



## What Does The Payroll Tax Cut Mean For Young Americans?

The President and Congress are debating the extension of the payroll tax cut. So what does this mean for young Americans? A lot. 45 million young workers pay payroll taxes.

### What is the Payroll Tax?

- The Social Security payroll tax is a 6.2% tax that comes out of your paycheck, and funds Social Security and Medicare (your employer also pays 6.2%). The tax is capped once you earn \$106,800.

### 2011 Payroll Tax Cut

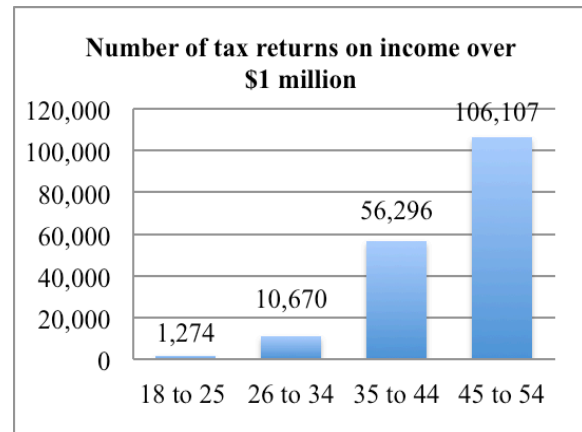
- In 2011, Congress temporarily reduced the Social Security payroll tax from 6.2% to 4.2%, to get the economy growing again by putting more money in American's pockets.
- *Ex. Mike makes \$30,000 a year. In 2010, he paid \$1,860 in payroll taxes. In 2011, he only paid \$1,260. In other words, he got a \$600 tax cut and has more money to put into the local economy.*

### 2012 Payroll Tax Increase

- The 2011 Payroll Tax Cut expires at the end of the year, and **goes back up to 6.2 percent, unless we extend it.**
- Impact: 45 million working Americans under 30 would see their payroll taxes go up in 2012.<sup>i</sup>
- The typical young man between the ages of 25 and 34 earns \$38,000 and would see his taxes go up \$750 unless the tax cut continues.<sup>ii</sup>
- The typical young woman between the ages of 25 and 34 earns \$34,000 per year and would see her taxes go up \$680.
- Compared to other tax breaks, middle and low-income people benefit more from a payroll tax cut because they get a higher percentage of their income through a paycheck, not investments.

### Will Congress extend the Payroll Tax Cut?

- Congress is divided over whether to extend the payroll tax cut. Opponents argue that extending the cut would increase the national deficit, and that other tax cuts better stimulate the economy.
- To offset the payroll tax cut and not add to the deficit, Senate Democrats want a 3.25% tax on people who earn over \$1 million. Few young people fall into this category. According to the IRS, only 1,274 of 18 to 25 year olds (or .004%) made more than \$1 million in 2008.<sup>iii</sup>
- Congressional Republicans want to offset the tax cut with reduced spending elsewhere.
- Extending the payroll tax cut has come up for a vote twice already in December, and been defeated both times. Further votes are expected as Congress negotiates the 2012 budget.



<sup>i</sup> The American Jobs Act: Impact for Youth and the Economy, pg. 1.

[http://www.whitehouse.gov/sites/default/files/youth\\_jobs\\_factsheet.pdf](http://www.whitehouse.gov/sites/default/files/youth_jobs_factsheet.pdf).

<sup>ii</sup> YI calculation from median wages of 25 to 34 year olds. The State of Young America, Demos and Young Invincibles (2010).

<sup>iii</sup> Table 1.6 All Returns: Number of Returns, by Age, Marital Status, and Adjusted Gross Income, Tax Year 2008, IRS, Statistics of Income Division, July 2010 and Current Population Survey, March Social and Economic Supplement (2009).