



FACT SHEET: PAYROLL TAX CUT

JOINT ECONOMIC COMMITTEE

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The Payroll Tax Cut Supported the Economic Recovery, Created Jobs and Bolstered the Social Security Trust Fund in 2012

Last winter, Congress took action to prevent a temporary two-percentage-point reduction in payroll taxes from lapsing at the end of 2011, extending the tax cut through the end of 2012. The payroll tax cut for 2012 increased take-home pay for over 120 million American households, providing tangible benefits as the economy continued to recover from the Great Recession. The additional money in individuals' pockets contributed to increased consumer spending in 2012, supporting economic recovery and job growth. Including October, the private sector has added jobs nationwide for 32 consecutive months. Finally, the boost in employment due to the payroll tax cut, coupled with transfers from the General Fund, helped to fortify the balance of the Social Security Trust Fund.

Benefits of the Payroll Tax Cut in 2012

122 million households received additional take-home pay.¹ Cutting payroll taxes immediately increased the income of everyone who received a paycheck. By the end of 2012, the two-percentage-point payroll tax cut will give an additional \$1,000 to the average American family.²

The payroll tax cut boosted consumer spending. Additional take-home pay allowed working families to make purchases that supported economic growth and job creation. In the third quarter of 2012, real consumer spending grew 2.0 percent at an annual rate, following gains of 2.4 percent and 1.5 percent in the first and second quarters.³

Middle-class families are responsible for the bulk of consumer spending. The most current data show that families making under \$150,000 are responsible for the vast majority (81.9%) of consumer spending.⁴ Moreover, families earning less than \$70,000 per year are responsible for nearly half (44.8%) of all consumer spending.⁵

The payroll tax cut targets those most likely to spend it. Compared with reducing the tax rates of the highest income earners, cutting payroll taxes puts more money in the hands of middle- and lower-income working families. Over half of the benefits of the payroll tax cut went to households earning less than \$100,000 annually, and 85 percent of the benefits went to those making less than \$200,000.⁶

Economic growth and job gains were stronger in 2012 due to the payroll tax cut. The two-percentage-point payroll tax cut for 2012 boosted economic growth nationally by an estimated one-half of a percentage point in 2012.⁷ The payroll tax cut also saved or created an estimated 400,000 jobs.⁸

The payroll tax cut bolstered the Social Security Trust Fund. The annual OASDI Trustee's report for 2012 confirms that the payroll tax cut has no negative effect on the balance of the Social Security Trust Fund in the short or long term. All reduced revenues are recovered through transfers from the Treasury General Fund.⁹

Furthermore, the additional jobs generated by the payroll tax cut added to the Social Security Trust Fund's balance. The JEC estimates that the boost in employment driven by the payroll tax cut contributed at least \$1 billion in additional Social Security tax withholding and payments. This assumes a majority of the jobs created or saved because of the payroll tax cut, as during the recovery more generally, were in occupations such as food services, retail and employment services. The additional Trust Fund revenue could be much larger--as much as \$3 billion--if those jobs were in higher-wage industries such as manufacturing or professional services, or if the number of additional jobs was greater than previously estimated.¹⁰

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Estimated Benefits of the Payroll Tax Cut in 2012 for American Families, by State

State	Median Household Wage and Salary Income (2011 Inflation-Adjusted Dollars)	Additional Take-Home Pay from 2% Payroll Tax Cut in 2012	State	Median Household Wage and Salary Income (2011 Inflation-Adjusted Dollars)	Additional Take-Home Pay from 2% Payroll Tax Cut in 2012
United States	\$51,726	\$1,035	Missouri	\$46,839	\$937
Alabama	\$45,821	\$916	Montana	\$42,257	\$845
Alaska	\$66,185	\$1,324	Nebraska	\$48,875	\$978
Arizona	\$47,348	\$947	Nevada	\$48,875	\$978
Arkansas	\$40,729	\$815	New Hampshire	\$64,149	\$1,283
California	\$58,243	\$1,165	New Jersey	\$71,277	\$1,426
Colorado	\$54,985	\$1,100	New Mexico	\$42,766	\$855
Connecticut	\$69,240	\$1,385	New York	\$60,076	\$1,202
Delaware	\$58,040	\$1,161	North Carolina	\$43,886	\$878
District of Columbia	\$71,277	\$1,426	North Dakota	\$47,348	\$947
Florida	\$45,821	\$916	Ohio	\$48,875	\$978
Georgia	\$48,061	\$961	Oklahoma	\$43,784	\$876
Hawaii	\$61,094	\$1,222	Oregon	\$46,635	\$933
Idaho	\$40,933	\$819	Pennsylvania	\$52,948	\$1,059
Illinois	\$56,003	\$1,120	Rhode Island	\$57,021	\$1,140
Indiana	\$48,061	\$961	South Carolina	\$42,766	\$855
Iowa	\$49,894	\$998	South Dakota	\$46,839	\$937
Kansas	\$48,875	\$978	Tennessee	\$42,766	\$855
Kentucky	\$44,802	\$896	Texas	\$50,199	\$1,004
Louisiana	\$45,821	\$916	Utah	\$54,985	\$1,100
Maine	\$45,821	\$916	Vermont	\$52,948	\$1,059
Maryland	\$71,277	\$1,426	Virginia	\$63,131	\$1,263
Massachusetts	\$68,018	\$1,360	Washington	\$58,040	\$1,161
Michigan	\$47,959	\$959	West Virginia	\$42,766	\$855
Minnesota	\$57,021	\$1,140	Wisconsin	\$50,912	\$1,018
Mississippi	\$39,711	\$794	Wyoming	\$54,985	\$1,100

Source: Joint Economic Committee Chairman's staff calculations using data from the 2011 American Community Survey micro data files.

Sources:

¹ Urban-Brookings Tax Policy Center. Table T12-0035. February 20, 2012.

² JEC Chairman's staff using data from the 2011 American Community Survey micro data files.

³ Bureau of Economic Analysis. National Income and Product Accounts.

⁴ JEC Chairman's staff calculations based on Bureau of Labor Statistics, Consumer Expenditure Survey, 2011. Calculations were based on annual expenditures, excluding housing-related expenditures.

⁵ *Ibid.*

⁶ Urban-Brookings Tax Policy Center. Table T12-0035. February 20, 2012.

⁷ Mark Zandi. "An Analysis of the Obama Jobs Plan." September 9, 2011; *See also* Macroeconomic Advisers, August 25, 2011. Available at macroadvisers.blogspot.com/2011/08/jobs-bill-not-so-great-expectations.html.

⁸ Macroeconomic Advisers.

⁹ The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Trust Funds. Page 34. April 25, 2012.

¹⁰ The National Employment Law Project (NELP) estimated that 58 percent of job growth in the recovery (2010 Q1 to 2012 Q1) was in low-wage occupations, including food services, retail, and employment services. Job growth in higher paying industries was uneven over that period; however, some of these industries have gained mid- and high-wage jobs, including manufacturing, transportation and warehousing and professional and technical services. See NELP Data Brief: "The Low-Wage Recovery and Growing Inequality." August 2012. The estimate of \$1 billion in additional Trust Fund revenue assumes 400,000 additional low-wage jobs with an average annual wage of \$21,900. The estimate of \$3 billion assumes 800,000 additional mid-wage jobs with an average annual wage of \$36,367.