



Budget Model

Policy Options: Raising the Social Security Taxable Maximum

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Summary: We estimate the budgetary, economic and distributional effects of raising the Social Security taxable maximum to \$300,000 starting on January 1st, 2021. We project that it would raise \$1.2 trillion of additional revenue on a conventional basis over the 10-year budget window and lower GDP 1.7 percent by 2050. Families in the top 10 percent of the income distribution would bear 93 percent of the overall burden of this tax increase.

What is the Social Security taxable maximum?

The primary source of financing for Social Security comes from payroll taxes under the Federal Insurance Contribution Act (FICA). The Social Security—or Old-Age, Survivors and Disability Insurance (OASDI)—portion of FICA imposes a tax rate on labor income, which is split evenly between employers and employees. Self-employed individuals are subject to an equivalent tax under the Self-Employment Contribution Act (SECA) at a rate currently equal to the rate set under FICA. An individual's combined FICA and SECA earnings are only subject to the Social Security tax up to a certain threshold, known as the taxable maximum. Social Security payroll taxes are therefore regressive, since those earning more than the taxable maximum pay a smaller percentage of their income than those earning less than the maximum. The taxable maximum is also the maximum amount of income in a given year that can be used to calculate an individual's Social Security benefits.

Current Law:

For tax year 2019, the Social Security portion of both FICA and SECA impose a tax rate of 12.4 percent. The taxable maximum in 2019 is \$132,900 and increases over time with average wage growth.¹

Policy option:

We estimate a policy option that would raise the taxable maximum from the projected level of \$140,900 in 2021 to \$300,000. As under current law, this new taxable maximum would increase over time with average wage growth. There would be no corresponding increase in Social Security benefits for workers who pay more taxes

during their lifetimes under the proposal. Consequently, the policy option would separate the taxable maximum from the maximum amount of income in a given year considered in an individual’s benefit calculation.

PWBM has previously analyzed [an increase to the taxable maximum in conjunction with other Social Security policy changes](#) as well as [the creation of a “donut hole” tax on income above the taxable maximum](#).

Budget estimate:

On a conventional basis, PWBM estimates this policy would raise about \$1.2 trillion over the period 2021 to 2030, as shown in Table 1.

Table 1. Conventional Budget Estimate, FY2021-2030

Billions of Dollars, Change from Current-Law Baseline

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Policy	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2030
Raise the Social Security taxable maximum to \$300,000	82	108	112	115	120	124	130	136	140	144	1,212

Economic effects:

As shown in Table 2, PWBM estimates that increasing the taxable maximum to \$300,000 would reduce the nation’s production output, as measured by Gross Domestic Product (GDP), by 1.7 percent in 2050.

Table 2. Dynamic Macroeconomic Effects

Percent Change from Baseline

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Year	GDP	Capital stock	Labor income	Hours worked	Consumption
2030	-1.1%	-1.4%	-1.1%	-0.3%	-1.9%
2040	-1.3%	-2.3%	-1.3%	-0.3%	-2.4%
2050	-1.7%	-3.4%	-1.7%	-0.3%	-2.8%

Note: Consistent with [empirical evidence](#), the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

Following scoring conventions, we assume that this additional revenue is used to pay down federal debt. A reduction in federal debt “crowds in” private capital formation, thereby potentially increasing GDP. However, this policy decreases savings and investment since highly productive workers, which as a group has a high savings rate, have less to invest. Since benefits do not increase in response to an increase in the tax ceiling, the marginal link between taxes and benefits is also reduced, thereby leading to fewer hours worked. The reduced output means that the effect of deficit reduction is dominated by the reduced savings and investment.

Distributional analysis:

As Table 3 shows, on a conventional basis, the cost of this policy would fall largely on the upper-middle class and richest Americans. After-tax incomes for those in the 95th to 99th percentiles would fall by 1.3 percent, experiencing the greatest change of any income group. Workers with earnings under the current taxable maximum would not be affected by this policy.

Table 3. Distribution of Policy Change by Annual Income Categories in 2021, Relative to Current-Law Baseline

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Income group	Average tax change	Share with a tax increase	Percent change in after tax income	Share of tax change	Share of federal taxes paid	Change in share of federal taxes paid
Bottom quintile	\$0	0%	0.0%	0%	0%	0.0%
Second quintile	\$0	0%	0.0%	0%	1%	0.0%
Middle quintile	\$0	0%	0.0%	0%	8%	-0.1%
Fourth quintile	\$5	0%	0.0%	1%	17%	-0.2%
80-90%	\$155	17%	-0.1%	6%	14%	-0.1%
90-95%	\$1,165	50%	-0.6%	20%	11%	0.1%
95-99%	\$3,830	77%	-1.3%	53%	18%	0.5%
99-99.9%	\$5,820	79%	-0.7%	18%	15%	0.0%
Top 0.1%	\$5,770	79%	-0.1%	2%	16%	-0.2%

1. Additional information on the methods used to calculate average wage growth for Social Security can be found on the Social Security Administration’s website [here](#). ↩