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Taxing Wages: 2003/2004
Special Feature: Broadening the Definition of the Average Worker

United States

United States 2004

The tax/benefit position of single persons

	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1.	**Gross wage earnings**	23289	34934	58223	23289
2.	**Standard tax allowances**				
	Basic allowance	7950	7950	7950	10250
	Married or head of family				
	Dependent children	0	0	0	6200
	Deduction for social security contributions and income taxes				
	Work-related expenses				
	Other				
	Total	7950	7950	7950	16450
3.	**Tax credits or cash transfers included in taxable income**	0	0	0	0
4.	**Central government taxable income (1 - 2 + 3)**	15339	26984	50273	6839
5.	**Central government income tax liability (exclusive of tax credits)**	1943	3690	9306	684
6.	**Tax credits**				
	Basic credit	0	0	0	2352
	Married or head of family				
	Children	0	0	0	1938
	Other				
	Total	0	0	0	4290
7.	**Central government income tax finally paid (5-6)**	1943	3690	9306	-3606
8.	**State and local taxes**	1336	2084	3580	1052
9.	**Employees' compulsory social security contributions**				
	Gross earnings	1782	2672	4454	1782
	Taxable income				
	Total	1782	2672	4454	1782
10.	**Total payments to general government (7 + 8 + 9)**	5061	8447	17340	-773
11.	**Cash transfers from general government**				
	For head of family				
	For two children	0	0	0	0
	Total	0	0	0	0
12.	**Take-home pay (1-10+11)**	18228	26487	40884	24062
13.	**Employer's compulsory social security contributions**	1782	2672	4454	1782
14.	**Average rates**				
	Income tax	14.1%	16.5%	22.1%	-11.0%
	Employees' social security contributions	7.7%	7.7%	7.7%	7.7%
	Total payments less cash transfers	21.7%	24.2%	29.8%	-3.3%
	Total tax wedge including employer's social security contributions	27.3%	29.6%	34.8%	4.0%
15.	**Marginal rates**				
	Total payments less cash transfers: Principal earner	29.1%	29.1%	39.1%	25.1%
	Total payments less cash transfers: Spouse	n.a.	n.a.	n.a.	n.a.
	Total tax wedge: Principal earner	34.1%	34.1%	43.4%	30.5%
	Total tax wedge: Spouse	n.a.	n.a.	n.a.	n.a.
	Memorandum item: Non-wastable tax credits				
	tax expenditure component	0	0	0	746
	cash transfer component	0	0	0	3606

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United States 2004

The tax/benefit position of married couples

	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1.	**Gross wage earnings**	34934	46579	58223	46579
2.	**Standard tax allowances**				
	Basic allowance	15900	15900	15900	15900
	Married or head of family				
	Dependent children	6200	6200	6200	0
	Deduction for social security contributions and income taxes				
	Work-related expenses				
	Other				
	Total	22100	22100	22100	15900
3.	**Tax credits or cash transfers included in taxable income**	0	0	0	0
4.	**Central government taxable income (1 - 2 + 3)**	12834	24479	36123	30679
5.	**Central government income tax liability (exclusive of tax credits)**	1283	2957	4704	3887
6.	**Tax credits**				
	Basic credit	110	0	0	0
	Married or head of family				
	Children	2000	2000	2000	0
	Other				
	Total	2110	2000	2000	0
7.	**Central government income tax finally paid (5-6)**	-827	957	2704	3887
8.	**State and local taxes**	1657	2405	3153	2690
9.	**Employees' compulsory social security contributions**				
	Gross earnings	2672	3563	4454	3563
	Taxable income				
	Total	2672	3563	4454	3563
10.	**Total payments to general government (7 + 8 + 9)**	3503	6925	10311	10140
11.	**Cash transfers from general government**				
	For head of family				
	For two children	0	0	0	0
	Total	0	0	0	0
12.	**Take-home pay (1-10+11)**	31431	39653	47913	36439
13.	**Employer's compulsory social security contributions**	2672	3563	4454	3563
14.	**Average rates**				
	Income tax	2.4%	7.2%	10.1%	14.1%
	Employees' social security contributions	7.7%	7.7%	7.7%	7.7%
	Total payments less cash transfers	10.0%	14.9%	17.7%	21.8%
	Total tax wedge including employer's social security contributions	16.4%	20.9%	23.6%	27.3%
15.	**Marginal rates**				
	Total payments less cash transfers: Principal earner	45.1%	29.1%	29.1%	29.1%
	Total payments less cash transfers: Spouse	29.4%	29.1%	29.1%	29.1%
	Total tax wedge: Principal earner	49.0%	34.1%	34.1%	34.1%
	Total tax wedge: Spouse	34.4%	34.1%	34.1%	34.1%
	Memorandum item: Non-wastable tax credits				
	tax expenditure component	1283	2000	2000	0
	cash transfer component	827	0	0	0

The national currency is the dollar (USD). In 2004, the average production worker earned USD 34 934 (Secretariat estimate).

1. Personal income tax system

1.1. Central/federal government income taxes

1.11. Tax unit

Families are generally taxed in one of three ways:

- as married couples filing jointly on the combined income of both spouses;
- as married individuals filing separately and reporting actual income of each spouse; or
- as heads of households (only unmarried or separated individuals with dependents).

All others, including dependent children with sufficient income, file as single individuals.

1.12. Tax allowances and tax credits

1.121. Standard reliefs

- *Basic reliefs:* In 2004 a married couple filing a joint tax return is entitled to a standard deduction of USD 9 700. The standard deduction is USD 7 150 for heads of households and USD 4 850 for single individuals. This relief is indexed for inflation. More liberal standard deductions are available for taxpayers who are age 65 or older and taxpayers who are blind. Special rules apply to children who have sufficient income to pay tax and are also claimed as dependents by their parents.
  In addition to the standard deduction, in 2004 a USD 3 100 *personal exemption* is given every taxpayer (including both husband and wife filing a joint return). The personal exemption is indexed annually for inflation. The deduction for personal exemptions is reduced by 2 per cent for each USD 2 500 by which the taxpayer's income exceeds USD 214 050 for married couples, USD 142 700 for single taxpayers, and USD 178 350 for heads of households. All of a taxpayer's exemptions are phased out simultaneously.
- *Standard marital status reliefs:* Married couples generally benefit from a more favourable schedule of tax rates for joint returns of spouses (see Section 1.13). There are no other general tax reliefs for marriage.
- *Relief for children:* For each child and other person claimed as a dependent on a taxpayer's return, the taxpayer is entitled to a dependency exemption of USD 3 100 in 2004. Low income workers with dependants are allowed a refundable (non-wastable) earned income credit. For taxpayers with one child, the credit is 34 per cent of up to USD 7 660 of earned income in 2004. The credit phases down when income exceeds USD 14 040 (15 040 for married taxpayers) and phases out when it reaches USD 30 338 (31 338 for married taxpayers). The earned income threshold and the phase-out threshold are indexed for inflation. For taxpayers with two or more children, the credit is 40 per cent of

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up to USD 10 750 of earned income in 2004. The credit phases down when income exceeds USD 14 040 (15 040 for married taxpayers) and phases out when it reaches USD 34 458 (35 458 for married taxpayers).

Beginning in 1998, taxpayers are permitted a tax credit for each qualifying child under the age of 17. In 2004 the maximum credit is USD 1 000. The maximum credit is reduced for taxpayers with income in excess of certain thresholds. The credit is reduced by USD 50 for each USD 1 000 of income in excess of USD 110 000 for married taxpayers (USD 75 000 for single and head of household taxpayers). These threshold amounts are not indexed for inflation. A taxpayer with three or more qualifying children may be allowed a supplemental refundable (non-wastable) child credit, subject to certain restrictions.

- *Relief for low income workers without children:* In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 2004 low income workers without children are permitted a non-wastable earned income credit of 7.65 per cent of up to USD 5 100 of earned income. The credit phases down when income exceeds USD 6 390 (7 390 for married taxpayers) and phases out when income reaches USD 11 490 (12 490 for married taxpayers). This credit is available for taxpayers at least 25 years old and under 65 years old.
- *Relief for social security and other taxes:* There is no special relief for social security taxes although the non-wastable earned income credits described above are sometimes considered an offset to social security contributions made by eligible employees. Furthermore, only a portion of social security benefits are subject to tax.

1.122. Main non-standard reliefs applicable to an APW

The basic non-standard relief is the deduction of certain expenses to the extent that, when itemised, they exceed in aggregate the standard deduction. For the purposes of this Report, it is assumed that workers claim the standard deduction. The principal itemised deductions claimed by individuals where the standard deduction is not being claimed are:

- *medical* and *dental expenses* that exceed 7.5 per cent of income;
- State and local income, real property, and personal property taxes (but not sales taxes);
- home mortgage interest;
- *investment interest expense* up to investment income with an indefinite carry forward of disallowed investment interest expense;
- contributions to qualified charitable organisations (including religious and educational institutions);
- *casualty and theft losses* to the extent that each loss exceeds USD 100 and that all such losses combined exceed 10 per cent of income; and
- *miscellaneous expenses* such as non-reimbursed employee business expenses (union dues, work shoes, etc.), investment expenses, tax return preparation fees and educational expenses required by employment, to the extent that, in aggregate, they exceed 2 per cent of income.

Otherwise allowable itemised deductions are reduced by 3 per cent of the amount by which income exceeds USD 142 700. However, the reduction is limited to 80 per cent of the total of otherwise allowable itemised deductions other than the allowable itemised deductions for medical expenses, investment interest, theft and casualty losses, and gambling losses.

In 2001, the most recent year for which such statistics are available, the 33 per cent of taxpayers with income between USD 30 000 and USD 40 000 (the APW range) who itemised their deductions claimed average deductions as follows: medical expenses, USD 1 433; taxes paid, USD 2 709; charitable contributions, USD 1 511; interest expense, USD 5 214.

Contributions to pension and life insurance plans. No relief is provided for employee contributions to employer sponsored pension plans or for life insurance premiums. However, tax relief is provided for certain retirement savings.

1.13. Tax schedule

Federal income tax rates

Taxable income bracket (USD)[1]		Marginal tax rate (%)
Single individual	Joint return of married couple	
0-7 150	0-14 300	10
7 150-29 050	14 300-58 100	15
29 050-70 350	58 100-117 250	25
70 350-146 750	117 250-178 650	28
146 750-319 100	178 650-319 100	33
More than 319 100	More than 319 100	35

1. The taxable income brackets are indexed for inflation.

Federal income tax rates

Taxable income bracket (USD)[1]			Marginal tax rate (%)
Single individual	Joint return of married couple	Head of household	
0 to 7 150	0 to 14 300	0 to 10 200	10
7 150 to 29 050	14 300 to 58 100	10 200 to 38 900	15
29 050 to 70 350	58 100 to 117 250	38 900 to 100 500	25
70 350 to 146 750	117 250 to 178 650	100 500 to 162 700	28
146 750 to 319 100	178 650 to 319 100	162 700 to 319 100	33
More than 319 100	More than 319 100	More than 319 100	35

1. The taxable income brackets are indexed for inflation.

1.2. State and local income taxes

1.21. General description of the system

The District of Columbia and 43 of the 50 States impose some form of individual income tax. In addition, some local governments (cities and counties) impose an individual income tax, although this is not generally the case. State individual income tax structures are usually related to the federal tax structure by the use of similar definitions of taxable income, with some appropriate adjustments. This linkage is not a legal requirement but a practical convention that functions for the convenience of the taxpayer who must fill out both federal and State income tax returns.

The APW calculations assume that the average production worker lives in Detroit, Michigan. The state of Michigan permits a personal exemption of USD 3 100 for the taxpayer, the taxpayer's spouse and each child and taxes income at the rate of 4.0 per cent. The city of Detroit permits a personal exemption of USD 750 and taxes income at the rate of 2.55 per cent. Michigan provides a credit for city taxes paid. If the city income tax paid is

USD 100 or less, the credit is 20 per cent of the city income tax paid. If the city income tax paid is over USD 100 but not over USD 150, the credit is 10 per cent of the excess of the city income tax paid over USD 100 plus USD 20. If the city income tax paid is over USD 150, the credit is 5 per cent of the excess of the city income tax paid over USD 150 plus USD 25.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

2.11. Pensions

The rate for employee contributions is 7.65 per cent (6.2 per cent for old age, survivors, and disability insurance, and 1.45 per cent for old age hospital insurance). The 6.2 per cent rate applies to earnings up to USD 87 900. Beginning in 1994, there is no limit on the amount of earnings subject to the 1.45 per cent rate.

There is no distinction by marital status or sex.

2.12. Other

No compulsory employee contributions exist.

2.2. Employers' contributions

2.21. Pensions

Employers match the employees' tax of 6.2 per cent on earnings up to USD 87 900 and 1.45 per cent of all earnings (without limit).

2.22. Unemployment

Employers are required by the federal government to pay unemployment tax of 6.2 per cent on earnings up to USD 7 000. Taxes are also paid to various state-sponsored unemployment plans which may generally be credited against the required federal percentage.

2.23. Injury

The States require various payments for workman's compensation insurance.

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

No general cash transfers exist, although low-income mothers qualifying for categorical welfare grants may receive cash transfers.

4. Principal changes since 2003

None.

5. Memorandum items

5.1. *Identification of an APW at the wage calculation*

- The APW is identified from monthly data compiled from establishment questionnaires covering more than 30 million non-agricultural wage and salary workers. The data refer to all non-supervisory workers in the manufacturing sector regardless of gender.
- The following information is used to calculate annual wage earnings for year 2002. Fifty-two weeks are assumed for regular earnings and fifty weeks (two weeks vacation) for overtime.

Average hourly earnings including overtime	USD 15.30
Average hours per week including overtime	40.9
Average weekly wage earnings including overtime	USD 625.77
Average hourly wage earnings excluding overtime	USD 14.56
Average hours worked per week excluding overtime	36.8
Average weekly wage earnings excluding overtime	USD 535.81
Estimated gross annual wage earnings excluding overtime	USD 27 862.02
Estimated annual overtime wage earnings	USD 4 498.10
Estimated gross annual wage earnings	USD 32 360.12

5.2. *Employer contributions to private social security arrangements*

Employers commonly contribute to private pension plans, health insurance and life insurance. Data for these contributions are available only on a total workforce basis. It is not possible to state with accuracy the levels applicable to the APW. The following are estimates for 1993 for all non-agricultural employees:

	Pension	Health	Life
Per cent of workers covered	49	61	64
USD per covered employee	1 364	3 407	882

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2004 Parameter values

APW earnings	Ave_earn	**34 934**	**Secretariat estimate**			
Standard deductions	Married_al	9 700				
	hh_al	7 150				
	single_al	4 850				
Personal exemption	pers_ex	3 100				
Dependency exemption	dep_ex	3 100				
Personal exemption reduction	ex_dedn_rate	0.02				
unit of earnings	ex_dedn_unit	2 500				
threshold single (no children)	ex_thrsh_s	142 700				
threshold single (with children)	ex_thrsh_hh	178 350				
threshold joint	ex_thrsh_m	214 050				
Federal tax schedules	Fed_sch_s	0.1	7 150			
		0.15	29 050			
Single individuals		0.25	70 350			
		0.28	146 750			
		0.33	319 100			
		0.35				
Married filing jointly	Fed_sch_m	0.1	14 300			
		0.15	58 100			
		0.25	117 250			
		0.28	178 650			
		0.33	319 100			
		0.35				
Head of household	Fed_sch_h	0.1	10 200			
		0.15	38 900			
		0.25	100 500			
		0.28	162 700			
		0.33	319 100			
		0.35				
Earned income credit	EIC_sch	rate	income limit	threshold	thresh-married	phase-out
	no children	0.0765	5 100	6 390	7 390	0.765
	1 child	0.34	7 660	14 040	15 040	0.1598
	2 or more children	0.4	10 750	14 040	15 040	0.2106
Child credit	chcrd_max	1 000				
	chcrd_rdn	50				
	chcrd_thrsh_m	110 000				
	chcrd_thrsh_oth	75 000				
	chcrd_ref_perct	0.1				
	chcrd_ref_thresh	10 750				
Detroit	Detroit_ex	750				
	Detroit_rate	0.0255				
Michigan	Mich_ex	3 100				
	Mich_rate	0.04				
credit schedule on city tax	Mich_cr_sch	0.2	100			
		0.1	150			
		0.05				
maximum	Mich_cr_max	10 000				
Pension contributions	pens_rate	0.062				
	hosp_rate	0.0145				
Ceiling for employers	pens_ceil	87 900				

2004 Tax equations

The equations for the US system in 2004 are mostly calculated on a family basis. There is a special function EIC which is used to calculate the earned income credit. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables "married" and "children". A reference to a variable with the affix "_total" indicates the sum of the relevant variable values for the principal and spouse. And the affixes "_princ" and "_spouse" indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with "_spouse" values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances:	tax_al	J	IF(Married, Married_al, IF(Children=0, single_al, hh_al))+ Taper((1+Married)*pers_ex+ Children*dep_ex, earn_total, IF(Married, ex_thrsh_m, IF(Children=0, ex_thrsh_s, ex_thrsh_hh)), ex_dedn_rate/ex_dedn_unit)
3. Credits in taxable income	taxbl_cr	J	0
4. CG taxable income	tax_inc	J	positive(earn-tax_al+taxbl_cr)
5. CG tax before credits	CG_tax_excl	J	Tax(tax_inc, IF(Married, Fed_sch_m, IF(Children, Fed_sch_h, Fed_sch_s)))
6. Tax credits	EIC	J	EIC(Children, earn_total, EIC_sch)
	ch_crd_max	J	Children*Positive((chcrd_max-chcrd_rdn*Positive(TRUNC(earn, –3)-IF(Married>0, chcrd_thrsh_m, chcrd_thrsh_oth))/1000))
	ch_crd_tax	J	IF(ch_crd_tax>0, MIN(ch_crd_max, CG_tax_excl), 0)
	ch_crd_ref		IF(ch_crd_tax<ch_crd_max, MIN(ch_crd_max-ch_crd_tax, MAX(chcrd_ref_perct*(earn-chcrd_ref_thresh), 0)), 0)
	tax_cr	J	EIC+ch_crd_tax+ch_crd_ref
7. CG tax	CG_tax	J	CG_tax_excl-tax_cr
8. State and local taxes	local_tax		Detroit_rate* Positive(earn_total- Detroit_ex*(1+Married+Children))+ Mich_rate*Positive(earn_total- Mich_ex*(1+Married+Children))- MIN(Mich_cr_max, Tax(AJ7, Mich_cr_sch))
9. Employees' soc security	SSC	B	earn*(pens_rate+hosp_rate)
11. Cash transfers	Cash_tran	J	
13. Employer's soc security	SSC_empr	B	pens_rate*MIN(earn, pens_ceil)+hosp_rate*earn
Memorandum item: non-wastable tax credits			
tax expenditure component	taxexp		(rate_rd_crd+EIC)-transfer
cash transfer component	transfer		IF(CG_tax<0, -CG_tax, 0)

Key to range of equation:
B calculated separately for both principal earner and spouse.
P calculated for principal only (value taken as 0 for spouse calculation).
J calculated once only on a joint basis.

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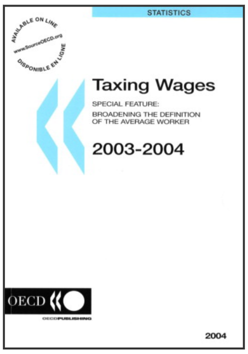

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