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Social Security Taxable Earnings Base: An Overview

Introduction

Social Security payroll taxes are levied on covered earnings up to a maximum level set each year. This maximum is known as the *contribution and benefit base* and commonly referred to as the *taxable earnings base* or the *taxable maximum*.

In 2023, an estimated 183 million workers will pay into Social Security via Federal Insurance Contributions Act (FICA) taxes or Self-Employment Contributions Act (SECA) taxes, or both, on their covered wages and self-employment income. Both employers and employees contribute payroll taxes at the FICA rate, and SECA taxes are paid by the self-employed. Both payroll taxes have three components: Old Age and Survivors Insurance (OASI), Disability Insurance (DI), and the Hospital Insurance (HI) part of Medicare (see **Table 1**). The OASDI (combined OASI and DI) payroll tax is levied on covered earnings up to $160,200 in 2023. The HI payroll tax is levied on all covered earnings. (For more information on Medicare finance, see CRS Report R43122, *Medicare Financial Status: In Brief*.)

Table 1. 2023 Social Security and Medicare Tax Rates

Tax Rates	FICA	SECA[a]
Old-Age and Survivors Insurance	5.30%	10.60%
+ Disability Insurance	0.90%	1.80%
= Subtotal Social Security (OASDI) tax rate	**6.20%**	**12.40%**
+ Hospital Insurance tax rate[a]	1.45%	2.90%
Total FICA and SECA Rates	**7.65%**	**15.30%**
+ Employer contribution	7.65%	
Combined Employee and Employer FICA Tax Rates	**15.30%**	

Source: Social Security Administration, "Social Security and Medicare Tax Rates," and "Social Security Tax Rates."

Notes: FICA = Federal Insurance Contributions Act; SECA = Self Employed Contributions Act; OASDI = Old Age, Survivors and Disability Insurance; and HI = Hospital Insurance (Medicare Part A).

a. Certain adjustments and income tax deductions apply.

b. Beginning in 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9% in Medicare taxes, which is not reflected in the tax rates shown in the table.

Since 1982, the Social Security taxable earnings base has risen at the same rate as average wages in the economy. By law, the base is raised whenever an automatic benefit increase—a cost-of-living adjustment (COLA)—is payable to Social Security beneficiaries, assuming wages have risen. (For example, there was no increase in the base from 2015 to 2016 because there was no COLA increase for 2016.)

The taxable earnings base serves as a cap on both contributions and benefits. As a contribution base, it establishes the maximum amount of a worker's earnings that is subject to the OASDI payroll tax. In 2023, the maximum amount a wage or salary worker directly contributes to Social Security is $9,932.40 (the worker's employer contributes an equal amount), whereas a self-employed individual contributes a maximum of $19,864.80. As a benefit base, it establishes the maximum amount of earnings used to calculate benefits. If a worker earned at or above the earnings base for his or her entire career and retired in 2023 at the full retirement age, his or her annual benefit would be $43,524 ($3,627 per month). However, very few Americans receive the maximum benefit, as it is rare to have had such consistently high earnings over a lifetime.

Workers with Earnings Above the Taxable Earnings Base

According to the Social Security Administration, a small share of workers earn above the taxable earnings base each year. In 2020, among 174.5 million covered workers, about 6% of workers (or 10.8 million) earned more than the taxable earnings base. Most of the individuals earning above the base were men (7.6 million individuals, or nearly 71% of covered workers with earnings above the base). Approximately 9% of all male workers and 4% of all female workers had earnings above the maximum. The vast majority of individuals with earnings above the base were wage and salary workers (roughly 96% of covered workers with earnings above the base). Approximately 6% of individuals who earned above the base were self-employed. A relatively small group of workers who earned above the base (190,000 individuals, or 2% of covered workers with earnings above the base) have earnings in both wage and salary employment and self-employment.

History of the Taxable Earnings Base

Under the legislation enacted in 1935, the taxable earnings base was set at $3,000 per year per employer. Prior to 1974, increases to the taxable earnings bases were specifically legislated on an ad hoc basis. In 1972, P.L. 92-336 established procedures that increased the taxable earnings base *automatically* as a means of financing COLAs for Social Security beneficiaries, though the adjustment to the taxable earnings base was tied to average wage growth.

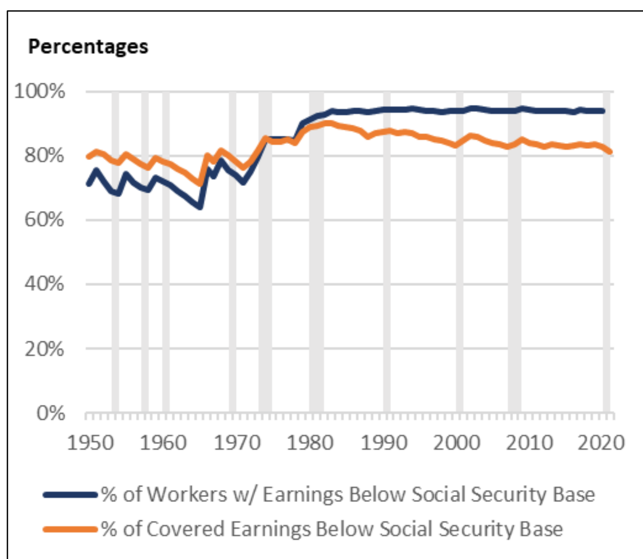
The Social Security Amendments of 1977 (P.L. 95-216) gradually increased the base beyond what would have resulted from the automatic-adjustment procedures from 1978 to 1981 such that in 1981, the taxable earnings base was $7,500 higher than the "old-law" base. This was done as a means of raising revenue to help shore up the program's ailing financial condition and was intended to achieve a base under which 90% of all covered payroll would be subject to the OASDI payroll tax (to match the original 1935 act). Increases to the taxable earnings base after 1981 returned to automatic-adjustment procedures.

The Taxable Earnings Base over Time

Since the 1980s, the share of covered workers above the taxable earnings base has remained relatively stable at roughly 6%, with the other 94% of covered workers below the taxable earnings base (see **Figure 1**). When looking at covered earnings instead of workers, the portion of Social Security covered earnings that is subject to the payroll tax has fallen from 90% of aggregate earnings in 1982 to 81% in 2021. The decline in this percentage was mainly due to salaries for top earners growing faster than the pay of workers below the cap, which means top earners had wage growth that was higher than average. Because increases in the taxable maximum are based on average wage growth, salaries for top earners increased faster than the taxable maximum. This increasing gap between top earner salaries and the taxable maximum has led to more earnings that are not subject to the OASDI payroll tax (because these earnings are above the taxable maximum). Thus, the percentage of aggregate covered earnings that is below the taxable maximum has declined.

Figure 1. Percentage of Earnings and Workers Below the Taxable Earnings Base, 1950-2020

Shaded Bars Indicate Recessions



Source: Figure prepared by the CRS based on data from Social Security Administration, *Annual Statistical Supplement, 2022*, Table 4.B1; and U.S. business recessions as defined by the National Bureau of Economic Research.

Proposals to Raise or Eliminate the Taxable Earnings Base

Proposals that would change the taxable earnings base usually raise or eliminate the contribution base (i.e., earnings subject to the payroll tax). Those proposals also include provisions for keeping or changing the benefit base (i.e., earnings used to calculate the benefit amounts).

Changes to the contribution base generally fall into one of the following categories:

- eliminating the contribution base (i.e., all earnings are subject to the OASDI payroll tax);
- raising the contribution base to consistently tax 90% of aggregate covered earnings; or
- applying the current OASDI payroll tax rate on earnings above a certain threshold (e.g., $250,000) and taxing all earnings once the current-law taxable maximum exceeds that threshold.

Along with changing the contribution base, proposals also specify the benefit base and benefit formula that would determine the benefit amount. Those proposals generally fall into one of the following categories:

- keeping the cap on benefits (i.e., no benefit credit for earnings above the current-law taxable maximum);
- maintaining the current benefit structure where the benefit base equals the contribution base (i.e., benefits are calculated based on the full contribution base) and using the current benefit formula for earnings above the current-law taxable maximum; or
- maintaining the current benefit structure where the benefit base equals the contribution base but providing a secondary benefit formula for earnings above the current-law taxable maximum (usually a smaller benefit amount than that based on the current benefit formula).

Raising or removing the taxable earnings base could reduce Social Security's long-term deficit (i.e., improve the long-term solvency of the program). The full impact of the policy change would depend on whether the earnings above the current-law maximum would also be counted toward benefits. Raising or eliminating the taxable earnings base while maintaining the current benefit structure, where benefits are calculated based on the full contribution base, would lead to higher monthly Social Security benefits for individuals who earned more than the current taxable earnings base during their careers. These higher benefit payments would lead to greater program outlays, although these expenditures would be more than offset by greater tax revenues. Although the solvency impact would be improved to a greater degree if the cap on the OASDI payroll tax were eliminated and the cap on benefits were retained, the traditional link between contributions and benefits would be broken.

Additional Information

- CRS Report RL32896, *Social Security: Raising or Eliminating the Taxable Earnings Base*

Zhe Li, Analyst in Social Policy

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