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WILL THE PAYROLL TAX CUT SURVIVE?

Could it? Should it? The Capitol Hill debate continues.

provided by Gary Mastrodonato, CEA

There is hope yet that this big tax break will return in 2012. While a pair of bills designed to extend the payroll tax holiday stalled in the Senate on December 1, a bipartisan effort could take place to save the tax cut that amounts to roughly \$900 a year for the average U.S. household. It may not be taken for granted as much as the annual AMT patch, but it seems unlikely any Congress would want be remembered for ending such a big tax break for Main Street in such a tepid economy.¹

The big question: how to pay for it. Democratic leaders see a simple way to keep the payroll tax holiday going: they want a new tax on Americans who earn more than \$1 million. Republicans didn't exactly get behind that bill. They countered with their own version, which in the words of Senate Minority Leader Mitch McConnell (R-KY) would "institute a three-year pay freeze on federal civilian employees including members of Congress [and] reduce the federal workforce gradually by 10%." That bill also went down to defeat.¹

A follow-up question: should we keep paying for it? In 2011, the federal government reduced Social Security taxes by 2% on employee incomes of up to \$108,600. The current payroll tax break is being subsidized by the Treasury. Is it wise to lower Social Security taxes when involuntary federal budget cuts loom in 2013 and credit rating agencies are monitoring our level of fiscal responsibility?²

Some Democrats want to reduce the payroll tax down to 3.1% for workers and businesses in 2012 (companies would pay only 3.1% in Social Security taxes on their first \$5 million in payrolls). Sen. Sherrod Brown (D-OH) has a bill that would take that \$5 million limit to \$12.5 million for businesses that expanded their workforces.²

The payroll tax holiday might turn out to be about as "temporary" as the Bush-era tax cuts, still alive 11½ years after passage (and not dead yet). The key to making the present 4.2% Social Security tax rate permanent? Finding a new and "permanent" method to pay for it that doesn't risk siphoning dollars away from the Social Security Trust Fund.



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Citations.

- 1 - www.npr.org/2011/12/02/143052779/gop-leaders-lawmakers-at-odds-on-payroll-tax-cut [12/2/11]
- 2 - www.cleveland.com/open/index.ssf/2011/12/will_your_payroll_tax_holiday.html [12/1/11]