



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

Number: **INFO 2001-0196**

Release Date: 9/28/2001

Index No.: 3121.01-00

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July 20, 2001

The Honorable Dianne Feinstein  
United States Senate  
Washington, D.C. 20510

Dear Senator Feinstein:

This letter further responds to your April 5, 2001, inquiry to the Social Security Administration on behalf of your constituent, [REDACTED]. [REDACTED] wrote about two issues:

1. His concern that social security and Medicare taxes can apply regardless of whether an individual becomes eligible to receive retirement benefits; and
2. His suggestion that the threshold income level that requires payment of income taxes should be raised.

### **1. Application of Social Security and Medicare Taxes**

Social security taxes and Medicare taxes apply to "wages." The Internal Revenue Code defines the term "wages" to include all payment for employment unless specifically excepted. No exclusion from wages exists based on whether a person has qualified for social security non-disability retirement benefits.

The Social Security Administration wrote to [REDACTED] on May 2, 2001, and explained in detail that the social security and Medicare system are social insurance systems. Therefore, some individuals will receive more benefits than the taxes (or contributions) they pay or are paid on their behalf, and other individuals will receive less.

### **2. Threshold Income Level for Income Taxes**

The Congress recently passed the Economic Growth and Tax Relief Reconciliation Act of 2001. This law contains many provisions that will reduce taxpayers' income tax liability. For example, the law established a new 10-percent regular income tax bracket for a portion of taxable income that is currently taxed at 15 percent. This change is effective for taxable years after December 31, 2000. The law also reduced the other regular income tax rates, effective July 1, 2001. The law also provides increases in the

child tax credit, increases in the dependent care tax credit, and increases in the earned income credit. These provisions will increase the threshold income level for income tax liability for some taxpayers.

In addition, the law raises the threshold income level for payment of income taxes for married couples filing joint returns in future years. The law provides increases in the level of the standard deduction for married couples filing joint returns from 2005 through 2009. These increases in the standard deduction will increase the threshold income levels for payment of income tax for married couples filing joint returns.

I hope this information is helpful. If you have further questions, please call me or Alfred G. Kelley (IRS Identification Number 50-03882) at (202) 622-6040.

Sincerely,

Mary Oppenheimer  
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