

A State-by-State Look at the President's Payroll Tax Cuts for Middle-Class Families

"Extending and expanding the payroll tax cut through 2012 will mean bigger paychecks for millions of workers, stronger economic growth, and the opportunity for more Americans to get back to work."

– Tim Geithner, Secretary of the Treasury

Office of Tax Policy
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United States Department of the Treasury

A State-by-State Look at the President's Payroll Tax Cuts for Middle-Class Families

An Analysis by the U.S. Department of the Treasury's Office of Tax Policy

The President signed into law a 2 percentage point payroll tax cut for 2011 that is providing:

- A tax cut of about \$1,000 for the typical American working family in 2011.
- A total of \$109 billion in tax relief to support economic growth and job creation in 2011.

Expanding this to a 3.1 percentage point tax cut for 2012, as President Obama has proposed, would provide:

- A tax cut of about \$1,550 for the typical American working family in 2012.
- A total of \$179 billion in tax relief to support economic growth and job creation in 2012.
- A boost of around 2 percent or more to the after-tax income of workers who are most likely to spend their additional after-tax income – leading to greater demand, stronger growth, and job creation.

The current 2 percentage point payroll tax cut is providing a significant benefit to workers in every state in 2011, and this report shows the substantial tax relief expected to go to workers in each state if the payroll tax cut is extended and expanded to 3.1 percentage points in 2012.

The bipartisan Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 included several specific tax cuts and initiatives designed to spur economic growth and job creation. One important component of the Act was a reduction in the employee Social Security tax rate from 6.2 percent to 4.2 percent of the first \$106,800 of taxable wages received in 2011. On December 17, 2010, President Obama signed this Act into law. The payroll tax cut is providing substantial benefits to working families and the economy throughout 2011. Some of the highlights are:

- \$109 billion in overall tax relief: The payroll tax cut is providing an estimated \$108.6 billion in tax relief throughout 2011 to working Americans.
- Tax cut for 159 million workers: The payroll tax rate cut has resulted in an estimated 158.9 million working Americans receiving larger paychecks in 2011.
- A tax cut of about \$1,000 for a typical family: For a family with wages or salaries of \$50,000 per year, about the median household income, the payroll tax cut equals \$1,000.
- No effect on Social Security solvency: The legislation provided that the Social Security Trust Fund be made whole by transfers from the General Fund. Thus, the reduction in Social Security taxes paid by employees had no effect on the Social Security Trust Fund and no effect on individuals' current or future Social Security benefits.

Table 1, below, shows the number of beneficiaries from the payroll tax cut and the total increase in after-tax income received by the residents of each state.

**Table 1. State-by-State Estimates of the Tax Relief Provided by
The 2.0 Percentage Point Cut in the Employee Payroll Tax in 2011**

(Millions of People/Billions of Dollars)								
			United States	158.9	108.6			
Alabama	2.3	1.4	Massachusetts	3.5	2.7	South Dakota	0.5	0.3
Alaska	0.4	0.3	Michigan	5.1	3.3	Tennessee	3.2	2.0
Arizona	2.9	2.0	Minnesota	3.1	2.2	Texas	11.4	7.7
Arkansas	1.5	0.8	Mississippi	1.4	0.8	Utah	1.3	0.8
California	16.7	12.6	Missouri	3.1	1.9	Vermont	0.4	0.3
Colorado	2.5	1.7	Montana	0.6	0.3	Virginia	4.3	3.3
Connecticut	2.0	1.6	Nebraska	1.1	0.7	Washington	3.5	2.7
Delaware	0.5	0.4	Nevada	1.2	0.8	West Virginia	0.9	0.5
Florida	9.0	5.6	New Hampshire	0.8	0.6	Wisconsin	3.2	2.1
Georgia	4.6	3.0	New Jersey	4.7	4.1	Wyoming	0.3	0.2
Hawaii	0.7	0.5	New Mexico	0.9	0.6	DC	0.4	0.3
Idaho	0.8	0.5	New York	10.1	7.8	Puerto Rico	1.2	0.5
Illinois	6.5	4.6	North Carolina	4.7	3.0	Other Areas	3.0	1.4
Indiana	3.6	2.3	North Dakota	0.4	0.2			
Iowa	1.7	1.1	Ohio	5.8	3.5			
Kansas	1.6	1.0	Oklahoma	1.9	1.1			
Kentucky	2.2	1.3	Oregon	1.9	1.3			
Louisiana	2.1	1.3	Pennsylvania	6.7	4.7			
Maine	0.8	0.4	Rhode Island	0.6	0.4			
Maryland	3.2	2.6	South Carolina	2.2	1.3			

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The figures in the table are based on tabulations from the 2008 Social Security Administration, Continuous Work History Sample, 1 percent sample and the Department of Treasury's Office of Tax Analysis estimate of the number of people benefitting in 2011.

State designation is based on employee residence.

Without Congressional action by the end of the 2011 calendar year, the 2 percentage point payroll tax cut the President signed into law will expire. If the payroll tax cut is allowed to expire, taxes will increase substantially for nearly every middle-class working American family, and economic growth and job creation will be significantly slower in 2012 as a result.

On September 8, 2011, President Obama proposed the American Jobs Act (AJA) of 2011, a fully paid-for initiative to boost economic growth and create jobs. One provision in the AJA extends and expands the 2011 payroll tax provision, cutting the employee Social Security payroll tax rate in half from 6.2 percent to 3.1 percent of the first \$110,100 of taxable wages received in 2012. Some of the highlights are:

- \$179 billion in tax relief: The payroll tax rate cut proposed in the American Jobs Act is expected to provide \$178.8 billion in tax relief to working Americans throughout 2012.
- Tax cut for 161 million workers: The payroll tax cut would result in an estimated 161.2 million working Americans receiving larger paychecks in 2012.

- A tax cut of more than \$1,500 for a typical family: For a family with wages or salaries of \$50,000 per year, about the median household income, the proposed 3.1 percentage point payroll tax cut equals \$1,550.
- No effect on Social Security solvency: Similar to the payroll tax rate cut enacted in 2010, under the American Jobs Act, the Social Security Trust Fund would be made whole by transfers from the General Fund. Thus, the reduction in Social Security taxes paid by employees would have no effect on the Social Security Trust Fund and no effect on individuals' current or future Social Security benefits.

Table 2, below, shows that workers all across America would benefit from the payroll tax rate cut contained in the American Jobs Act. The table also shows the total increase in after-tax income that will accrue to residents of each state.

**Table 2. State-by-State Estimates of the Tax Relief Provided by
The 3.1 Percentage Point Cut in the Employee Payroll Tax in 2012**

(Millions of People/Billions of Dollars)								
			United States	161.2	178.8			
Alabama	2.4	2.3	Massachusetts	3.5	4.5	South Dakota	0.5	0.4
Alaska	0.4	0.4	Michigan	5.2	5.5	Tennessee	3.3	3.2
Arizona	3.0	3.2	Minnesota	3.2	3.7	Texas	11.6	12.8
Arkansas	1.5	1.3	Mississippi	1.4	1.3	Utah	1.4	1.4
California	17.0	20.7	Missouri	3.1	3.1	Vermont	0.4	0.4
Colorado	2.5	2.9	Montana	0.6	0.5	Virginia	4.4	5.4
Connecticut	2.0	2.6	Nebraska	1.1	1.1	Washington	3.5	4.4
Delaware	0.5	0.6	Nevada	1.2	1.2	West Virginia	0.9	0.9
Florida	9.1	9.3	New Hampshire	0.8	1.0	Wisconsin	3.2	3.5
Georgia	4.7	5.0	New Jersey	4.8	6.7	Wyoming	0.3	0.4
Hawaii	0.7	0.8	New Mexico	0.9	0.9	DC	0.4	0.6
Idaho	0.8	0.7	New York	10.3	12.8	Puerto Rico	1.2	0.8
Illinois	6.6	7.6	North Carolina	4.8	5.0	Other Areas	3.0	2.3
Indiana	3.7	3.7	North Dakota	0.4	0.4			
Iowa	1.8	1.8	Ohio	5.8	5.8			
Kansas	1.6	1.7	Oklahoma	1.9	1.9			
Kentucky	2.2	2.1	Oregon	2.0	2.1			
Louisiana	2.2	2.2	Pennsylvania	6.8	7.8			
Maine	0.8	0.7	Rhode Island	0.6	0.7			
Maryland	3.2	4.3	South Carolina	2.3	2.2			

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The figures in the table are based on tabulations from the 2008 Social Security Administration, Continuous Work History Sample, 1 percent sample and the Department of Treasury's Office of Tax Analysis estimate of the number of people benefitting in 2012.

State designation is based on employee residence.

Payroll tax rate cuts tend to provide the largest proportional benefits to middle-class families who are at or below the Social Security tax wage cap of \$110,100 for 2012. The payroll tax cut proposed in the American Jobs Act for 2012 provides relatively large benefits to workers who are most likely to spend their additional after-tax income. Increasing middle-class families' disposable incomes leads to greater demand, stronger growth, and job creation.

- Payroll taxes are capped at \$110,100 of wages in 2012: Because of the cap on wages and salaries subject to the Social Security payroll tax, cutting the payroll tax rate provides tax relief that is concentrated on low- and middle-income working families. According to analysis by Treasury's Office of Tax Policy:
 - The President's proposed payroll tax cut is expected to reduce total Federal taxes paid by families in the lowest quintile by 32.3 percent, while those paid by families in the highest quintile are reduced by 5.1 percent and those paid by families in the top 1 percent of the income distribution by just 0.9 percent.
 - Lower and middle income families will receive a boost to their after-tax income of around 2 percent or more, which will translate directly into greater demand for goods and services by these households.
- Low- and middle-income families have a higher propensity to spend additions to their after-tax income: The Congressional Budget Office and other independent, nonpartisan economists have found that tax cuts targeted toward low- and middle-income families will generate stronger near-term growth more effectively than tax cuts for high-income taxpayers who tend to save rather than spend additions to their after-tax income.

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