ..	8.3	4.6	13.7	9.7	23.8	18.4
1990 ..	8.4	4.6	13.8	9.8	24.0	18.7

¹ See table 1 for definition of earnings level and the assumptions used to calculate the Federal income tax.

Recent Changes to the Railroad Retirement Act*

The recently enacted Economic Recovery Tax Act of 1981 (Public Law 97-34) and the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) make significant changes in the Railroad Retirement system to improve its financing situation. Public Law 97-34 provides for increased Railroad Retirement revenues through a new payroll tax on railroad employees and an increase in the payroll tax for railroad employers. Public Law 97-35 reduces the overall benefit outgo under the system, although certain minor benefit liberalizations are provided for. The changes made by these two acts were necessary because, under prior law, the Railroad Retirement system would have had insufficient funds to pay benefits by April 1982.

The new legislation is expected to preserve the financial solvency of the Railroad Retirement system for at least the next 10 years. However, Public Law 97-35 also requires the President to report to Congress by October 1, 1982 (the start of the new fiscal year), on options to assure the system's long-term actuarial soundness.

Background

The Railroad Retirement system provides a multitier system of benefits and is coordinated with Social Security. Tier I was roughly equivalent to Social Security, except that (1) certain small categories of auxiliary beneficiaries eligible under Social Security (such as divorced spouses, remarried widows, and dependent surviving parents) were not eligible under Railroad Retirement, (2) under Railroad Retirement, employees at-

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