

the family is large. Even for the relatively small family of four (parents and two children), the typical breakeven point below which the social security tax exceeds the income tax lies at \$5,027, at 1967 rates (table 5). Latest available estimates indicate that about 23 percent of the families this size earn income lower than the break-even income. With three children, the break-even point rises to \$6,263 and the percentage of families affected, to about 35 percent; with 4 children, \$7,106 and about 47 percent; with five children, \$7,654 and about 62 percent. About 35 percent of the families with at least two children pay more social security tax than Federal income tax.

One widely discussed characteristic, the apparent regressivity resulting from the flat rate and base ceiling, raises interesting issues of equity, welfare, and differential spending patterns.¹⁶ But the basic problems and conclusions differ little from those which would arise in connection with a regressive income tax, have been discussed extensively, and will not be reexamined here.

TABLE 5.—BREAK-EVEN POINT, FEDERAL INCOME TAX AND SOCIAL SECURITY TAX, BY FAMILY SIZE, 1967 RATES

Family size	Breakeven point ¹	Percent of families with income below breakeven point ²
Parents, 2 children.....	\$5,007	23
Parents, 3 children.....	6,029	35
Parents, 4 children.....	7,116	47
Parents, 5 children.....	7,654	62
Parents, 2 or more children.....	-----	35

¹ Annual income below which social security tax exceeds Federal income tax, based on 1967 rates. Assumes only 1 parent is employed and that a joint income tax return is filed.

² Based on latest available distribution, for 1965 income.

Source: Bureau of the Census, "Income in 1965 of Families and Persons in the United States" (series, p. 60, No. 51), (January 1967, p. 21).

PRESSURES FOR WAGE INCREASES

The OASDHI base ceiling may create a unique problem, since it causes many taxpayers to experience a discontinuity of take-home pay. As a consequence of the method by which the tax is levied, a taxpayer earning, say, \$9,000 (about 30 percent of families reported income of \$9,000 or higher in 1965) paid a monthly social security tax of \$31.50 for the first 8 months of 1966 (4.2 percent of a monthly salary of \$750) plus \$25 in the ninth month. During October, November, and December, the family received monthly take-home pay \$31.50 larger than during the first 9 months of the year. A great deal then depends on what the taxpayer chooses to do with his additional take-home pay. If he merely saves it, or even if he regards it as a temporary bonanza, no particular problem arises. But, if he has no tax awareness, and casually spends the extra money, he well may make an unnoticed upward adjustment in his standard of living, and will find the jolt quite

¹⁶ The issue of the regressivity of the tax should be evaluated in a broader perspective not essential to the discussion here. See E. Deran, "Income Redistribution Under the Social Security System," *National Tax Journal*, vol. 19, No. 3 (September 1966), pp. 276-285.