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So, You Want to Raise the Social Security Tax Cap?

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Nearly everyone agrees that Social Security needs additional revenue to pay promised benefits. One of the most popular ideas is also one of the simplest to describe: require high earners to pay Social Security taxes on more of their income. But behind that seemingly straightforward proposal lies a series of difficult policy choices. The answers determine not only how much revenue is raised, but also whether Social Security remains the kind of social insurance program Americans have relied on for generations.

In this memo, we explain how the Social Security taxable maximum works and outline six key questions policymakers should answer before raising or eliminating it. While reforming the tax cap could be an important part of restoring the program's finances, there is no single way to do it—and each approach involves different tradeoffs.

How the Social Security Tax Cap Works

Social Security is financed through payroll taxes.

For almost a century, Social Security has provided Americans with a stable and predictable source of income in retirement. The program lifts millions of older Americans out of poverty and provides a basic level of economic security. [1] Benefits are funded by a 12.4% payroll tax, with the tax burden divided equally between employees and employers (each pays 6.2%).

What is the taxable maximum?

The Social Security tax is subject to an annual earnings limit, known as the "taxable maximum" or "tax cap." In 2026, this maximum is $184,500. [2] Earned income beyond this threshold is not subject to the Social Security tax. [3] In practice, this means that workers no longer have Social Security taxes deducted from their paychecks once their earnings reach $184,500 during the year. About 6% of workers earn at or above this taxable maximum. [4]

The cap limits both taxes and benefits.

On the surface, the tax cap may appear as a tax break for the highest-income earners. But the taxable maximum also limits the earnings used to calculate benefits. The Social Security benefits that retirees receive are based largely on their lifetime earnings, as well as how many years they worked and the age at which they claim benefits. [5] High-earning workers, who pay more into the system over the course of their careers, get larger Social Security benefits when they retire. [6] However, earnings above the taxable maximum are not taxed and do not increase a worker's future benefit. The cap therefore limits both how much a worker pays into Social Security each year and how much of their earnings count toward their benefits.

Why are policymakers reconsidering the cap?

After major reforms to the program in 1977, about 90% of national earnings were subject to Social Security payroll taxation. [7] While the share of workers earning more than the taxable maximum has remained around 6%, income growth for high-earning workers means that today, only about 83% of national earnings are included in the Social Security tax base. [8] Other income—like capital gains, dividends, interest, and some business income—is generally not subject to the tax at all. As the Social Security trust fund dwindles and the program heads toward insolvency in 2032, reforming or eliminating the taxable maximum is often seen as an obvious starting point.

6 Key Questions

Raising or eliminating Social Security's taxable maximum is often presented as a straightforward way to improve the program's finances. But changing the cap is not a single policy choice, policymakers must consider a variety of policy design questions that will determine the program's long-term fiscal health.

1. **What earnings should be taxed?** Today, Social Security taxes apply to the first $184,500 of a worker's annual wages, covering 83% of all earnings. [9] Policymakers could raise the taxable maximum to cover 90% of national earnings, eliminate the cap altogether, or create a "donut hole" that taxes wages above a higher threshold, such as $400,000.
2. **Should Social Security tax only wages?** Some proposals would also tax certain investment and business income. [10] Expanding the forms of income subject to the tax would raise more revenue than increasing the amount of wage income covered on its own, but it would also represent a fundamental shift in how Social Security functions as a "wage replacement" in old age.
3. **How much additional benefit should higher earners receive?** Under current law, workers who contribute more generally receive larger benefits. Raising or eliminating the taxable maximum on its own would result in increased benefit payments to these high earners. Some proposals raise or eliminate the taxable maximum *and* reduce or eliminate the additional benefit credit. [11] While this provides more net funds to Social Security, some argue that removing the connection between contributions and benefits can weaken Social Security's political popularity. [12]

4. **How would each option impact Social Security's finances?** No change to the taxable maximum would solve the program's long-term funding gap on its own. [13] The Social Security Administration estimates that, at best, eliminating the taxable maximum would keep the program out of insolvency for 25 more years. [14] Policymakers would need additional reforms to restore long-term solvency.
5. **How would changes to the taxable maximum affect tax rates across the United States?** Eliminating the taxable maximum would raise the marginal tax rate on earnings above the current cap by 12.4 percentage points. In high-tax states such as California and New York, the combined federal, state, and payroll tax rate on top earners could exceed 60%. [15] Raising rates to this extent could actually result in a decline in revenue collected, as some high-income taxpayers shift their compensation toward capital gains, business income, or other less-taxed forms of compensation. [16] Policymakers should weigh these behavioral responses and their effect on revenue against the additional funding the reform would generate.
6. **How do other reforms compare to raising or eliminating the taxable maximum?** Other options include increasing the payroll tax rate, raising the retirement age, modifying benefits for higher-income retirees, limiting cost-of-living adjustments, changing how Social Security benefits are taxed, or paying benefits from general Treasury revenue. These options differ in who bears the cost, how much revenue or savings they generate, and how much they improve the program's long-term finances. For more reform options, see the Committee for a Responsible Federal Budget's Trust Fund Solutions Initiative. [17]

There is no single right way to reform the Social Security taxable maximum. Each option involves tradeoffs among revenue, fairness, and the link between what workers contribute and what they receive. Raising or eliminating the cap could meaningfully improve Social Security's finances, but it cannot be considered in isolation. Policymakers will need to weigh those tradeoffs carefully to strengthen the program's long-term finances while preserving public confidence in Social Security.

ENDNOTES

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