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DISTRIBUTION OF OASDI CONTRIBUTIONS WITHIN A CALENDAR YEAR, PARTICULARLY WHEN A CHANGE IN FINANCING IS MADE

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The distribution of OASDI contribution receipts within a particular calendar year is subject to several significant influences, such as the effect of the earnings base and the deferment of contribution payments (especially by the self-employed). This note will analyze the distribution of the contribution receipts as between the first half and the second half of a calendar year, both for the situation when the tax rate and the earnings base remain unchanged and for the situation when these elements vary.

For purposes of illustration, let us consider the calendar year 1965, with three alternatives: (1) the continuation of the present 7¼% combined employer-employee contribution rate and the $4,800 earnings base; (2) an increase in the tax rate of ½%; and (3) an increase in the earnings base to $5,800.

The following table shows the percentage distribution of the contribution receipts within the calendar year:

Period in 1965	Percentage Distribution of Contributions Within Year		
	7¼% on $4,800	7¾% on $4,800	7¼% on $5,800
1st Half	57.4%	56.9%	55.7%
2nd Half	42.6	43.1	44.3
Entire Year	100.0%	100.0%	100.0%

As would be anticipated, somewhat more than half of the receipts come in the first half of the year—as a result of the effect of the earnings base (since employees contribute during the year only until their cumulative earnings reach the base). The figures on which this analysis is made include receipts in 1965 with respect to 1964 earnings—an item that is particularly important for the vast majority of the self-employed, who pay their taxes on 1964 employment in the early part of 1965 (by April 15). When the contribution rate is increased in a particular year, or when the earnings base is similarly increased, a slightly smaller proportion of the contribution receipts fall in the first half of the year (because of the lag involved, particularly for the self-employed), although the proportion is still well above 50%.

The situation is further analyzed by the following table, which shows the percentage increase in the contribution income over that under present law, for each of the changes considered:

Period in 1965	Percentage Increase over Present Law	
	7¾% on $4,800	7¼% on $5,800
1st Half	4.9%	2.0%
2nd Half	6.9	11.8
Entire Year	5.8%	6.2%

As it so happens, the increase of ½% in the contribution rate without changing the earnings base produces about the same percentage increase in contribution income over the course of the entire year as does the increase in the earnings base to $5,800. However, the incidence within the two halves of the year is considerably different. When the tax rate is increased, the percentage increase in the contribution income as compared with present law is about the same in both periods (although slightly higher in the second half). On the other hand, when the earnings base is increased, the rise in contribution income in the first half of the year is relatively small, whereas that in the second half is much larger (for the reason indicated previously, as to persons reaching the earnings base at different periods throughout the year).

Finally, the following table shows the proportion of the increase in contributions (resulting from the financing change) that occurs in each half of the year:

Period in 1965	Proportion of Increase in Contributions Occurring in Period	
	7¾% on $4,800	7¼% on $5,800
1st Half	48.9%	18.5%
2nd Half	51.1	81.5
Entire Year	100.0%	100.0%

As indicated previously, there is almost a 50-50 split of the additional contribution income when the tax rate is increased, but over 80% of the increase that occurs when the earnings base is raised falls in the second half of the year. The latter situation is, of course, to be expected, since with the present $4,800 base, the vast majority of individuals contribute on all their earnings during the first half of the year (since they have earnings at a rate of less than $9,600 per year), but throughout the second half of the year they tend to have their contributions cease much earlier than would be the case under a substantially increased earnings base.