



President Trump's Payroll Tax Holiday

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<https://budgetmodel.wharton.upenn.edu/estimates/2020/3/12/president-trumps-payroll-tax-holiday>

all Social Security and Medicare payroll taxes through December 31st, 2020. We estimate the budgetary, distributional and economic effects if the holiday were run from April 1 through December 31, 2020. Updated on March 17, 2020 to include two scenarios for how the employer side of the tax cut would be distributed: either to the full benefit of business owners and corporate equity holders ("profits rise") or to the full benefit of workers ("wages rise").

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Table 1. Conventional Revenue Estimates, Fiscal Years 2020-2029

Billions of Dollars, Change from Current-Law Baseline

Scenario	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Wages rise	-563	-244	0	0	0	0	0	0	0	0	-807
Profits rise	-593	-221	0	0	0	0	0	0	0	0	-814



Table 2: Distribution of Federal Tax Change, Calendar Year 2020

Wages rise

Income group	Average tax change	Share with a tax cut	Percent change in after-tax income	Share of tax change	Share of federal taxes paid	
					Under current law	Under the proposal
Bottom quintile	-\$320	32.90%	10.7%	1.9%	0.1%	-0.6%
Second quintile	-\$2,185	88.30%	9.6%	10.1%	2.3%	-0.6%
Middle quintile	-\$4,240	91.40%	9.9%	18.8%	10.3%	7.1%
Fourth quintile	-\$6,790	86.20%	8.8%	26.0%	19.1%	16.5%
80-90%	-\$11,270	92.00%	9.4%	17.7%	14.9%	13.9%
90-95%	-\$14,455	94.10%	8.5%	10.7%	10.9%	11.0%
95-99%	-\$17,245	94.10%	6.1%	10.3%	16.4%	18.6%
99-99.9%	-\$23,065	94.30%	2.8%	3.1%	12.7%	16.3%
Top 0.1%	-\$70,175	92.70%	1.0%	1.1%	13.0%	17.5%

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. For this short-run analysis, the corporate income tax is assumed to be borne entirely by the owners of corporate equity. Federal taxes included are individual income, payroll, and corporate income taxes.



Table 2: Distribution of Federal Tax Change, Calendar Year 2020

Profits rise

Income group	Average tax change	Share with a tax cut	Percent change in after-tax income	Share of tax change	Share of federal taxes paid	
					Under current law	Under the proposal
Bottom quintile	-\$215	34.50%	7.2%	1.2%	0.1%	-0.4%
Second quintile	-\$1,420	92.30%	6.2%	6.1%	2.3%	0.7%
Middle quintile	-\$2,690	95.10%	6.3%	11.2%	10.3%	9.9%
Fourth quintile	-\$4,860	94.20%	6.3%	17.4%	19.1%	19.9%
80-90%	-\$8,625	98.30%	7.2%	12.7%	14.9%	15.9%
90-95%	-\$12,795	99.10%	7.6%	8.9%	10.9%	11.9%
95-99%	-\$23,235	99.40%	8.2%	13.0%	16.4%	17.7%
99-99.9%	-\$82,120	99.60%	10.1%	10.2%	12.7%	13.7%
Top 0.1%	-\$1,295,115	99.90%	17.9%	18.5%	13.0%	10.7%

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. For this short-run analysis, the corporate income tax is assumed to be borne entirely by the owners of corporate equity. Federal taxes included are individual income, payroll, and corporate income taxes.



Table 3. Economic Effects of Proposed Payroll Tax Holiday

Percent Change from Baseline

Year	GDP	Capital stock	Hours worked	Average hourly wage
2030	-0.1%	-0.2%	-0.1%	0.0%
2040	-0.1%	-0.4%	-0.1%	-0.1%
2050	-0.2%	-0.5%	0.0%	-0.2%

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.

* <https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations>