

## **Tax Relief for Working Americans: Preserving the Payroll Tax Cut While Protecting Social Security**

### **OVERVIEW**

The Middle Class Tax Relief & Job Creation Act extends the existing 2011 payroll tax holiday for one year, through 2012. The amount of revenue that is foregone to the Social Security Trust Funds as a result of the payroll tax reduction is fully replaced with savings from Treasury's General Fund.

- Unlike the far broader proposal advanced by President Obama and Democrats, the bill is **not** paid for with job-killing tax hikes on small businesses.
- Instead, the legislation includes spending cuts and other deficit reduction measures to ensure that the legislation both protects job creators and prevents more debt from being piled on our children and grandchildren.
- Without an extension of this provision, a typical middleclass worker earning \$50,000 would see his or her take-home pay decline by \$1,000 in 2012 as compared to 2011.

### **BACKGROUND**

Under current law, for 2011 only, employees and the self-employed are provided a two-percentage point reduction in their Social Security payroll (or self-employment) tax rate – decreasing the rate from 6.2 percent to 4.2 percent. This reduction applies to covered wages up to the maximum amount of earnings subject to the Social Security tax (\$106,800 in 2011).

Under the provision in effect for 2011, the amount of revenue that is foregone to the Social Security Trust Funds as a result of the payroll tax reduction is replaced with General Fund transfers of the same amount.

### **SOCIAL SECURITY AND THE PAYROLL TAX HOLIDAY**

At a time when the program is already spending more than the tax revenues it takes in, forgoing promised payments into Social Security is not a sustainable practice. Unless Congress acts, Social Security revenues will soon be unable to cover full benefits, potentially resulting in benefit cuts of more than 20 percent. Replacing lost payments with money from Treasury's General Fund is also unsustainable at a time when America is already running massive deficits (over \$1 trillion every year under President Obama.)

In the short-term, extending the payroll tax holiday is at least paid for in this bill – not from more borrowing, more taxes, or more debt, but from reducing Washington's out of control spending. We must change course by enacting pro-growth tax reforms and securing Social Security's future.

### **BY THE NUMBERS**

- Approximately 170 million workers benefit from the payroll tax holiday.
- The savings for a worker earning \$50,000 per year is \$1,000 – two percent of their salary.