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 2017

The tax/benefit position of single persons

			67	100	167	67
		Wage level (per cent of average wage)	67	100	167	67
		Number of children	none	none	none	2
1.	**Gross wage earnings**		35 502	52 988	88 490	35 502
2.	**Standard tax allowances**					
	Basic allowance		10 400	10 400	10 400	13 400
	Married or head of family					
	Dependent children		0	0	0	8 100
	Deduction for social security contributions and income taxes					
	Work-related expenses					
	Other					
		Total	10 400	10 400	10 400	21 500
3.	**Tax credits or cash transfers included in taxable income**		0	0	0	0
4.	**Central government taxable income (1 - 2 + 3)**		25 102	42 588	78 090	14 002
5.	**Central government income tax liability (exclusive of tax credits)**		3 299	6 386	15 261	1 433
6.	**Tax credits**					
	Basic credit		0	0	0	2 002
	Married or head of family					
	Children		0	0	0	2 000
	Other					
		Total	0	0	0	4 002
7.	**Central government income tax finally paid (5-6)**		3 299	6 386	15 261	- 2 569
8.	**State and local taxes**		2 176	3 339	5 700	1 688
9.	**Employees' compulsory social security contributions**					
	Gross earnings		2 716	4 054	6 769	2 716
	Taxable income					
		Total	2 716	4 054	6 769	2 716
10.	**Total payments to general government (7 + 8 + 9)**		8 191	13 779	27 731	1 835
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)**		27 311	39 209	60 759	33 667
13.	**Employer's compulsory social security contributions**		3 081	4 419	7 135	3 081
14.	**Average rates**					
	Income tax		15.4%	18.4%	23.7%	-2.5%
	Employees' social security contributions		7.7%	7.7%	7.7%	7.7%
	Total payments less cash transfers		23.1%	26.0%	31.3%	5.2%
	Total tax wedge including employer's social security contributions		29.2%	31.7%	36.5%	12.7%
15.	**Marginal rates**					
	Total payments less cash transfers: Principal earner		29.3%	39.3%	39.3%	51.6%
	Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
	Total tax wedge: Principal earner		34.3%	43.6%	43.6%	55.1%
	Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

United States 2017

The tax/benefit position of married couples

		Wage level (per cent of average wage)	100-0	100-33	100-67	100-33
		Number of children	2	2	2	none
1.	**Gross wage earnings**		52 988	70 474	88 490	70 474
2.	**Standard tax allowances**					
	Basic allowance		20 800	20 800	20 800	20 800
	Married or head of family					
	Dependent children		8 100	8 100	8 100	0
	Deduction for social security contributions and income taxes					
	Work-related expenses					
	Other					
		Total	28 900	28 900	28 900	20 800
3.	**Tax credits or cash transfers included in taxable income**		0	0	0	0
4.	**Central government taxable income (1 - 2 + 3)**		24 088	41 574	59 590	49 674
5.	**Central government income tax liability (exclusive of tax credits)**		2 681	5 304	8 006	6 519
6.	**Tax credits**					
	Basic credit		0	0	0	0
	Married or head of family					
	Children		2 000	2 000	2 000	0
	Other					
		Total	2 000	2 000	2 000	0
7.	**Central government income tax finally paid (5-6)**		681	3 304	6 006	6 519
8.	**State and local taxes**		2 786	3 949	5 147	4 318
9.	**Employees' compulsory social security contributions**					
	Gross earnings		4 054	5 391	6 769	5 391
	Taxable income					
		Total	4 054	5 391	6 769	5 391
10.	**Total payments to general government (7 + 8 + 9)**		7 520	12 644	17 922	16 228
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)**		45 468	57 830	70 568	54 246
13.	**Employer's compulsory social security contributions**		4 419	6 121	7 500	6 121
14.	**Average rates**					
	Income tax		6.5%	10.3%	12.6%	15.4%
	Employees' social security contributions		7.7%	7.7%	7.7%	7.7%
	Total payments less cash transfers		14.2%	17.9%	20.3%	23.0%
	Total tax wedge including employer's social security contributions		20.8%	24.5%	26.5%	29.2%
15.	**Marginal rates**					
	Total payments less cash transfers: Principal earner		29.3%	29.3%	29.3%	29.3%
	Total payments less cash transfers: Spouse		29.3%	29.3%	29.3%	29.3%
	Total tax wedge: Principal earner		34.3%	34.3%	34.3%	34.3%
	Total tax wedge: Spouse		35.6%	34.3%	34.3%	34.3%

The national currency is the dollar (USD). In 2017, the average worker earned USD 52 988 (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 2017 a married couple filing a joint tax return is entitled to a standard deduction of USD 12 700. The standard deduction is USD 9 350 for heads of households and USD 6 350 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 2017 a USD 4 050 personal exemption is given to every taxpayer (including both husband and wife filing a joint return). The personal exemption is indexed annually for inflation although there was no change between 2016 and 2017. In 2017, there is a phase out for personal exemptions.
- Personal exemption phase out: Personal exemptions are phased out in 50 steps for taxpayers with incomes in excess of certain amounts. All of a taxpayer's exemptions are phased out simultaneously. For each USD 2 500 or fraction thereof by which income exceeds the beginning of the phase out range, personal exemptions are phased down by two percentage points.

Filing status	Beginning of phase out range (USD)
Single	261 500
Joint return	313 800
Head of household	287 650

- 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: For each child and other person claimed as a dependent on a taxpayer's return, the taxpayer is entitled to a personal exemption of USD 4 050 in 2017. 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 10 000 of earned income in 2017. The credit phases down when income exceeds USD 18 340 (23 930 for married taxpayers) and phases out when it reaches USD 39 617 (45 207 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 14 040 of earned income in 2017. The credit phases down when income exceeds USD 18 340 (23 930 for married taxpayers) and phases out when it reaches USD 45 007 (50 597 for married taxpayers). For taxpayers with three or more children the credit is 45% of up to USD 14 040 of earned income. The credit phases down when income exceeds USD 18 340 (23 930 for married taxpayers) and phases out when it reaches USD 48 340 (53 930 for married taxpayers).
- Since 1998, taxpayers are permitted a tax credit for each qualifying child under the age of 17. In 2017 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. The child credit is refundable (non-wastable) to the extent of 15% of earned income in excess of USD 3 000. A taxpayer with three or more qualifying children may be allowed a supplemental refundable (non-wastable) child credit, subject to certain restrictions. The refundable credit is the excess of the taxpayer's share of social security (including Medicare) taxes over his earned income tax credit for the year not used to offset income tax liability.
- Relief for low income workers without children: In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 2017 low income workers without children are permitted a non-wastable earned income credit of 7.65% of up to USD 6 670 of earned income. The credit phases down when income exceeds USD 8 340 (13 930 for married taxpayers) and phases out when income reaches USD 15 010 (20 600 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 2017, the withholding rate for Social Security taxes for employees is 6.2%. The 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.

1.1.2.2. 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;
- State and local income taxes, real property taxes, and personal property 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% 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% of income.
- In 2014, the most recent year for which such statistics are available, the 40% of taxpayers with income between USD 50 000 and USD 75 000 (the AW range) who itemised their deductions claimed average deductions as follows: taxes paid, USD 5 463; charitable contributions, USD 2 972; interest expense, USD 6 818.
- 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 9 325	0 to 18 650	0 to 13 350	10
9 326 to 37 950	18 651 to 75 900	13 351 to 50 800	15
37 951 to 91 900	75 901 to 153 100	50 801 to 131 200	25
91 901 to 191 650	153 101 to 233 350	131 201 to 212 500	28
191 651 to 416 700	233 351 to 416 700	212 501 to 416 700	33
416 701 to 418 400	416 701 to 470 700	416 701 to 444 550	35
418 401 and over	470 701 and over	444 551 and over	39.6

1. The taxable income brackets are indexed for inflation.

There is a 3.8% tax on certain net investment income of individuals if their income exceeds 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.

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.[1] 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

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

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 4 000 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 2017, 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 127 200. 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 127 200 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 2016 the average unemployment insurance tax rate in Michigan was 3.59% 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 2011

None.

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 51 945 for 2016.

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 AW. The following are estimates for 2016 for employees in private industry:

	Pension	Health	Life
% of workers covered	49	54	54
USD employer portion per covered employee	n.a.	8 277 (family) 3 954 (single)	n.a.

2017 parameter values

Average earnings/yr	Ave_earn	52 988	Secretariat estimate			
Standard deductions	Married_al	12 700				
	hh_al	9 350				
	single_al	6 350				
Personal exemption	pers_ex	4 050				
Dependency exemption	dep_ex	4 050				
Personal exemption reduction	ex_dedn_rate	0.02				
unit of earnings	ex_dedn_unit	2 500				
threshold single (no children)	ex_thrsh_s	261 500				
threshold single (with children)	ex_thrsh_hh	287 650				
threshold joint	ex_thrsh_m	313 800				
Federal tax schedules	Fed_sch_s	0.1	9 325			
		0.15	37 950			
Single individuals		0.25	91 900			
		0.28	191 650			
		0.33	416 700			
		0.35	418 400			
		0.396				
Married filing jointly	Fed_sch_m	0.1	18 650			
		0.15	75 900			
		0.25	153 100			
		0.28	233 350			
		0.33	416 700			
		0.35	470 700			
		0.396				
Head of household	Fed_sch_h	0.1	13 350			
		0.15	50 800			
		0.25	131 200			
		0.28	212 500			
		0.33	416 700			
		0.35	444 550			
		0.396				
Earned income credit	EIC_sch	rate	income limit	threshold	thresh-married	phase-out
	no children	0.0765	6 670	8 340	13 930	0.0765
	1 child	0.34	10 000	18 340	23 930	0.1598
	2 children	0.4	14 040	18 340	23 930	0.2106
	3 or more children	0.45	14 040	18 340	23 930	0.2106
Child credit	chcrd_max	1 000				
	chcrd_rdn	50				
	chcrd_thrsh_m	110 000				
	chcrd_thrsh_oth	75 000				
	chcrd_ref_perct	0.15				
	chcrd_ref_thresh	3 000				
Detroit	Detroit_ex	600				
	Detroit_rate	0.024				
Michigan	Mich_ex	4 000				
	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				

2017 parameter values

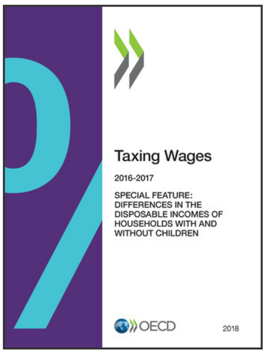
	add_hosp_rate	0.009
Ceiling for employers and employees	pens_ceil	127 200
	add_hosp_thresh_m	250 000
	add_hosp_thresh_oth	200 000
Unemployment insurance tax	Unemp_rate	0.006
	Unemp_dedn_rate	0.054
	Unemp_max	7 000
Michigan unemploy insur	Mich_unemp_rate	0.0359
	Mich_unemp_max	9 000

2017 tax equations

The equations for the US system in 2017 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)) + +((1+Married)*pers_ex+Children*dep_ex)-(ROUNDUP(Positive(earn_total-IF(Married,ex_thrsh_m,IF(Children>0,ex_thrsh_hh,ex_thrsh_s)))/ex_dedn_unit,0)*ex_dedn_rate*((1+Married)*pers_ex+Children*dep_ex))
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(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	J	Detroit_rate* Positive(earn_total-Detroit_ex*(1+Married+Children))+ Mich_rate* Positive(earn_total Mich_ex*(1+Married+Children) Mich_ex_child*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.



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