



Obama's Plan to Abolish the Social Security Wage Ceiling: A State-by-State Breakdown

Fiscal Fact No. 128

By Gerald Prante

May 30, 2008

It is commonly observed that the policy ideas of Barack Obama and Hillary Clinton are almost identical, but Obama does have one major tax proposal that Clinton does not specifically endorse: eliminating the wage ceiling for Social Security taxes.

Whether the wage ceiling is justified in sound policy depends on one's view of Social Security, but there has always been a ceiling on the tax, an amount of annual wages above which the tax does not apply. Right now, the wage ceiling is quite high, \$102,000 for a single person, so almost all American workers pay on every dollar of wages. In 2008, the maximum Social Security tax for a single person is 12.4 percent of the first \$102,000 in wages, or \$12,648.

Reporters have asked Obama how he can propose to abolish the wage ceiling and also keep his promise not to raise taxes on anyone who makes less than \$200,000 or \$250,000 (Obama has cited both figures). His response is that he might campaign for a "donut hole" in the Social Security tax. That is, wages up to the ceiling would be taxed as usual, followed by a non-taxable amount up to \$200,000 or \$250,000, and then all wages above that would be taxed.

In the table below we give a state-by-state breakdown of those three scenarios: (1) wage ceiling is eliminated, (2) wage ceiling eliminated but with a donut hole up to \$200,000, and (3) wage ceiling eliminated but with a donut hole up to \$250,000. Note that the figures cited in the table are static estimates, meaning that they do not account for possible behavioral (or tax planning) changes that would occur from a change in payroll tax policy.

Obama's Plan to Abolish the Social Security Wage Ceiling
What Is the State-by-State Impact?

State	Total Number of Workers (a)	Scenario 1: No Wage Ceiling and No Donut Hole			Scenario 2: No Wage Ceiling but Donut Hole Up to \$200K	Scenario 3: No Wage Ceiling but Donut Hole Up to \$250K
		Number of Workers Who Would Pay More	Percentage Who Would Pay More	State Rank of Percentage	Number of Workers Who Would Pay More	Number of Workers Who Would Pay More
U.S. Total	162,186,672	10,144,275	6.25%		2,425,540	1,682,698
AL	2,322,809	99,738	4.29%	29	26,295	25,329
AK	404,984	20,261	5.00%	24	3,665	3,566
AZ	3,166,556	187,877	5.93%	15	(b)	(b)
AR	1,448,396	53,767	3.71%	39	(b)	(b)
CA	19,120,039	1,672,082	8.75%	6	358,389	234,927
CO	2,796,399	194,594	6.96%	9	41,464	28,228
CT	2,007,218	190,811	9.51%	3	57,511	39,647
DE	467,059	29,216	6.26%	12	4,960	4,512
FL	9,460,825	525,993	5.56%	17	142,924	102,543
GA	5,041,059	296,301	5.88%	16	69,633	50,240
HI	708,130	37,574	5.31%	22	7,866	7,341
ID	817,006	28,121	3.44%	45	(b)	(b)
IL	6,995,750	490,789	7.02%	8	111,649	73,441
IN	3,495,263	132,008	3.78%	37	35,596	34,969
IA	1,765,035	62,333	3.53%	43	20,318	14,083
KS	1,604,064	67,415	4.20%	31	18,530	16,061
KY	2,196,350	79,032	3.60%	42	(b)	(b)
LA	2,193,819	89,084	4.06%	33	24,315	23,673
ME	768,134	28,487	3.71%	40	(b)	(b)
MD	3,257,574	311,500	9.56%	2	49,815	33,430
MA	3,694,810	327,903	8.87%	5	70,139	43,931
MI	5,350,850	296,957	5.55%	18	59,768	44,828
MN	3,098,565	186,119	6.01%	13	45,547	31,818
MS	1,403,322	51,637	3.68%	41	(b)	(b)
MO	3,216,711	137,749	4.28%	30	36,417	33,741
MT	542,932	13,098	2.41%	50	(b)	(b)
NE	1,047,786	35,722	3.41%	46	7,511	7,240
NV	1,388,513	75,270	5.42%	19	(b)	(b)
NH	797,663	54,444	6.83%	10	10,163	7,967
NJ	4,793,745	514,130	10.73%	1	117,648	71,875
NM	1,013,867	42,335	4.18%	32	7,794	7,539
NY	10,213,098	820,558	8.03%	7	218,827	149,728
NC	4,841,647	230,403	4.76%	25	57,693	40,547
ND	390,769	10,329	2.64%	49	3,382	2,227
OH	6,268,389	281,577	4.49%	27	67,865	62,316
OK	1,889,158	71,330	3.78%	38	23,483	22,918
OR	2,059,989	105,948	5.14%	23	24,816	16,384
PA	6,743,379	358,575	5.32%	21	88,085	78,996

RI	606,424	32,552	5.37%	20	7,672	7,414
SC	2,295,044	89,433	3.90%	36	24,189	23,463
SD	459,453	13,257	2.89%	48	5,090	4,938
TN	3,205,481	144,276	4.50%	26	38,384	25,949
TX	12,303,111	731,566	5.95%	14	178,995	130,858
UT	1,378,557	61,171	4.44%	28	11,163	10,587
VT	386,208	15,502	4.01%	34	2,618	2,466
VA	4,413,398	392,235	8.89%	4	69,904	44,606
WA	3,570,306	234,924	6.58%	11	45,520	40,983
WV	887,373	30,010	3.38%	47	(b)	(b)
WI	3,240,060	129,762	4.00%	35	34,865	33,250
WY	308,793	10,653	3.45%	44	(b)	(b)
DC	340,802	47,867	14.05%	-	11,117	7,338

(a) Workers are defined as those having at least \$1 in wages or self-employment income.

(b) Census “top-codes” high-income tax returns for privacy reasons, preventing an accurate estimate of the donut hole’s impact in these states.

Source: 2006 American Community Survey Public Use Microdata Set.

The states that rank the highest are those where the most people would have to pay more, even if the additional tax were small. As a result, while the ranking generally mirrors average state income, Virginia and Maryland rank higher than states with higher average incomes. That’s because the federal government pays tens of thousands of workers in the Washington, DC, area more than \$102,000 annually

© 2008 Tax Foundation

Tax Foundation
2001 L Street NW, Suite 1050
Washington, DC 20036
Ph: (202) 464-6200
Fax: (202) 464-6201
www.taxfoundation.org.