

United States

This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

United States 2019

The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		38 227	57 055	95 282	38 227
2. Standard tax allowances					
Basic allowance		12 200	12 200	12 200	18 350
Married or head of family					
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	12 200	12 200	12 200	18 350
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		26 027	44 855	83 082	19 877
5. Central government income tax liability (exclusive of tax credits)		2 929	5 727	14 137	2 108
6. Tax credits					
Basic credit		0	0	0	1 785
Married or head of family					
Children		0	0	0	4 000
Other					
	Total	0	0	0	5 785
7. Central government income tax finally paid (5-6)		2 929	5 727	14 137	- 3 677
8. State and local taxes		2 356	3 608	6 150	1 875
9. Employees' compulsory social security contributions					
Gross earnings		2 924	4 365	7 289	2 924
Taxable income					
	Total	2 924	4 365	7 289	2 924
10. Total payments to general government (7 + 8 + 9)		8 209	13 699	27 575	1 123
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)		30 018	43 356	67 707	37 104
13. Employer's compulsory social security contributions		3 227	4 668	7 592	3 227
14. Average rates					
Income tax		13.8%	16.4%	21.3%	-4.7%
Employees' social security contributions		7.7%	7.7%	7.7%	7.7%
Total payments less cash transfers		21.5%	24.0%	28.9%	2.9%
Total tax wedge including employer's social security contributions		27.6%	29.8%	34.2%	10.5%
15. Marginal rates					
Total payments less cash transfers: Principal earner		26.3%	36.3%	36.3%	48.6%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		31.5%	40.8%	40.8%	52.3%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

United States 2019

The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-67	100-100	100-67
	Number of children	2	2	2	none
1. Gross wage earnings		57 055	95 282	114 110	95 282
2. Standard tax allowances					
Basic allowance		24 400	24 400	24 400	24 400
Married or head of family					
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	24 400	24 400	24 400	24 400
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		32 655	70 882	89 710	70 882
5. Central government income tax liability (exclusive of tax credits)		3 531	8 118	11 453	8 118
6. Tax credits					
Basic credit		0	0	0	0
Married or head of family					
Children		4 000	4 000	4 000	0
Other					
	Total	4 000	4 000	4 000	0
7. Central government income tax finally paid (5-6)		- 469	4 118	7 453	8 118
8. State and local taxes		3 048	5 590	6 842	5 963
9. Employees' compulsory social security contributions					
Gross earnings		4 365	7 289	8 729	7 289
Taxable income					
	Total	4 365	7 289	8 729	7 289
10. Total payments to general government (7 + 8 + 9)		6 943	16 997	23 025	21 370
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)		50 112	78 285	91 085	73 912
13. Employer's compulsory social security contributions		4 668	7 895	9 335	7 895
14. Average rates					
Income tax		4.5%	10.2%	12.5%	14.8%
Employees' social security contributions		7.7%	7.7%	7.7%	7.7%
Total payments less cash transfers		12.2%	17.8%	20.2%	22.4%
Total tax wedge including employer's social security contributions		18.8%	24.1%	26.2%	28.4%
15. Marginal rates					
Total payments less cash transfers: Principal earner		26.3%	26.3%	36.3%	26.3%
Total payments less cash transfers: Spouse		26.3%	26.3%	36.3%	26.3%
Total tax wedge: Principal earner		31.5%	31.5%	40.8%	31.5%
Total tax wedge: Spouse		32.0%	31.5%	40.8%	31.5%

The national currency is the dollar (USD). In 2019, the average worker earned USD 57 055 (Secretariat estimate).

1. Personal Income Tax System

1.1. Central/federal government income taxes

1.1.1. 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.

1.1.2. Tax allowances and tax credits

1.1.2.1. Standard reliefs

- **Basic reliefs:** In 2019 a married couple filing a joint tax return is entitled to a standard deduction of USD 24 400. The standard deduction is USD 18 350 for heads of households and USD 12 200 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.
- **Standard marital status reliefs:** Married couples generally benefit from a more favourable schedule of tax rates for joint returns of spouses (see Section 1.1.3). There are no other general tax reliefs for marriage.
- **Relief for children:** Low income workers with dependents are allowed a refundable (non-wastable) earned income credit. For taxpayers with one child, the credit is 34% of up to USD 10 370 of earned income in 2019. The credit phases down when income exceeds USD 19 030 (24 820 for married taxpayers) and phases out when it reaches USD 41 094 (46 884 for married taxpayers). The earned income threshold and the phase-out threshold are indexed for inflation. For taxpayers with two children, the credit is 40% of up to USD 14 570 of earned income in 2019. The credit phases down when income exceeds USD 19 030 (24 820 for married taxpayers) and phases out when it reaches USD 46 703 (52 493 for married taxpayers). For taxpayers with three or more children the credit is 45% of up to USD 14 570 of earned income. The credit phases down when income exceeds USD 19 030 (24 820 for married taxpayers) and phases out when it reaches USD 50 162 (55 952 for married taxpayers).
- **Since 1998, taxpayers are permitted a tax credit for each qualifying child under the age of 17.** In 2019 the maximum credit is USD 2 000. The refundable (non-wastable) child credit is the lesser of 15% of earned income in excess of USD 2 500 and USD 1 400 per child. The refundable portion of the credit (USD 1 400) is indexed for inflation and rounds down to the next lowest multiple of USD 100 but is capped at USD 2 000.
- **Other dependent tax credit:** For qualifying dependents other than qualifying children for whom a child tax credit was claimed, there is a USD 500 non-refundable credit. The Taxing Wages calculations do not include the other dependent tax credit.
- **Phase out of child tax credit and other dependent tax credit:** The maximum credit is reduced for taxpayers with income in excess of certain thresholds. The total of the child tax credit and other

dependent tax credit is reduced by USD 50 for each USD 1 000 by which modified aggregate gross income exceeds USD 400 000 for married taxpayers filing jointly (USD 200 000 for single and head of household taxpayers). These threshold amounts are indexed for inflation.

- Relief for low income workers without children: In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 2019 low income workers without children are permitted a non-wastable earned income credit of 7.65% of up to USD 6 920 of earned income. The credit phases down when income exceeds USD 8 650 (14 450 for married taxpayers) and phases out when income reaches USD 15 570 (21 370 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. In 2019, the withholding rate for Social Security taxes and Medicare for employees is 7.25%. The earned income credits described above are sometimes considered an offset to Social Security and Medicare contributions made by eligible employees. Furthermore, only a portion of Social Security benefits are subject to tax.

1.1.2.2. Main non-standard reliefs applicable to an AW

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 10% of income (in 7.5% in 2017 and 2018);
- State and local income taxes, real property taxes, and personal property taxes are capped at USD 10 000 per return;
- Home mortgage interest on USD 750 000 of qualified residence loans;
- 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% of income;
- Miscellaneous expenses such as gambling losses, casualty and theft losses of income-producing property, and impairment related work expenses of disabled persons to the extent that, in aggregate; they exceed 2% of income.
- In 2017 based on preliminary statistics¹, the most recent year for which such statistics are available, the 43% of taxpayers with income between USD 50 000 and USD 100 000 (the AW range) who itemised their deductions claimed average deductions as follows: taxes paid, USD 6 559; charitable contributions, USD 3 454; home mortgage interest expense, USD 6 906;
- 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.

1.1.3. Tax schedule

Federal Income Tax rates

	Taxable Income Bracket (USD) ¹			Marginal Tax Rate (%)
	Single Individual	Joint Return of Married Couple	Head of Household	
0 to 9 700		0 to 19 400	0 to 13 850	10
9 701 to 39 475		19 401 to 78 950	13 851 to 52 850	12

39 476 to 84 200	78 951 to 168 400	52 851 to 84 200	22
84 201 to 160 725	168 401 to 321 450	84 201 to 160 700	24
160 726 to 204 100	321 451 to 408 200	160 701 to 204 100	32
204 101 to 510 300	408 201 to 612 350	204 101 to 510 300	35
510 301 and over	612 351 and over	510 301 and over	37

1. The taxable income brackets are indexed for inflation.

There is a 3.8% tax on the lesser of certain net investment income or income in excess of USD 200 000 (USD 250 000 for joint returns). Net investment income includes interest, dividends, capital gains, rental and royalty income, and income from businesses trading financial instruments.

Beginning in 2018, owners of sole proprietorships, partnerships, S corporations, and some trusts and estates are eligible to deduct 20 percent of qualified business income (QBI). QBI is subject to limitations, depending on the taxpayer's taxable income, that may include the type of trade or business, the amount of wages paid by the business and the unadjusted basis of qualified property held by the trade or business.

1.2. State and local income taxes

1.2.1. General description of the system

The District of Columbia and 41 of the 50 States impose some form of individual income tax.² 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 AW calculations assume that the average worker lives in Detroit, Michigan. The state of Michigan permits a personal exemption of USD 4 050 for the taxpayer, the taxpayer's spouse and each child, and taxes income at the rate of 4.25%. Michigan allows taxpayers who are eligible to claim the federal earned income tax credit to claim a Michigan earned income tax credit. The Michigan earned income tax credit is a refundable (non-wastable) credit equal to 6% of the federal earned income tax credit.

The city of Detroit permits a personal exemption of USD 600 and taxes income at the rate of 2.4%.

2. Compulsory Social Security Contributions to Schemes Operated within the Government Sector

2.1. Employees' contributions

2.1.1. Pensions

In 2019, the rate for employee contributions is 7.65% (6.2% for old age, survivors, and disability insurance, and 1.45% for old age hospital insurance). The 6.2% rate applies to earnings up to USD 132 900. Beginning in 1994, there is no limit on the amount of earnings subject to the 1.45% rate. There is an additional 0.9% tax on employee wages and salaries that exceed USD 200 000 (USD 250 000 for joint returns) as the additional hospital insurance tax on high-income taxpayers. The additional tax on wages and salaries is subject to withholding (but without regard to the earnings of the spouse) when wages from a particular job exceed USD 200 000 per year. These thresholds are not indexed for inflation.

There is no distinction by marital status or sex.

2.1.2. *Other*

No compulsory employee contributions exist.

2.2. Employers' contributions

2.2.1. *Pensions*

The rate for employers' contributions is 6.2% on earnings up to USD 132 900 and 1.45% of all earnings (without limit).

2.2.2. *Unemployment*

Employers are required by the federal government to pay unemployment tax of 6% 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. In 2019 the estimated average unemployment insurance tax rate in Michigan was 2.9% of the first USD 9 000 of wages. The model considers that the Federal government allows employers to take a credit for state unemployment taxes of up to 5.4%, resulting in a net Federal tax of 0.6% on earnings up to USD 7 000.

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 2017

In December 2017, Congress passed and the President signed the Tax Cuts and Jobs Act – the most significant change in U.S. tax law in a generation, incorporating change to the taxation of individuals and businesses. For individuals, the Act temporarily lowers income tax rates, increases the standard deduction, increases the child tax credit, and adds a credit for other dependents. The Act also temporarily eliminates some deductions, credits and exemptions for individuals. In addition the individual alternative minimum tax (AMT) exemption and phase-out thresholds are temporarily increased so that fewer taxpayers are subject to the AMT. Pass-through entities that are generally taxed at the individual level only and may be eligible for a new temporary deduction. These temporary provisions expire at the end of 2025. In addition, inflation adjustments of amounts and thresholds are changed to be determined by the chained consumer price index. Finally, there are substantial changes in business taxation, many that are permanent, such as lowering the top corporate tax rate from 35 to 21 percent and moving the U.S. international tax system towards a territorial system.

5. Memorandum Items

5.1. Identification of an AW at the wage calculation

The AW is identified from monthly data compiled from establishment questionnaires covering more than 40 million non-agricultural full- and part-time workers. Beginning in March 2006, data on average weekly hours and average hourly earnings cover all employees rather than solely production or non-supervisory workers. To obtain average annual wages, the product of average weekly hours (including overtime) and average hourly earnings (including overtime) is multiplied by 52 and is adjusted to reflect a full-time equivalent worker. The AW is estimated to be USD 55 058 for 2018.

5.2. Employer contributions to private social security arrangements

Employers commonly contribute to private pension plans (both defined benefit and defined contribution), 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 AW. The following are estimates for 2018 for employees in private industry:

	Pension	Health	Life
% of workers covered	51	55	55
USD employer portion per covered employee	n.a.	8 339 (family) 3 991 (single)	n.a.

2019 Parameter values

Average earnings/yr	Ave_earn	57 055	Secretariat estimate			
Standard deductions	Married_al	24 400				
	hh_al	18 350				
	single_al	12 200				
Federal tax schedules	Fed_sch_s	0.1	9 700			
		0.12	39 475			
Single individuals		0.22	84 200			
		0.24	160 725			
		0.32	204 100			
		0.35	510 300			
		0.37				
Married filing jointly	Fed_sch_m	0.1	19 400			
		0.12	78 950			
		0.22	168 400			
		0.24	321 450			
		0.32	408 200			
		0.35	612 350			
		0.37				
Head of household	Fed_sch_h	0.1	13 850			
		0.12	52 850			
		0.22	84 200			
		0.24	160 700			
		0.32	204 100			
		0.35	510 300			
		0.37				
Earned income credit	EIC_sch	rate	income limit	threshold	thresh-married	phase-out
	no children	0.0765	6 920	8 650	14 450	0.0765
	1 child	0.34	10 370	19 030	24 820	0.1598
	2 children	0.4	14 570	19 030	24 820	0.2106
	3 or more children	0.45	14 570	19 030	24 820	0.2106
Child credit	chcrd_max	2 000				
	Chcrd_lim	1 400				
	chcrd_rdn	50				
	chcrd_thrsh_m	400 000				
	chcrd_thrsh_oth	200 000				
	chcrd_ref_perct	0.15				
	chcrd_ref_thresh	2 500				
Detroit	Detroit_ex	600				
	Detroit_rate	0.024				
Michigan	Mich_ex	4 050				
	Mich_ex_child	0				
	Mich_rate	0.0425				
Michigan's earned income tax credit	Mich_EIC_rate	0.06				
credit schedule on city tax	Mich_cr_sch	0				
		0				
		0				
maximum	Mich_cr_max	0				
Pension contributions	pens_rate_er	0.062				
	pens_rate_ee	0.062				
	hosp_rate	0.0145				

	add_hosp_rate	0.009				
Ceiling for employers and employees	pens_ceil	132 900				
	add_hosp_thresh_m	250 000				
	add_hosp_thresh_oth	200 000				
Unemployment insurance tax	Unemp_rate	0.006				
	Unemp_dedn_rate	0.054				
	Unemp_max	7 000				
Michigan unemploy insur	Mich_unemp_rate	0.029				
	Mich_unemp_max	9 000				

2019 Tax equations

The equations for the US system in 2019 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.

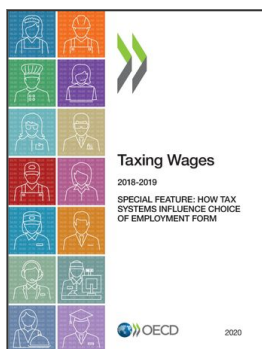
	Line in country table and intermediate steps	Variable name	Range	Equation
1.	Earnings	earn		
2.	Allowances:	tax_al	J	IF(Married, Married_al, IF(Children=0, single_al, hh_al))
3.	Credits in taxable income	taxbl_cr	J	0
4.	CG taxable income	tax_inc	J	positive(earn-tax_al+taxbl_cr)
5.	CG tax before credits	CG_tax_excl	J	Tax(tax_inc, IF(Married, Fed_sch_m, IF(Children, Fed_sch_h, Fed_sch_s)))
6.	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(MIN(ch_crd_max-ch_crd_tax, chcrd_lim*children), 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	J	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)) - Mich_EIC_rate*EIC
9.	Employees' soc security	SSC	B	pens_rate_ee*MIN(earn, pens_ceil)+hosp_rate*earn+add_hosp_rate*Positive(earn-IF(Married, add_hosp_thresh_m, add_hosp_thresh_oth))
11.	Cash transfers	Cash_tran	J	
13.	Employer's soc security	SSC_empr	B	pens_rate_er*MIN(earn, pens_ceil) +hosp_rate*earn+MIN(earn, Unemp_max)*Unemp_rate +MIN(earn, Mich_unemp_max)*Mich_unemp_rate
	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.

Notes

¹ These statistics do not reflect the effects of the Tax Cuts and Jobs Act where more individual taxpayers do not itemize deductions but instead use the standard deduction.

² New Hampshire and Tennessee tax only interest and dividend income received by individuals.



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