

Subject All Income to Social Security Tax

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The purpose of this analysis is to determine how much additional Social Security Old Age Insurance Tax (SS-OASI) revenue can be obtained if all income were subjected to Social Security Taxes? Reference information comes from Internal Revenue Service Data. The data for 2000 was extracted and placed in a table.

According to the IRS data, the total incomes of individuals were \$6.479 Trillion in year 2000. According to the Social Security Administration total SS-OASI tax revenue was \$421.391 Billion. The SS-OASI tax rate in 2000 was 10.6% of wages. Total wages subjected to SS-OASI tax is \$421.319 Billion divided by 10.6% or \$3,975,387 (millions). According to the IRS this means 88% of all wages were subjected to the OASI tax in 2000.

Income not subjected to the SS-OASI tax is \$2,503,266,800 (thousands). Of this \$91,606,459 (thousand) were social security benefits. Applying the SS-OASI tax on SS benefits would be double taxation. Excluding Social Security Benefit income would reduce total other income not subjected to SS-OASI tax to \$2,411,660,341 (thousands). Applying the SS-OASI tax to this untaxed amount would raise \$255,635,996 (thousands).

Taxing all income would raise \$255.6 Billion. However, the SS-OASI benefit formula is based on wages subjected to the SS-OASI tax. Taxing all income would result in increased additional benefits to those affected by this change.

An analysis of the impact of raising the base cap to 100% of wages was done http://www.justsayno.50megs.com/pdf/wage_base_change.pdf The analysis showed that 47% of the additional revenue would be available to reduce the shortfall. Taxing all income included raising the base to 100% of all wages. Additional revenue above 100% of wage base is estimated at \$200,612,497 (thousands).

Summary

Subjecting all income to the SS-OASI tax would raise \$255.6 Billion a year (2000). Because of higher initial SS-OASI benefits, only 47% of this additional revenue would reduce the long-term shortfall. In the end only \$121.1 Billion would be available to reduce the long-term shortfall. This \$121.1 Billion amounts to an increase in SS-OASI revenue of 28.5%. The long term short fall is about 40% of revenues. This would solve about 72% of the shortfall.

It should be noted that any non-wage income not subjected to the SS-OASI tax could actually increase benefits for those making less than the wage base now. There is a good likely hood that the 15% replacement rate (after the second bend point) used in the referenced analysis could be 32%. This would reduce the estimated \$121.1 Billion above by 25 to 50%. This would then close about less than 50% of the long-term shortfall.

Table 1		
Extracted 2000 IRS Data of All Income¹		
Income category	filers	Total (thousands)
Adjusted gross income (AGI) [3]		\$6,478,653,592
Salaries and wages:	110,352,158	\$4,494,476,409
Net capital gain in AGI: [6,8]	22,645,480	\$587,626,494
Pensions and annuities in AGI: [9]	22,066,981	\$331,461,294
Partnership and S corporation net income: [14]	3,869,934	\$249,988,587
Business or profession net income:	13,280,796	\$236,942,304
Taxable interest received: [4]	68,199,841	\$185,331,768
Dividends in AGI: [6]	34,099,368	\$142,213,575
Social Security benefits in AGI: [11]	10,751,515	\$91,606,459
Tax-exempt interest: [5]	4,672,118	\$54,170,954
Rent net income: [12]	4,170,023	\$44,181,937
Business or profession net loss:	4,293,447	\$29,697,146
Rent net loss: [12]	4,439,676	\$28,936,676
Unemployment compensation in AGI: [10]	6,521,981	\$16,982,147
Net capital loss in AGI: [6]	6,798,579	\$13,574,059
Estate or trust net income:	530,649	\$10,396,225
Farm net income:	715,121	\$8,589,215
Sales of property other than capital assets,	834,493	\$7,343,424
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Royalty net income: [13]	1,054,963	\$6,907,270
Royalty net loss: [13]	36,508	\$99,885
Estate or trust net loss:	37,461	(\$537,264)
Farm net loss:	1,352,199	(\$16,760,298)
Partnership and S corporation net loss: [14]	1,952,001	(\$51,513,937)

¹ Table 1.--Individual Income Tax Returns: Selected Income and Tax Items for Specified Tax Years, 1980-2000