# Suspending the Social Security payroll tax is a terrible idea

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**MarketWatch Blog** by Alicia H. Munnell

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*It doesn't solve today's problems and sets bad precedents in terms of messing with the program*

I know that the President's proposal for a Social Security payroll tax cut has met with little enthusiasm in Congress.  But let's put it to rest for good.  It's not the appropriate response to the COVID-19 crisis, and it's best not to fool around with the nation's most valuable program.

As I understand it, the initial notion was to **suspend until the end of the year** both the employee and employer portions of the payroll tax.  That is, the government would stop collecting the 6.2-percent Social Security tax on the first $137,700 of earnings paid by the employer and the employee.  It would also eliminate the 1.45-percent Medicare tax paid by both parties. Self-employed workers would be entirely relieved of the 15.3 percent they pay.

Such a cut would involve a massive loss of revenues.  The Congressional Budget Office reports that total payroll taxes in 2019 amounted to **$1.2 trillion**.  The proposed suspension is far more ambitious than the relief provided in 2011 and then extended through 2012, which reduced the Social Security payroll tax rate by 2 percentage points for employees and the self-employed.

In the 2011-12 period, the law provided that the Treasury make up for this reduction by reimbursing the trust fund with general revenues. Thus, the earlier cut had no direct financial implications for the short- or long-term outlook of Social Security. I presume the mechanics would work the same way under the current proposal.

The problem is that a payroll tax cut is the wrong medicine for our current problems

First, in terms of providing support to families, the major problem is people losing their jobs. A payroll tax cut only helps those who are working and not those furloughed or quarantined as a result of the virus. Second, in terms of a general stimulus, any relief would be dribbled out in bits and pieces. The worker earning $50,000 would see $74 per week from the employee tax cut. The impact of the cut of the employer's tax would depend on the extent to which employers pass on their relief in terms of higher wages. Moreover, people do not respond very much to cuts they know are temporary.

In terms of the Social Security program, financing it through a general revenue transfer from the Treasury would be a big departure from financing it by an earmarked tax. It would break the link between contributions and benefits. In addition, while a general revenue transfer would not technically affect the program's financial balance, it would have the potential of making Social Security's shortfall look bigger to policymakers. When considering changes to eliminate the long-run deficit in the program, Congress not only would have to find money to cover the 2.78 percent of taxable payroll reported in the **2019 Trustees Report**, it would also have to consider the reaction of workers and employers when the current 12.4-percent payroll tax is reinstated after the suspension period ends.  Solving the problem on the revenue side, which last year looked trivial, could now appear daunting.

In short, suspending the payroll tax is an ineffectual and potentially dangerous step.  Let's make sure that the idea doesn't gain any momentum.