



# Social Security: Temporary Payroll Tax Reduction in 2011

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## Summary

In December 2010, Congress approved a temporary 2 percentage point reduction in the Social Security payroll tax rate for employees and the self-employed in 2011 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). The Social Security payroll tax rate in 2011 is 4.2% for employees and 10.4% for the self-employed. The law makes no changes to the Social Security payroll tax rate for employers (6.2%) or to the amount of wages and net self-employment income subject to the Social Security payroll tax (\$106,800 in 2011). An individual's future Social Security benefit amount will not be affected.

The temporary reduction in the payroll tax for employees and the self-employed in 2011 is intended to provide an economic stimulus by increasing workers' take-home pay. For example, the annual Social Security withholding for a worker earning the average wage in 2011 (an estimated \$44,687) will be lower by about \$894. The annual Social Security withholding for a worker earning the maximum taxable wage (\$106,800 in 2011) will be lower by \$2,136.

To protect the Social Security trust funds from a loss of payroll tax revenues in 2011, the law appropriates to the Social Security trust funds amounts equal to the reduction in payroll tax revenues to the Treasury. In August 2011, the Congressional Budget Office estimated that these general revenue transfers to the Social Security trust funds would total \$111 billion.

The temporary reduction in the Social Security payroll tax for employees and the self-employed in 2011 has drawn mixed reactions from policymakers. Some observers have expressed concern about the potential impact of the current payroll tax reduction on Social Security's long-term finances, despite the general revenue transfers to protect the trust funds from a loss of payroll tax revenues. These observers point out that, although the payroll tax reduction is temporary, the possibility remains that Congress could extend the payroll tax reduction beyond 2011 or make the payroll tax reduction permanent in response to political or other pressures. In addition, they maintain that the general revenue transfers to the Social Security trust funds introduce an element of general revenue financing to the Social Security program, signaling a departure from the self-financing mechanism that has been in place since the program's enactment in the 1930s that could jeopardize the future of the program.

Others support the current payroll tax reduction on the basis that it will stimulate economic recovery and create jobs at a time when the United States continues to experience high rates of unemployment. They maintain that the immediate increase in take-home pay will spur additional consumer spending, increasing the demand for products and services, which in turn will increase production and employment. Supporters point to the payroll tax exemption for *employers* in 2010 for hiring certain unemployed workers as a precedent. They also point out that temporarily reducing Social Security payroll taxes is a policy option that has been advanced in various forms by recent deficit reduction commissions, among others, as an effective way to stimulate economic growth and job creation consistent with long-term fiscal discipline.

In September 2011, President Obama proposed an extension and expansion of the temporary payroll tax reduction for 2012 as part of a broader plan known as the American Jobs Act of 2011. President Obama's American Jobs Act of 2011 was introduced, by request, in the Senate on September 13, 2011 (S. 1549) and in the House on September 21, 2011 (H.R. 12). A revised version of the measure was introduced by Senator Harry Reid on October 5, 2011 (S. 1660).

## **Contents**

Introduction.....	1
How the Social Security Program Is Financed .....	1
Temporary Payroll Tax Reduction for Workers in 2011 .....	3
President Obama’s Proposed Payroll Tax Reduction in 2012 .....	4
Social Security Policy Considerations .....	4
Views Among Opponents .....	5
Views Among Supporters .....	6

## **Contacts**

Author Contact Information.....	7
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## Introduction

Social Security is a self-financed program that provides benefits to retired and disabled workers and their family members and to the family members of deceased workers. Social Security is financed by payroll taxes paid by covered workers and their employers. Employees and employers each pay 6.2% of covered earnings up to an annual limit; self-employed individuals pay 12.4% of net self-employment income up to an annual limit.<sup>1</sup> Social Security is also credited with tax revenues from the federal income taxes paid by some beneficiaries on a portion of their benefits. In addition, Social Security receives interest income from Social Security trust fund investments. Social Security income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: the Federal Old-Age and Survivors Insurance (OASI) trust fund and the Federal Disability Insurance (DI) trust fund.<sup>2</sup>

In March 2010, Congress approved a temporary payroll tax exemption for *employers* as part of the Hiring Incentives to Restore Employment Act (HIRE Act; P.L. 111-147).<sup>3</sup> In 2010, employers were exempt from the employer's share of the payroll tax (6.2%) if they hired an individual who had not been employed for more than 40 hours during the preceding 60-day period. The employee's share of the payroll tax was not affected. The payroll tax exemption for employers expired on December 31, 2010. The law provided general revenue transfers to the Social Security trust funds in amounts needed to protect the trust funds from a loss of payroll tax revenues due to the temporary exemption.

In December 2010, Congress approved a temporary 2 percentage point reduction in the Social Security payroll tax rate for *employees and the self-employed* in 2011 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312).<sup>4</sup> The employer's share of the payroll tax is not affected. The law provides general revenue transfers to the Social Security trust funds in amounts needed to protect the trust funds from a loss of payroll tax revenues.

The temporary reduction in the Social Security payroll tax for employees and the self-employed in 2011 has drawn both opposition and support from policymakers. In September 2011, as part of a broader plan known as the American Jobs Act of 2011, President Obama proposed an extension and expansion of the temporary payroll tax reduction for 2012. This report discusses Social Security policy considerations related to temporary payroll tax reductions.

## How the Social Security Program Is Financed

The Social Security program is financed primarily by revenues from Federal Insurance Contributions Act (FICA) taxes and Self Employment Contributions Act (SECA) taxes. FICA

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<sup>1</sup> Congress has increased the Social Security payroll tax rate many times over the program's history. The payroll tax rate under current law (12.4%) was established by P.L. 98-21 (the Social Security Amendments of 1983). P.L. 98-21 increased the payroll tax rate gradually from 11.4% in 1984 to 12.4% in 1990.

<sup>2</sup> In this report, the OASI and DI trust funds are referred to on a combined basis as the Social Security trust funds.

<sup>3</sup> See Title I, §101 (Payroll Tax Forgiveness for Hiring Unemployed Workers) of P.L. 111-147 available at <http://www.gpo.gov/fdsys/pkg/PLAW-111publ147/pdf/PLAW-111publ147.pdf>.

<sup>4</sup> The temporary reduction in the Social Security payroll tax is also referred to as a "payroll tax holiday."

taxes are paid by both employers and employees, but it is employers who remit the taxes to the U.S. Treasury. Employers remit FICA taxes on a regular basis throughout the year (for example, weekly, monthly, quarterly or annually), depending on the employer's level of total employment taxes (Social Security, Medicare and federal individual income tax withholding).

The FICA tax rate of 7.65% each for employers and employees has two components: 6.2% for Social Security and 1.45% for Medicare Hospital Insurance (HI). Under current law, employers and employees each pay 6.2% of wages up to an annual limit (\$106,800 in 2011) in Social Security payroll taxes. The SECA tax rate is 15.3% for self-employed individuals, with 12.4% for Social Security and 2.9% for Medicare HI. Self-employed individuals pay 12.4% of net self-employment income up to an annual limit (\$106,800 in 2011) in Social Security payroll taxes. One-half of the SECA taxes are allowed as a deduction for federal income tax purposes.<sup>5</sup> SECA taxes are normally paid once a year as part of filing an annual individual income tax return.<sup>6</sup>

In addition to Social Security payroll taxes, the Social Security program has two other sources of income. Certain Social Security beneficiaries must include a portion of Social Security benefits in taxable income for the federal income tax, and the Social Security program receives part of those taxes.<sup>7</sup> In addition, the Social Security program receives interest from the U.S. Treasury on its investments in special U.S. government obligations.

As the Managing Trustee of the Social Security trust funds, the Secretary of the Treasury is required by law to invest Social Security revenues in interest-bearing federal government securities (special issues) held by the trust funds.<sup>8</sup> The revenues exchanged for the federal government securities are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust funds are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust funds by the general fund of the U.S. Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption or sale of federal government securities held by the trust funds.<sup>9</sup>

Based on the program's current financing and benefit structure, the Social Security Board of Trustees projects that Social Security expenditures will exceed *tax revenues* each year from 2011 to 2085 (i.e., the program will operate with annual cash-flow deficits). When interest income to the trust funds is taken into account, the trustees project that the Social Security trust funds will have a total surplus each year from 2011 to 2022 (i.e., total income—tax revenues plus interest income—will exceed Social Security expenditures). As a result, the balance in the Social Security trust funds (the amount of assets held by the trust funds in the form of federal government

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<sup>5</sup> Self-employed individuals are required to pay Social Security payroll taxes if they have annual net earnings of \$400 or more. Only 92.35% of net self-employment income (up to the annual limit) is taxable.

<sup>6</sup> The limit on wages and net self-employment income subject to the Social Security payroll tax (the taxable wage base) is adjusted annually based on average wage growth, if a Social Security cost-of-living adjustment (COLA) is payable. Because no COLA was payable in 2010, there was no increase in the taxable wage base from 2009 to 2010. Similarly, because no COLA is payable in 2011, the taxable wage base remains unchanged at \$106,800 in 2011. The Medicare HI component of the FICA and SECA tax is levied on total wages.

<sup>7</sup> The taxes associated with including Social Security benefits in federal taxable income go to the Social Security trust funds and the Medicare HI trust fund. See CRS Report RL32552, *Social Security: Calculation and History of Taxing Benefits*, by Christine Scott and Janemarie Mulvey.

<sup>8</sup> Social Security Act, Title II, §201(d).

<sup>9</sup> Social Security Administration, *Trust Fund FAQs*, <http://www.socialsecurity.gov/OACT/ProgData/fundFAQ.html>.

securities) is projected to increase each year from 2011 to 2022. Beginning in 2023, however, trust fund reserves will begin to be drawn down to help pay benefits and administrative expenses.

Over the long run, the trustees project that Social Security expenditures will exceed income by 14% on average over the next 75 years, and that trust fund assets will be exhausted in 2036. Social Security benefits scheduled under current law can be paid in full until trust fund assets are exhausted (2036). After the trust funds are exhausted, annual Social Security revenues are projected to cover about three-fourths of benefit payments scheduled under current law.<sup>10</sup>

## **Temporary Payroll Tax Reduction for Workers in 2011**

As noted above, the Social Security payroll tax rate is 6.2% for employers and employees (each) and 12.4% for the self-employed. On December 17, 2010, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). Title VI of the law provides a temporary 2 percentage point reduction in the payroll tax rate for employees and the self-employed in 2011.<sup>11</sup> The Social Security payroll tax rate in 2011 is 4.2% for employees and 10.4% for the self-employed.<sup>12</sup> The law makes no changes to the Social Security payroll tax rate for employers (6.2%) or to the amount of annual wages and net self-employment income subject to the Social Security payroll tax (\$106,800 in 2011). The current reduction in the Social Security payroll tax does not affect the amount of an individual's future Social Security benefit.<sup>13</sup>

The temporary reduction in the payroll tax for employees and the self-employed in 2011 is intended to provide an economic stimulus by increasing workers' take-home pay. For example, the annual Social Security withholding for a worker earning the average wage in 2011 (an estimated \$44,687)<sup>14</sup> will be lower by about \$894. The annual Social Security withholding for a worker earning the maximum taxable wage (\$106,800 in 2011) will be lower by \$2,136.

To protect the Social Security trust funds from a loss of payroll tax revenues resulting from the temporary reduction in the payroll tax rate for employees and the self-employed, the law appropriates to the Social Security trust funds amounts equal to the reduction in payroll tax revenues to the Treasury. The law specifies that these appropriated amounts "shall be transferred from the general fund at such times and in such manner as to replicate to the extent possible the transfers which would have occurred to such Trust Fund had such amendments not been

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<sup>10</sup> Projections are based on the intermediate assumptions of The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, May 13, 2011, available at <http://www.socialsecurity.gov/OACT/TR/2011/>. For more information on the trust fund projections, see CRS Report RL33028, *Social Security: The Trust Fund*, by Dawn Nuschler and Gary Sidor.

<sup>11</sup> The temporary reduction in the payroll tax rate also applies to railroad workers. For more information, see CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*, by Alison M. Shelton.

<sup>12</sup> The temporary reduction in the payroll tax rate does not affect the amount of payroll taxes that self-employed individuals may deduct for federal income tax purposes.

<sup>13</sup> An individual's Social Security benefit is based on his or her average lifetime earnings subject to the Social Security payroll tax, indexed to account for changes in average wages over time. Because P.L. 111-312 does not affect the amount of wages and net self-employment income subject to the Social Security payroll tax, it does not affect the amount of an individual's future Social Security benefit.

<sup>14</sup> Social Security Administration, *2011 Social Security/SSI/Medicare Information*, December 22, 2010, available at <http://www.socialsecurity.gov/legislation/2011/factsheet.pdf> (hereafter cited as SSA 2011 Fact Sheet).

enacted.”<sup>15</sup> In August 2011, the Congressional Budget Office estimated that general revenue transfers to the Social Security trust funds as a result of the temporary payroll tax reduction in 2011 would total \$111 billion.<sup>16</sup>

## **President Obama’s Proposed Payroll Tax Reduction in 2012**

In September 2011, President Obama proposed an extension and expansion of the payroll tax reduction for 2012, as part of a broader plan known as the American Jobs Act of 2011.<sup>17</sup> The proposal includes a 3.1 percentage point reduction in the payroll tax for workers in 2012. In addition, the proposal includes a corresponding 3.1 percentage point reduction in the payroll tax for employers in 2012, on up to \$5 million of wages paid by the employer.

The proposal also provides a payroll tax credit for employers for the fourth quarter of calendar year 2011 and calendar year 2012. The payroll tax credit would fully offset the employer’s share of the payroll tax (6.2 percentage points) on increased wages paid by the employer compared with the corresponding period of the previous year (i.e., wages attributed to new hires or higher wages paid to current workers). The payroll tax credit would be available on up to \$50 million of increased wages paid by the employer.<sup>18</sup>

Under the proposal, general revenue transfers would be made to the Social Security trust funds to make up for the loss of payroll tax revenues.<sup>19</sup>

President Obama’s American Jobs Act of 2011 was introduced, by request, in the Senate on September 13, 2011 (S. 1549) and in the House on September 21, 2011 (H.R. 12). A revised version of the measure was introduced by Senator Harry Reid on October 5, 2011 (S. 1660).

## **Social Security Policy Considerations**

The temporary reduction in the payroll tax for employees and the self-employed in 2011 has drawn mixed reactions from policymakers. The following section presents key policy considerations raised by opponents and supporters of the temporary payroll tax reduction.<sup>20</sup>

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<sup>15</sup> The text of P.L. 111-312 is available at <http://www.gpo.gov/fdsys/pkg/PLAW-111publ312/pdf/PLAW-111publ312.pdf>. See Title VI, Temporary Employee Payroll Tax Cut.

<sup>16</sup> Congressional Budget Office, Combined OASDI Trust Funds, August 2011 Baseline, available at <http://www.cbo.gov/budget/factsheets/2011c/OASDITrustFund.pdf>.

<sup>17</sup> Draft bill language for the American Jobs Act of 2011 is available at <http://op.bna.com/der.nsf/r?Open=csaz-8lms4p>. A section-by-section analysis of the proposal is available at <http://op.bna.com/der.nsf/r?Open=csaz-8lms64>.

<sup>18</sup> The payroll tax reduction and the payroll tax credit for employers would not apply to federal, state and local government employers, with the exception of state colleges and universities, or with respect to household workers.

<sup>19</sup> A summary document released by the White House on September 8, 2011, indicates that the estimated cost of the payroll tax reduction for workers in 2012 is \$175 billion, and the estimated combined cost of the payroll tax reduction and payroll tax credit for employers is \$65 billion. See *Fact Sheet: The American Jobs Act* available at <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act>.

<sup>20</sup> For information on administrative issues associated with the temporary reduction in the Social Security payroll tax in 2011, see *Social Security Tax Holiday Has Payroll Managers Scrambling*, Tax Notes, January 3, 2011, p. 26.

## Views Among Opponents

Despite the general revenue transfers to protect the trust funds from a loss of payroll tax revenues, some observers have expressed concern about the potential impact of the temporary reduction in the payroll tax for employees and the self-employed in 2011 on Social Security's long-term finances. These observers point out that, although the payroll tax reduction is temporary, the possibility remains that Congress could extend the payroll tax reduction beyond 2011 or make the payroll tax reduction permanent in response to political or other pressures without providing transfers from general revenues. In addition, restoring the 2 percentage points of the employee's share of the payroll tax in 2012 (from 4.2% to 6.2%) could be viewed by the public as a 50% increase in Social Security payroll taxes.

Opponents maintain that the general revenue transfers to the Social Security trust funds introduce an element of general revenue financing to the Social Security program, signaling a departure from the self-financing mechanism that has been in place since the program's enactment in the 1930s. They believe that, without a dedicated revenue source, the future of the program could be in jeopardy if, like other federal programs, Social Security must rely on general revenues for part of its funding. Moreover, they point out that using general revenues to partially fund benefits breaks the traditional link between payroll tax contributions and benefits, weakening the fundamental earned-right nature of the program which in turn could affect public support for the program. Finally, some argue that using general revenues to partially fund Social Security benefits is unfair because not all taxpayers participate in the Social Security system.<sup>21</sup>

Some observers believe that other policy options, such as an extension of the Making Work Pay (MWP) refundable tax credit, would be more effective as an economic stimulus measure than a temporary reduction in the employees' share of the payroll tax.<sup>22</sup> The MWP tax credit was authorized by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) and expired on December 31, 2010. It provided workers with a federal income tax credit of 6.2% of wages, up to a maximum credit of \$400 (\$800 for married couples filing jointly), in tax years 2009 and 2010. The MWP tax credit was phased out for workers with incomes above \$75,000 (\$150,000 for married couples filing jointly). It was implemented during the tax year by lowering the amount of federal income taxes withheld from workers' paychecks.<sup>23</sup>

Some observers favor the MWP tax credit over the current reduction in the Social Security payroll tax because it was available to all workers (not just those covered by Social Security).<sup>24</sup>

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<sup>21</sup> On a related point, the temporary payroll tax reduction has been criticized by some observers because it does not benefit individuals who work in jobs that are not covered by Social Security (such as some state and local government employees). For more information, see The National Committee to Preserve Social Security and Medicare (NCPSSM), *Reps. Doggett, Chu, DeFazio, Deutch, Holt, and the National Committee to Preserve Social Security and Medicare Call Payroll Tax Holiday Bad Break for Families*, December 15, 2010, available at [http://www.ncpssm.org/news/archive/opposing\\_payroll\\_tax\\_cut/](http://www.ncpssm.org/news/archive/opposing_payroll_tax_cut/). See also NCPSSM, *Social Security Experts Detail Why Payroll Tax "Holiday" is No Gift to Americans*, December 10, 2010, available at [http://www.ncpssm.org/news/archive/payroll\\_tax\\_holiday\\_press\\_release/](http://www.ncpssm.org/news/archive/payroll_tax_holiday_press_release/).

<sup>22</sup> For more information, see Center for Budget and Policy Priorities (CBPP), *Payroll Tax Holiday a Poor Stimulus Idea, "Making Work Pay" Credit a Better-Targeted Alternative*, January 26, 2009, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=2264>.

<sup>23</sup> For information on the MWP tax credit, see CRS Report R40969, *Withholding of Income Taxes and the Making Work Pay Tax Credit*, by John J. Topoleski.

<sup>24</sup> An estimated 7% of workers in paid employment or self-employment are *not* covered by Social Security. See SSA 2011 Fact Sheet available at <http://www.socialsecurity.gov/legislation/2011factsheet.pdf>.

Moreover, the MWP tax credit was more favorable to workers earning less than \$20,000, compared to the current payroll tax reduction. For a worker earning \$20,000, the value of the MWP tax credit and the current payroll tax reduction is the same (\$400).<sup>25</sup> At earnings levels above \$20,000, the value of the current payroll tax reduction is relatively greater.<sup>26</sup> At earnings levels below \$20,000, the value of the MWP tax credit is relatively greater.<sup>27</sup>

Because the refundable MWP tax credit was more generous to lower-wage workers compared to the current payroll tax reduction (which provides an increasingly larger dollar benefit for workers with higher earnings), and lower-wage earners are believed to be more likely to spend additional take-home pay compared to middle- and higher-wage earners, the MWP tax credit is considered by some to be a more effective economic stimulus measure. As a result, some observers recommend adding a “hold harmless” provision for lower-wage workers so that these workers would be no worse off under the current payroll tax reduction compared to the MWP tax credit.<sup>28</sup>

## Views Among Supporters

Some observers support the temporary reduction in the Social Security payroll tax on the basis that it will stimulate economic recovery and create jobs at a time when the United States continues to experience high rates of unemployment. They maintain that the immediate increase in take-home pay will spur additional consumer spending, increasing the demand for products and services, which in turn will increase production and employment.

A temporary reduction in the Social Security payroll tax is not without precedent. As noted previously, in 2010, Congress approved a temporary exemption from the payroll tax for *employers* who hired certain unemployed persons, as part of the HIRE Act of 2010 (P.L. 111-147). Temporarily reducing Social Security payroll taxes is a policy option that has been advanced in various forms by recent deficit reduction commissions, among others, as an effective way to stimulate economic growth and job creation consistent with long-term fiscal discipline.<sup>29</sup>

In testimony before the Senate Budget Committee in September 2010 on the potential impact of various fiscal policy options on the economy, CBO Director Douglas W. Elmendorf stated:

A temporary reduction in payroll taxes—especially in the share of taxes paid by employers—would also have a significant positive short-term effect on the economy. This approach would boost output and employment both by increasing demand for goods and services and by providing an incentive for additional hiring.<sup>30</sup>

<sup>25</sup> MWP tax credit = \$20,000 \* 6.2% (up to \$400) = **\$400**; current payroll tax reduction = \$20,000 \* 2% = **\$400**.

<sup>26</sup> MWP tax credit = \$21,000 \* 6.2% (up to \$400) = **\$400**; current payroll tax reduction = \$21,000 \* 2% = **\$420**.

<sup>27</sup> MWP tax credit = \$19,000 \* 6.2% (up to \$400) = **\$400**; current payroll tax reduction = \$19,000 \* 2% = **\$380**.

<sup>28</sup> For example, see Economic Policy Institute, *Any payroll tax cut should be designed not to hurt lower-income workers*, December 15, 2010, available at [http://www.epi.org/analysis\\_and\\_opinion/entry/any\\_payroll\\_tax\\_cut\\_should\\_be\\_designed\\_not\\_to\\_hurt\\_lower-income\\_workers/](http://www.epi.org/analysis_and_opinion/entry/any_payroll_tax_cut_should_be_designed_not_to_hurt_lower-income_workers/).

<sup>29</sup> For example, see CBO, *Information on Reducing Payroll Taxes to Encourage Employment*, Letter to the Honorable Robert P. Casey Jr., February 3, 2010, available at <http://www.cbo.gov/ftpdocs/110xx/doc11042/02-03-CaseyLetter.pdf>. See also CBO, *Policies for Increasing Economic Growth and Employment in 2010 and 2011*, January 2010, available at <http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf>.

<sup>30</sup> CBO, *The Economic Outlook and Fiscal Policy Choices*, Testimony by CBO Director Douglas W. Elmendorf before the Senate Committee on the Budget, September 28, 2010, p. 3, available at [http://www.cbo.gov/ftpdocs/118xx/doc11874/09-28-EconomicOutlook\\_Testimony.pdf](http://www.cbo.gov/ftpdocs/118xx/doc11874/09-28-EconomicOutlook_Testimony.pdf). (Hereafter cited as CBO Testimony before the Senate Budget (continued...))

CBO estimated that reducing Social Security payroll taxes for *employees* would raise output cumulatively over a five-year period by \$0.30 to \$0.90 per dollar of total budgetary cost. In comparison, CBO estimated that reducing Social Security payroll taxes for *employers* would have a somewhat larger effect, raising output by \$0.40 to \$1.20 per dollar of total budgetary cost.<sup>31</sup>

In November 2010, the Bipartisan Policy Center's deficit reduction commission co-chaired by former Senator Pete Domenici and Dr. Alice Rivlin recommended a one-year suspension of the Social Security payroll tax for employers and employees. The commission recommended that employers and employees be exempt from the 12.4% payroll tax in 2011, and that the Social Security trust funds be reimbursed in full from general revenues. The commission stated that the proposal would cost an estimated \$650 billion and would create between 2.5 million and 7 million new jobs (based on CBO assumptions).<sup>32</sup>

In December 2010, the National Commission on Fiscal Responsibility and Reform established by President Obama recommended a "temporary suspension of one side of the Social Security payroll tax, financed by transfers from general revenue." The commission stated that the proposal would cost an estimated \$50 billion to \$100 billion in lost revenues, depending on the design, and that CBO found it would result in "significant short-term economic growth and job creation."<sup>33</sup>

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Committee, September 28, 2010.)

<sup>31</sup> CBO Testimony before the Senate Budget Committee, September 28, 2010, pp. 21-22. In this analysis, CBO noted that the largest effect on the economy per dollar of budgetary cost would result from a temporary increase in aid to the unemployed. P.L. 111-312, which provided the temporary payroll tax reduction for employees and the self-employed in 2011, also extended the temporary Emergency Unemployment Compensation (EUC08) program until December 31, 2011.

<sup>32</sup> Bipartisan Policy Center, *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, The Debt Reduction Task Force, Senator Pete Domenici and Dr. Alice Rivlin, Co-Chairs, November 2010, pp. 10 and 16, available at <http://bipartisanpolicy.org/sites/default/files/FINAL%20DRTF%20REPORT%202011.16.10.pdf>. For more information, see estimates of the OASDI financial effects and benefit illustrations under the plan prepared by the Office of the Chief Actuary, Social Security Administration, available at <http://www.ssa.gov/OACT/solvency/index.html>.

<sup>33</sup> *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, December 1, 2010, p. 43, available at [http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf). For more information, see estimates of the OASDI financial effects and benefit illustrations under the plan prepared by the Office of the Chief Actuary, Social Security Administration, available at <http://www.ssa.gov/OACT/solvency/index.html>.