

Notes and Brief Reports

A Comparison of Social Security Taxes and Federal Income Taxes*

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. The question has been raised about whether this is a new phenomenon. This note examines that question by comparing the social security taxes and Federal income taxes for single and married workers (without additional dependents) at three wage levels for selected years from 1937, the first year of social security taxes, through 1980.

*By Bruce D. Schobel, Office of the Actuary, Social Security Administration. This note originally appeared as Actuarial Note No. 102, April 1981.

One should note, however, 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 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 a individual-equity basis). Federal income taxes may be considered as payments for most other services and benefits provided by the Government.

Table 1 presents historical comparisons of social security employee taxes and Federal income taxes for workers at three wage levels—low, average, and maximum. In the early years (1937–40), social security taxes exceeded Federal income taxes for married workers at all three wage levels and for all single workers except for those with wages near the taxable maximum. With the advent of World War II, Federal income taxes rose much more rapidly than social security taxes and continued at a high level, exceeding social security taxes for

Table 1.—Social security employee taxes and Federal income taxes for workers, by wage levels, selected years

Year	Low earners ¹				Average earners ³				Maximum earners ⁴			
	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			Single	Married			Single	Married
1937	\$575	\$6	\$0	\$0	\$1,151	\$12	\$0	\$0	\$3,000	\$30	\$57	\$0
1940	598	6	0	0	1,195	12	7	0	3,000	30	72	19
1945	1,011	10	95	12	2,021	20	302	202	3,000	30	516	411
1950	1,272	19	93	50	2,544	38	289	185	3,000	45	373	265
1955	1,651	33	179	59	3,301	66	486	359	4,200	84	665	521
1960	2,004	60	242	122	4,007	120	625	485	4,800	144	783	629
1965	2,329	84	211	100	4,659	169	615	451	4,800	174	641	474
1970	3,093	148	323	153	6,186	297	917	695	7,800	374	1,265	985
1971	3,249	169	225	116	6,497	338	848	634	7,800	406	1,134	891
1972	3,567	185	229	109	7,134	371	916	682	9,000	468	1,331	1,033
1973	3,790	222	263	137	7,580	443	1,010	767	10,800	632	1,698	1,319
1974	4,015	235	306	174	8,031	470	1,105	853	13,200	772	2,217	1,758
1975	4,315	252	276	114	8,631	505	1,146	793	14,100	825	2,361	1,840
1976	4,613	270	298	72	9,226	540	1,160	816	15,300	895	2,501	1,943
1977	4,890	286	259	0	9,779	572	1,172	723	16,500	965	2,907	2,042
1978	5,278	319	325	11	10,556	639	1,348	859	17,700	1,071	3,270	2,336
1979	5,740	352	373	46	11,479	704	1,487	968	22,900	1,404	4,041	3,476
1980	6,228	382	463	116	12,455	764	1,717	1,148	25,900	1,588	5,061	4,316

¹ Earnings equal to one-half the national average, as defined for wage indexing purposes, 1951–79. Before 1951, earnings level derived using the percentage change in average first quarter taxable wages.

² Assumes no income other than wages, standard deduction, and one exemption for single person, two for married person. Also assumes spouse has no income and joint return is filed.

³ Earnings equal to national average, as defined for wage indexing purposes, 1951–79. Before 1951, earnings level derived using the percentage change in average first quarter taxable wages.

⁴ Earnings equal to maximum taxable earnings base.

⁵ Social security tax exceeds Federal income tax.

⁶ Preliminary figures.

both single and married workers at the three wage levels in nearly every year through 1970.

In the 1970's, Federal income taxes decreased significantly for workers with low earnings, while social security taxes increased somewhat. For single low earners, Federal income taxes remained above the social security taxes, except in 1977. For married persons with low earnings, Federal income taxes were lower than social security taxes in every year. On the other hand, social security taxes were lower than Federal income taxes for both single and married workers with average or maximum earnings.

Table 2 presents the social security employee taxes as a percentage of Federal income taxes for selected years. After the 1950's, social security taxes rose as a percentage of Federal income taxes for workers with low earnings. For average and maximum earners, social security taxes rose until the mid-1970's and then decreased through 1980. For maximum earners, social security taxes in 1980 were at a level roughly equal to that in 1970.

Table 3 presents the social security employee tax rates (for the OASI, DI, and HI programs combined) for selected years. These rates applied to wages up to the taxable maximum and may be compared with Federal income taxes as a percentage of gross wages, shown in table 4.

Table 2.—Social security employee taxes as a percent of Federal income taxes, selected years

Year	Low earner ¹		Average earner ¹		Maximum earner ¹	
	Single	Married	Single	Married	Single	Married
1937	(2)	(2)	(2)	(2)	52	(2)
1940	(2)	(2)	162	(2)	42	159
1945	11	84	7	10	6	7
1950	21	(2)	13	21	12	17
1955	18	56	14	18	13	16
1960	25	49	19	25	18	23
1965	40	84	27	37	27	37
1970	46	97	32	43	30	38
1971	75	146	40	53	36	46
1972	81	170	40	54	35	45
1973	84	162	44	58	37	48
1974	77	135	43	55	35	44
1975	91	221	44	64	35	45
1976	91	375	47	66	36	46
1977	110	(2)	49	79	33	47
1978	98	2,900	47	74	33	46
1979	94	765	47	73	35	40
1980	82	329	44	67	31	37

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

² No Federal income tax payable.

Although social security taxes have increased by large percentages since the early years of the program, Federal income taxes have also increased significantly. In recent years, social security taxes have actually decreased relative to Federal income taxes for workers with average or higher earnings. In the earliest years of the program, social security taxes exceeded income taxes for all types of workers defined in this note, except for single persons with high earnings. Since 1950, this situation has occurred for the married low earner only (with one exception, 1977, for the single low earner).

Table 3.—Social security employee taxes as a percent of gross wages up to the maximum taxable earnings base, selected years

Year	Tax rate ¹	Year	Tax rate ¹
1937	1.0	1972	5.2
1940	1.0	1973	5.85
1945	1.0	1974	5.85
1950	1.5	1975	5.85
1955	2.0	1976	5.85
1960	3.0	1977	5.85
1965	3.625	1978	6.05
1970	4.8	1979	6.13
1971	5.2	1980	6.13

¹ For the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) programs combined.

Note: DI taxes began in 1957 and HI taxes began in 1966.

Table 4.—Federal income taxes as a percent of gross wages, selected years

Year	Low earner ¹		Average earner ¹		Maximum earner ¹	
	Single	Married	Single	Married	Single	Married
1937	0.0	0.0	0.0	0.0	1.9	0.0
1940	.0	.0	.6	.0	2.4	.6
1945	9.4	1.2	14.9	10.0	17.2	13.7
1950	7.3	.0	11.4	7.3	12.4	8.8
1955	10.8	3.6	14.7	10.9	15.8	12.4
1960	12.1	6.1	15.6	12.1	16.3	13.1
1965	9.1	4.3	13.2	9.7	13.4	9.9
1970	10.4	4.9	14.8	11.2	16.2	12.6
1971	6.9	3.6	13.1	9.8	14.5	11.4
1972	6.4	3.1	12.8	9.6	14.8	11.5
1973	6.9	3.6	13.3	10.1	15.7	12.2
1974	7.6	4.3	13.8	10.6	16.8	13.3
1975	6.4	2.6	13.3	9.2	16.7	13.0
1976	6.5	1.6	12.6	8.8	16.3	12.7
1977	5.3	.0	12.0	7.4	17.6	12.4
1978	6.2	.2	12.8	8.1	18.5	13.2
1979	6.5	.8	13.0	8.4	17.6	15.2
1980	7.4	1.9	13.8	9.2	19.5	16.7

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

Another look at family units that pay more social security taxes than Federal income taxes will be presented in a future **Bulletin** note. That note will provide data on these units by income class, number of earners in the unit, age and sex of unit head, race, and other demographic variables.

SSI Payments

Federally administered payments. In March 1981, about 4,115,700 persons received federally administered supplemental security income (SSI) payments, down 17,600 from the number in February. The number of aged and disabled recipients declined by 15,900 and 1,700, respectively, while the number of blind recipients remained the same. Only Idaho reported an increase in its overall SSI caseload. The number of aged claimants decreased in every State, the disabled in 31, and the blind in 20.

Federally administered payments in March totaled \$681.5 million, up \$1 million from the previous month. Federal SSI payments rose by \$951,000 to \$526.7 million, and federally administered State supplementation increased by \$54,000 to \$154.8 million.

On July 1, 1981, an automatic cost-of-living increase raised Federal SSI benefit rates by 11.2 percent. The maximum monthly payment to eligible individuals living in their own household and without other countable income is now \$264.70; for eligible couples, the figure is \$397.00. Individuals and couples living in another's household now receive maximum payments of \$176.47 and \$264.67, respectively. For recipients in Medicaid institutions, the monthly payment continues at \$25.

State-administered supplementary payments. During January 1981, about 249,800 persons received State-administered supplementation—up slightly from the December figure. This total was attributable mainly to an increase in the number of aged and disabled persons receiving State supplements; the blind caseload remained relatively stable.

Expenditures for State-administered supplementation also rose during the period—from \$19.9 million in December to \$20.0 million in January. Of the 25 States re-

porting, 14 had increases in the amount expended for these supplements, eight reported decreases, and three States reported no change.

Assistance Payments

Aid to families with dependent children. In October 1980, approximately 11,014,000 persons were receiving payments under the aid to families with dependent children (AFDC) program—an increase of about 68,600 from the total for September. The number of families receiving AFDC increased to 3,809,505 during October.

AFDC payments for the month amounted to \$1,099,080,000, about \$49.6 million less than the amount in September. The average payment per AFDC family was \$288.51, a reduction of 5.1 percent from the figure for the preceding month but 5.9 percent higher than the figure for October 1979.

Twenty-three States showed a larger average payment per family than in September 1980. Twelve of the 27 States participating in the unemployed-parent segment of the program reported an increase in the number of such recipients from the previous month. These increases ranged from less than 1 percent in Minnesota to more than 5 percent in Guam, Hawaii, and Missouri.

Emergency assistance. The emergency assistance programs, which provide temporary aid for critical needs to AFDC and other needy families with children, helped about 52,600 families in October—an increase of approximately 6,500 from the September figure. The average payment per family in October was \$189.93.

General assistance. In October, general assistance—which is financed entirely by the States and localities—aided 1,002,342 persons. This figure was 25,036 higher than the number of recipients in September. The average person receiving general assistance in October was paid \$125.07, a slight decrease from the figure for the preceding month.