



Written by [Raven Clabough](#) on October 23, 2012

Reduction in Social Security Payroll Taxes Due to Expire

Though the presidential campaigns of both candidates have spent a lot of time focusing on the economy, neither candidate has addressed a pressing issue that is set to impact 163 million workers in 2013: an automatic tax increase. CNS News writes, "A temporary reduction in Social Security payroll taxes is due to expire at the end of the year and hardly anyone in Washington is pushing to extend it."



In 2010, the U.S. Congress cut the Social Security payroll tax from 6.2 percent to 4.2 percent for 2011 as part of a compromise between the president and congressional Republicans. At the end of 2011, Republicans argued that the revenue loss from the tax cut was not offset by spending cuts as it was supposed to be, but an extension was narrowly passed.

According to the Tax Policy Center, the payroll tax cut reduced taxes for working families by approximately \$934 per year, but has also cost the federal government around \$120 billion a year. However, when that tax cut expires this year, no one in the White House is going to push for another extension.

"That was always intended to be a temporary measure to support job creation and economic growth," Jason Furman, a top White House economic adviser, said recently. "It's not something that we have at this stage called for extending into next year."

Neither President Obama nor GOP presidential contender Mitt Romney has suggested the notion of extending the Social Security tax reduction, and CNS News believes that such a recommendation would fail in both parties as "lawmakers in both parties [are] down on the idea."

CNS News explains, "Even Republicans who have sworn off tax increases have little appetite to prevent one that will cost a typical worker about \$1,000 a year, and two-earner family with six-figure incomes as much as \$4,500."

"I'm not for that," said Rep. David Camp (R-Mich.), who heads the House's Ways and Means Committee, which oversees tax policy. "I don't think we can keep cutting into Social Security."

House Speaker John Boehner (R-Ohio) has made similar statements on the subject.

Some believe that the American people will accept the expiration of the Social Security payroll tax cuts without issue.

"I think people realize that was a temporary thing," said Sen. Mark Begich (D-Alaska).

And others have raised concerns that the tax cut did little to aid in economic growth.



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For example, Rep. Richard Neal of Massachusetts, a senior Democrat on the Ways and Means Committee, said that while he believes there's evidence that the tax cut did help, he added, "I'm not sure that it met expectations."

Rep. Paul Ryan (R-Wis.) disparaged the payroll tax cut, calling it "sugar-high economics" that wouldn't promote long-term growth.

Economists are in disagreement over the impact that the tax cut has had on the economy. While Jim O'Sullivan of High Frequency Economics contends that providing extra cash in workers' paychecks has helped to increase the country's gross domestic product, John Silvia of Wells Fargo states, "Overall, it has not stimulated job creation."

Both parties are fearful of what the cut in Social Security taxes may do to Social Security benefits.

"There's a growing consensus that Congress and the president can't continue to divert such a critical revenue stream from Social Security," said Rep. Kevin Brady of Texas, a senior Republican on the tax-writing House Ways and Means Committee. "More and more Americans understand that that payroll tax cut, while politically unappealing, is endangering Social Security."

"The payroll tax holiday was intended to be temporary and there is strong bipartisan support to let that tax provision expire," said Sen. Orrin Hatch of Utah, the top Republican on the Senate Finance Committee. "The continued extension of a temporary payroll tax holiday has serious long-term implications for Social Security and, frankly, it's not even clear that it has helped to boost our ailing economy."

Assertions that cuts in the Social Security payroll tax would have long-term implications for Social Security, however, rest upon the notion that there is in fact a Social Security trust fund, which there is not. The U.S. Chamber of Commerce explains:

Today Social Security is collecting more money than it needs to pay benefits, but by 2018 it will begin running a deficit — collecting less in taxes than it pays in benefits. Many shrug off this looming shortfall thinking that the Social Security "trust fund" will help pay benefits and put off the need for tax increases or benefit cuts. This is not the case.

The government does not save our Social Security taxes for future retirees. Congress borrows this extra money and uses it to make up for deficits elsewhere in the budget. Thus the Social Security trust fund contains nothing but IOUs the government has written to itself. And when Uncle Sam goes to repay those IOUs, you know who pays the bill: we do. That means that in order to repay those IOUs, the government will have to either raise taxes or cut programs.

As it stands, the Social Security tax is already the biggest tax that most workers pay, but in the event that Social Security begins to run a deficit, payroll taxes would have to be increased dramatically, to 20 percent, in order to maintain the system.

Politicians who are opposed to the Social Security payroll tax cuts are supported by powerful advocates for seniors, including AARP, who recently submitted a letter to Congress opposing an extension of the payroll tax cut.



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“When Congress and the President originally enacted and then extended the temporary payroll tax holiday, AARP recognized and appreciated that economic conditions had been devastating for millions of Americans and that there was a need for short-term action,” AARP CEO A. Barry Rand said in his letter to lawmakers. “In addition, our position on the temporary payroll holiday was contingent on several conditions in order to protect Social Security and its beneficiaries in both the short and long-term.”

“Further extension of the payroll tax holiday would undermine confidence in Social Security and put at risk the program’s dedicated funding stream and the hard-earned benefits of millions of Americans and their families,” Rand said.

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