

## President Obama's Payroll Tax Holiday Could Unravel Social Security

[Prepared by Social Security Works](#)

President Obama has proposed a 2% payroll tax holiday on employees only. Currently, employees pay a 6.2% FICA tax on wages up to \$106,800. The Administration's proposal would exist for one-year and is estimated to cost \$120 billion. The revenue Social Security would lose from the payroll tax cut would be paid back from general revenues by the U.S. Treasury.

- **It's easy to enact tax cuts – it's very hard to end them.**

A 2% payroll tax cut significantly reduces people's tax burden. Restoring the tax a year from now will result in a substantial tax *increase*, which Republicans will vehemently oppose – especially in the Senate where just 53 Senators voted to let the Bush tax cuts for millionaires expire – 7 short of the 60 needed. For example:

  - Recently, the Senate could not muster the 60 votes needed to raise taxes by less than a nickel on every dollar earned over \$1 million, the increase that would have resulted by letting the Bush tax cuts expire.
  - Restoring the payroll tax cut on someone making \$100,000 a year will be a tax increase of \$2,000 and a tax increase of \$400 on someone making \$20,000 a year.
  - Restoring the 2% lost due to the payroll tax holiday would be a 30% tax increase on 94% of all Americans (just 6% of the workforce makes more than \$106,800).
- **Election-year politics will doom restoring the tax.** A more conservative Senate and a Republican House of Representatives in 2011 will resist such a massive tax increase on virtually every worker in the country, especially leading up to an election.
- **Undermines Social Security's long-range solvency.**
  - A 2% payroll tax cut, if unfunded from general revenue, doubles the 75-year projected shortfall projected by the actuaries in the 2010 Trustees Report.
  - Deficit hawks will resist raiding the Treasury to pay for the tax cut after the first year; resulting in a huge revenue drain to Social Security.
- **Keeping the payroll tax cut in place but not paying Social Security back will lead to massive benefits cuts, even as the population rapidly ages.**
  - Progressives will not want to cut benefits for low-income people – and they shouldn't be cut; they should be increased.
  - Only other option is to cut benefits of the middle class. Because only 6% of the work force makes over \$106,800 and because the benefit formula is highly progressive, even eliminating the benefits of richer Americans will not make much difference in solvency.
  - Making up for the \$120 billion of lost annual revenue plus eliminating the already existing long-term shortfall will require deep cuts in benefits for the middle class and erode its support. (From the beginning, policymakers have tried to ensure a reasonable return on contributions to the program.)

- **The weakening of middle-class support will unravel the program in the future.**
  - Historically, Democrats recognized that programs had broad-based support because they provided meaningful benefits to the middle class, allowing meaningful benefits to be provided to the poor, as well.
  - President Franklin Roosevelt understood this, when he designed Social Security:  
“We put those pay roll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program. Those taxes aren’t a matter of economics, they’re straight politics.”
- **A payroll tax holiday will promote privatization of Social Security.** Once people are used to having the 2% cut in their own pockets, they will be more susceptible to arguments that they should be able to put the funds into a private account where they can control it. Two percent of the payroll tax diverted to private accounts is the amount Rep. Paul Ryan has proposed be diverted in his [A Roadmap for America’s Future](#), which proposes to privatize Social Security.
- **There are much better ways to provide stimulus to the economy.** They would do less harm than a payroll tax holiday, as described in this [analysis by the Center on Budget and Policy Priorities](#).