Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515–6453

September 10, 2020

MEMORANDUM

TO: Randy Gartin and Amy Shuart

FROM: Thomas A. Barthold Thomas A. Barthold

SUBJECT: Revenue Estimate

This memorandum is in response to your September 10, 2020, request for a revenue estimate and distributional analysis of a proposal for a payroll tax holiday, the "Support for Workers Families, and Social Security Act," which decreases for four months the Old Age, Survivors, and Disability Insurance ("OASDI") tax rate by 6.2 percentage points and decreases the annual Self-Employment Contributions Act ("SECA") tax rate by approximately 2.07 percentage points. Under this proposal, the Social Security trust fund would be held harmless through transfers from the general fund equal to the reductions in revenues. This estimate is based on the September 9, 2020 (4:48 p.m.) version of the bill, which includes a phase out of the SECA tax rate reduction.

Under present law, payroll taxes include taxes imposed by the Federal Insurance Contributions Act ("FICA") and SECA. One component of FICA is the OASDI tax. The OASDI tax equals 12.4 percent of annual covered wages up to the taxable wage base ($137,700 in 2020), with the employer paying 6.2 percent for the employer's share and withholding 6.2 percent from employee taxable wages for the employee's share. As a parallel to FICA taxes, SECA imposes taxes on the net income from self-employment of self-employed individuals. The rate of the OASDI portion of SECA taxes is equal to the combined employee and employer OASDI tax rates, 12.4 percent, and applies to self-employment income up to the taxable wage base.

The "Support for Workers Families, and Social Security Act" would reduce the OASDI tax rate on employees to zero percent for employee remuneration paid during the payroll tax holiday period. The corresponding OASDI portion of SECA taxes would be reduced by the ratio of days of the payroll tax holiday (122 days) divided by the number of days in the taxable period (366 days, generally). This implies a lower OASDI portion of SECA tax rate of approximately 2.07 percentage points, which applies to self-employment income (as defined in section 1402(b)) for taxable years beginning in the payroll tax holiday period. The SECA tax rate reduction of about 2.07 percentage points is reduced for self-employment incomes exceeding $137,700 by the ratio of such excess relative to $68,850. The payroll tax holiday period is the four-month period beginning on September 1, 2020 and ending on December 31, 2021.

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Given that payroll taxes may have already been withheld for some applicable September wages, this proposal will likely require refunds of over-withheld amounts to employees. Current IRS procedures generally provide that when there is over-withholding of employee FICA the employer must file an amended return, such as Forms 941-X, 943-X, or 944-X, for each period in which there was over-withholding to the extent it was already reported. The 2020 Forms 943 and 944 have not yet been filed and the third quarter Form 941 is not due until November 2, 2020. The employer is required to give every affected employee the opportunity to participate in the refund claim. If the employee did not receive a refund from the employer, such refund would typically be received by the individual upon filing a 2020 Form 1040. Under the proposal, these procedures would apply absent a special rule.

Our estimate of the revenue impact of this proposal is based on our updated baseline using the CBO July macro baseline and incorporates the effects of many individuals' earnings exceeding the OASDI taxable maximum before or during the payroll tax holiday period. We estimate this proposal will result in a Federal fiscal year revenue loss of $137.0 billion.