WOULD A SOCIAL SECURITY TAX EXPENDITURE BUDGET MAKE SENSE?

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ABSTRACT

This article considers whether or not a social security payroll tax expenditure budget would make sense. This article suggests that the ideal payroll tax structure for use in measuring social security payroll tax expenditures would be a flat-rate tax on total compensation up to the pertinent earnings cap. Thus, for example, the ideal old-age and survivors insurance (OASI) payroll tax rates would be 5.6% on employees and employers and 11.2% on self-employed workers, and the ideal tax structure for use in developing a 1992 OASI tax expenditure budget would be an OASI tax of 11.2% of total compensation up to the $55,500 OASI earnings cap. This article also outlines the other essential features of a social security payroll tax expenditure budget. In that regard,
perhaps the most significant category of social security payroll tax expenditures would be for employer-provided fringe benefits. Also of note, estimation of social security payroll tax expenditures for the self-employed and for owner-employees of closely-held corporations would be especially difficult.

INTRODUCTION

Pursuant to the Congressional Budget and Impoundment Act of 1974, (1) since 1975 the Office of Management and Budget has included tax expenditure budget information in the annual Budget of the United States Government. (2) These so-called tax expenditure budgets have always included analyses of the tax expenditures in the individual and corporate income tax structures. Starting in 1989 the Office of Management and Budget expanded its version of the tax expenditure budget to include federal estate and gift tax expenditures and indicated that it was contemplating further expansion to include federal excise taxes, user charges, and the payroll taxes. (3) The purpose of this article is to consider some of the conceptual issues involved in expanding the tax expenditure budget to include estimates of the tax expenditures inherent in the payroll taxes.

This endeavor is especially important now for two reasons. First, the payroll taxes are already among the largest revenue raisers in the federal budget. For example, in Fiscal Year 1993, the federal government is expected to raise roughly $416 billion from social security taxes and $26 billion from unemployment taxes. (4) Only the individual income tax raises more revenue than the payroll taxes, roughly $520 billion in Fiscal Year 1993. If anything, a tax expenditure analysis of the payroll taxes is long overdue.

Second, as Congress considers ways of resolving the current crises in health care, long-term care, and unemployment, payroll
taxes are often suggested as possible revenue sources. For example, the universal health care coverage bill recently introduced by U.S. House of Representatives Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) would require employers to provide health care insurance for workers or pay additional payroll taxes to fund a public program similar to Medicare.\(^5\) To the extent that there are inappropriate tax expenditures in the current payroll taxes, new payroll taxes would augment those flaws. Clearly, policymakers would benefit from an analysis of payroll tax expenditures before the adoption of such new payroll taxes.

As a starting point, this article considers the conceptual issues involved in developing a tax expenditure budget for the current social security payroll taxes.\(^6\) After a brief overview of the social security system, this article considers what a tax expenditure budget for the social security payroll tax would look like.\(^7\) Next, this article suggests that the most reasonable candidate for an ideal payroll tax structure for use in measuring social security payroll tax expenditures would be a flat-rate tax on total compensation up to the pertinent earnings cap. Thus, for example, the ideal old-age and survivors insurance (OASI) payroll tax rates would be 5.6% on employees and employers and 11.2% on self-employed workers, and the ideal tax structure for use in developing a 1992 OASI tax expenditure budget would be an OASI tax of 11.2% of total compensation up to the $55,500 OASI earnings cap.

This article then outlines the other essential features of a social security payroll tax expenditure budget. In that regard, perhaps the most significant category of tax expenditures in a social security payroll tax expenditure budget would be employer-provided fringe benefits. Also, of note, estimation of social security payroll tax expenditures for the self-employed and for owner-employees of closely-held corporations would be especially difficult.
AN OVERVIEW OF THE SOCIAL SECURITY SYSTEM

The three principal social security programs are old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI, or Medicare Part A). Each of these programs is funded through a separate trust fund. Workers build protection under these "insurance" programs by working in employment or self-employment that is "covered" by the social security system and by making the required social security payroll tax "contributions." Altogether some 94% of civilian workers are in covered employment or self-employment. At retirement, disability, or death, monthly social security benefits are paid to insured workers and to their eligible dependents and survivors. Also, the health insurance program, commonly known as Medicare Part A, provides aged and disabled insured workers with comprehensive health insurance protection.

Social security benefits are overwhelmingly financed through payroll taxes levied on the earnings of employees and self-employed individuals. These taxes are discussed in turn.

Taxes on Employees

For 1992, employees pay a social security payroll tax of 7.65% of earnings in employment covered by social security, with 5.6% allocated to the OASI trust fund, 0.6% allocated to the DI trust fund, and 1.45% allocated to the HI trust fund. Each person who works in covered employment pays this mandatory tax on earnings up to certain maximum dollar amounts. These so-called earnings caps are indexed for inflation. For 1992, the OASI and DI taxes are collected on the first $55,500 of covered earnings, and the HI tax is collected on the first $130,200 of covered earnings. Thus, in 1992, employees pay social security taxes of 7.65% of the first $55,500 of covered earnings, 1.45% of covered
earnings from $55,500 to $130,200, and nothing at all on earnings over $130,200.

Employers are required to match the social security taxes paid by their employees. That is, with respect to each employee, employers also pay social security taxes equal to 7.65% of the first $55,500 of covered earnings and 1.45% of covered earnings from $55,500 to $130,200.\(^{(10)}\) Most economists believe that the burden of both the employee’s payroll tax and the employer’s payroll tax falls on the employee.\(^{(11)}\) According to this view, employees face social security taxes of 15.3% of the first $55,500 of covered earnings, 2.9% of covered earnings from $55,500 to $130,200, and nothing at all on earnings over $130,200.\(^{(12)}\)

In general, the term "wages" includes pay received by an employee for employment covered by the social security system. On the other hand, most employer-provided fringe benefits are excluded from the tax base. For example, employer-provided health care and group-term life insurance are excluded from the tax base. Similarly, neither employer contributions to, nor distributions from, qualified retirement plans are subject to social security taxation. Since 1984, however, elective contributions to qualified retirement plans are treated as wages for purpose of social security taxation, and amounts deferred under nonqualified deferred compensation plans are also subject to social security taxation.

**Taxes on Self-employed Workers**

Self-employed workers are required to pay social security taxes at a rate equal to the combined employee-employer rate of 15.3% on net earnings from self-employment of up to $55,500, 2.9% on net earnings from self-employment from $55,500 to $130,200, and no tax on net earnings from self-employment over $130,200.\(^{(13)}\)
Individuals having net earnings from self-employment report those earnings and the self-employment tax on a schedule filed with their annual income tax returns.

In general, the term "net earnings from self-employment" refers to the income of an individual from all trades and businesses less the deductions attributable to those trades and businesses. Net earnings from self-employment also includes the distributive shares of ordinary net income (or loss) from partnerships. Passive income, such as that derived from dividends, interest, and rents, generally does not count as net earnings from self-employment. Notably, contributions to deferred compensation plans covering self-employed individuals are not deductible for self-employment tax purposes and so are subject to self-employment taxation.

THE IDEAL TAX STRUCTURE FOR EVALUATING SOCIAL SECURITY PAYROLL TAX EXPENDITURES

Section 3(a)(3) of the Congressional Budget and Impoundment Act of 1974 defines tax expenditures as:

those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.

Thus, the definition of a tax expenditure draws a distinction between the ideal provisions of a tax structure and the special or preferential provisions that are exceptions to that ideal structure. The Congressional Budget Act of 1974 does not, however, specify the ideal structure of a tax law, so deciding which provisions are special or preferential is necessarily a matter of judgment, over which there is often much debate.
In short, a tax expenditure budget measures deviations from an ideal tax structure. In that regard, with respect to the individual income tax, it is relatively easy to agree on some form of a progressive, comprehensive income tax as the ideal tax structure. After all, income is thought to be a good measure of ability-to-pay; the 16th Amendment to the United States Constitution specifically authorizes the collection of taxes on income; and the Congressional Budget and Impoundment Act of 1974 specifically mentions "income." Also, progressive tax rates have always been a feature of the United States income tax system.

No ideal tax structure for judging the social security payroll taxes is quite as compelling. Two candidates for the ideal tax base for social security payroll taxes stand out: comprehensive income and total compensation. This part considers these two tax base candidates and concludes that total compensation up to the pertinent earnings cap would be the appropriate ideal tax base for measuring the tax expenditures of a social security payroll tax. This part also concludes that the current flat tax rates of the social security payroll taxes (e.g., OASI rates of 5.6% and 11.2%) would be the appropriate ideal tax rates for measuring the tax expenditures of a social security payroll tax.

The Ideal Tax Base for a Social Security Payroll Tax

A powerful argument can be made that the ideal tax base for estimating social security payroll tax expenditures should be income, not payroll or total compensation. After all, there are so many transfers within the social security system so as to obscure any close tie between payroll tax "contributions" and "insurance" benefits. In effect, the social security payroll taxes can be viewed simply as taxes, rather than insurance contributions bearing a close relationship to future benefits. Moreover, as taxes, payroll taxes can be criticized as regressive. Consequently, many analysts have suggested funding one or another social
security program with income tax revenues, rather than payroll tax revenues.\(^{(18)}\)

Choosing income as the ideal tax base for measuring social security payroll tax expenditures would have dramatic consequences. After all, social security payroll taxes are imposed only on covered earnings, rather than on all forms of income.\(^{(19)}\) In particular, the social security payroll taxes do not reach income from dividends, interest, rents, royalties, gains from dealing in property, and other forms of unearned income.\(^{(20)}\) All these exclusions would show up as social security tax expenditures if income were selected as the ideal tax base.

In that regard, leaving unearned income out of the social security payroll tax base clearly favors high-income taxpayers.\(^{(21)}\) As one who favors general-revenue funding for social security programs, the author might be inclined to accept income as the ideal tax base for a social security tax expenditure budget. But, realistically, choosing income as the ideal tax base would be controversial at best and thus unlikely.

A much better case can be made for choosing total compensation for services as the appropriate ideal tax base to measure social security payroll tax expenditures. After all, total compensation comports with Congress’s ongoing choice to finance social security benefits overwhelmingly through payroll taxes. Also, social security benefits are largely intended to replace a worker’s wages and health insurance in the event of retirement, disability, or death. In any event, a social security payroll tax expenditure budget based on total compensation would be useful for policymakers because it would reveal many forms of total compensation that currently escape taxation. For all of these reasons, total compensation seems to be a good starting point for an ideal tax base for measuring social security payroll tax expenditures.
The earnings caps as structural components

In that regard, however, a decision must be made on how to treat earnings above the pertinent earnings caps (in 1992, $55,500 for OASI and DI taxes and $130,200 for HI taxes). On the one hand, exclusion from payroll taxation of compensation in excess of an earnings cap could be viewed as a tax expenditure favoring high earners. In that regard, the failure to tax earnings in excess of the earnings caps clearly contributes to the overall regressivity of the social security payroll taxes. Moreover, policymakers often consider raising or repealing the earnings caps in order to raise revenues, and so tax expenditure estimates of the revenues lost because of the presence of the earnings caps would be useful.\(^{(22)}\)

On the other hand, like the standard deduction and personal exemptions in the individual income tax, the earnings caps must be accepted as normal structural components of the social security payroll taxes. They are long-standing features of the social security payroll taxes and so reflect Congress’s ongoing choice about the shape of the social security payroll taxes. In that regard, the earnings caps often come into play for benefit computations as well as for tax purposes. For example, with respect to any worker’s OASI benefits, earnings in excess of the earnings cap are neither subject to the OASI tax in any given year, nor are they later considered when OASI benefits are computed.

Thus, total compensation modified to exclude compensation in excess of the applicable earnings cap (hereinafter "modified total compensation") seems to be the appropriate ideal tax base for use in measuring social security tax expenditures. Accordingly, for 1992, the ideal tax base for measuring OASI and DI payroll tax expenditures would be total compensation up to $55,500, and the ideal tax base for measuring HI payroll tax expenditures would be total compensation up to $130,200.
The Ideal Rate Structure of a Social Security Payroll Tax

Similarly, like the progressive tax rates of the individual income tax, the flat tax rates of the current social security payroll taxes must be accepted as normal structural components of the ideal social security payroll taxes. Thus, for example, the ideal OASI payroll tax rates would be 5.6% on employees and employers and 11.2% on self-employed workers, and the ideal tax structure for the 1992 OASI tax expenditure budget would be an OASI tax of 11.2% of total compensation up to the $55,500 earnings cap.

While there are other features of social security payroll taxes that are perhaps best understood as structural, they are more appropriately discussed in the next part of this article which addresses the essential items in a tax expenditure budget for the social security payroll taxes.

THE ESSENTIAL ITEMS IN A TAX EXPENDITURE BUDGET FOR THE SOCIAL SECURITY PAYROLL TAXES

With flat-rate taxation of total compensation up to the applicable earnings cap as the ideal tax structure, a tax expenditure can be said to result any time a special provision excludes compensation from the applicable social security tax base. On the other hand, some special exclusions could be viewed either as structural components of an ideal social security tax structure or as tax expenditures. This part discusses the special provisions which totally exempt certain workers from social security coverage and the special provisions which exclude certain de minimis payments made to other workers. Next, this part discusses how a tax expenditure budget should address fringe benefits; the special problems with self-employed workers and closely-held corporations; and international considerations.
Workers Excluded From Coverage

A number of workers are simply excluded altogether from social security payroll taxation. On the one hand, these exclusions could be viewed as structural components of the system. After all, employment that is not covered for tax purposes is also generally not counted when it comes to determining benefits.

On the other hand, it seems more appropriate to treat these exclusions as tax expenditures. After all many of these excluded workers are likely to earn at least minimal social security benefits by relatively short spells of working in other employment which is covered. Because of the low thresholds for qualifying for at least minimal social security benefits (e.g., 40 quarters of coverage - 10 years - for OASI eligibility) and the general progressivity of the social security benefit structures, what results is a transfer from workers who worked in covered employment throughout their careers to workers who worked in covered employment only part of their careers.

On this view, the exclusion from OASI and DI taxes for many state and local workers should be viewed as a tax expenditure for state and local governments. Similarly, the exclusion from OASI and DI taxes for Federal government employees hired before January 1, 1984, should be viewed as a tax expenditure for the Federal government. Other exclusions are provided for services performed by members of the clergy who have conscientious objections to insurance; by certain inmates; by certain interns, student nurses, and medical and dental interns of hospitals; by certain students in the employ of the institution at which the student is enrolled; and by children under the age of 18 for their parents. There are also special rules for military workers and for peace corps volunteers and volunteer leaders. These, too, should be viewed as social security payroll tax expenditures.
Services performed by railroad employees subject to the railroad retirement act are exempt from OASI and DI taxes. Because these employees have their own railroad retirement program, it might make sense to disregard them. Alternatively, a tax expenditure might just reflect any differences between the social security system and the railroad retirement system.

De Minimis Coverage Exceptions

In addition to provisions which totally exclude some groups from social security payroll tax coverage, there are a number of exclusions for certain de minimis compensation payments. While these de minimis exclusions could be viewed as structural components, not unlike the standard deduction and personal exemptions in the individual income tax, it makes more sense to view them as tax expenditures and estimate the revenue losses associated with them. In that regard, many of these de minimis exceptions result in revenue losses not only from social security wage taxes, but also, and inexplicably, from self-employment taxes.

For example, farmers whose annual expenditures for agricultural labor have not yet equalled or exceeded $2,500 are not required to withhold taxes from the wages paid to any worker who receives less than $150 from that employer. On the one hand, this exception could be viewed as simply a de minimis structural component of an ideal modified total compensation structure. On the other hand, this could be viewed as a tax expenditure for agriculture. The author finds the latter view more compelling, as this provision does seem to result in a real economic subsidy for small farmers.

There are also exclusions for certain domestic workers who earn less than $50 a quarter from one employer; for certain casual laborers who earn less than $100 a year from one employer; and for certain employees of tax-exempt organizations who receive less
than $100 a year. In addition, workers who earn less than $400 a year in self-employment are not subject to self-employment tax on those earnings. These, too, should be viewed as social security tax expenditures.

**Fringe Benefits**

Perhaps the most significant category of tax expenditures in a social security tax expenditure budget would be employer-provided fringe benefits. In that regard, employer-provided fringe benefits are generally excluded from (and show up as tax expenditures with respect to) the individual income tax base, and most of them are also excluded from the social security payroll tax base.

For example, both employer-provided health care and group-term life insurance are excluded from social security taxation. Similarly, employer contributions to qualified retirement plans are excluded from social security taxation.

For workers with covered earnings above an earnings cap, these exclusions are irrelevant; however, for workers with covered earnings below an earnings cap, these exclusions are costly tax expenditures. Also, if the earnings caps were raised or repealed, tremendous revenues would be raised by extending the social security payroll taxes to currently exempt compensation.

It is also worth noting that the exclusion of employer-provided fringe benefits generally contributes to the regressivity of the social security payroll taxes. Like unearned income, fringe benefits are far more common among high-income taxpayers. For example, of employees ages 45 through 64 in 1983, just 34% of those earning less than $10,000 participated in employer-provided pension plans, 57% of those earning between $10,000 and $15,000 participated in employer-provided pension plans, 71% of those earning between
$15,000 and $20,000 participated in employer-provided pension plans, and 85% of those earning in excess of $35,000 a year participated in employer-provided pension plans.\(^{27}\)

**Special Problems With Self-employed Workers and Closely-held Corporations**

Special problems would be associated with the estimation of social security tax expenditures related to self-employed workers and to the owner-employees of closely-held corporations. This section highlights these problems.

On the one hand, it is possible that self-employed workers are paying "too much" social security taxes: to the extent that income from capital is included in the net earnings from self-employment of self-employed workers, they may be paying social security taxes on income from capital, as well as from income from services. For example, a grocer's net earnings from self-employment might include income properly attributable to the grocer's ownership of the store and shelves rather than the grocer's labor. If modified total compensation is the ideal social security payroll tax base, then perhaps such capital income should be deducted from the self-employment tax base.\(^{28}\)

On the other hand, it seems more likely that many self-employed workers are paying "too little" social security taxes: after all, many self-employed individuals are able to use accelerated depreciation and similar special tax provisions to more than offset their income from capital investments. Indeed, any special tax provision which can reduce net earnings from self-employment must be viewed as a potential tax expenditure with respect to self-employment taxes. More specifically, to the extent that a special tax provision reduces net earnings from self-employment to a point below "real" economic compensation,
modified total compensation is understated. Consequently, any individual income tax expenditure that reduces net earnings from self-employment below modified total compensation is also a social security payroll tax expenditure. Estimating these types of social security payroll tax expenditures could be extremely difficult.

Moreover, consider closely-held corporations. To the extent that the taxable income of a closely-held corporation is reduced by an income tax expenditure like accelerated depreciation, the corporation is likely to pay its owner-employees correspondingly less taxable salary. After all, many corporations try to pay salaries to owner-employees that are designed to zero out corporate taxable income. If an income tax expenditure reduces corporate taxable income, the owner-employee might take less wages and more non-salary distributions. These non-salary distributions would not be wages subject to social security payroll taxation. Accordingly, these types of income tax expenditures should also show up as social security tax expenditures.

There is also the more general problem of distinguishing between salary payments to an owner-employee (which are subject to both income and payroll taxes) and dividend distributions to an owner-employee (which are subject only to income taxes). In that regard, the distribution of compensation as dividends free from social security taxation is already a major compliance problem for the Internal Revenue Service. As the earnings caps increase, owner-employees will have even more incentive to avoid taking salary distributions.

All in all, it is clear that social security payroll taxes on the self-employed and on the owner-employees of closely-held corporations pose special difficulties that will make accurate estimation of social security payroll tax expenditures extremely difficult.
International Considerations

In general, social security taxes reach compensation paid with respect to services performed in the United States irrespective of the citizenship or residence of the employer or employee. Thus, the services of an alien or nonresident in the United States are covered unless specifically exempted. Also, citizens of the United States working for an American employer outside the United States are covered. Also, certain totalization agreements with foreign countries result in the coordination of the United States and foreign social security systems. These essential features do not seem like tax expenditures.

On the other hand, agricultural labor performed by legal aliens in the United States is excluded from coverage. This seems like a significant subsidy to United States farmers which should show up in a social security tax expenditure budget.

CONCLUSION

Would a social security tax expenditure budget make sense? The answer is unequivocally yes! Tax expenditure budgets for the social security payroll taxes might be controversial. Nevertheless, they would provide important information for policymakers having to decide where and how to raise social security tax revenues. The current lack of information about the cost of certain social security payroll tax expenditures is a real detriment. The time for social security tax expenditure budgeting has come.

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5. H.R. 3205, 102d Congress, 1st Session, Congressional Record 137, August 2, 1991, pp. H6364-H6367. Under the bill, an employer who failed to offer a minimum level of private health insurance to employees and dependents
would have to pay a payroll tax equal to 9% of the hospital insurance (HI, or Medicare Part A) wage base. The bill would also increase the hospital insurance wage base from $130,200 to $200,000 by 1993 and raise the current hospital insurance tax rate from 1.45% to 1.65% by 1996.

6. Similar considerations are involved in developing a tax expenditure budget for the unemployment payroll tax, but, for simplicity, the unemployment tax is left beyond the scope of this article.

7. There is little written on this subject. Of note, however, Stanley Surrey and Paul McDaniel suggest that, "The Social Security tax should also be examined to see if tax expenditures are present there." Surrey, Stanley S. and McDaniel, Paul R. *Tax Expenditures*, Harvard University Press, Cambridge, Massachusetts, 1985, p. 53.

9. Each of the trust funds also receives relatively small amounts of revenue from other sources. For example, the OASI trust fund receives revenues from the income taxation of certain social security benefits, from net interest on Treasury obligations held by the OASI trust fund, and from certain payments from the general fund of the Treasury. In general, these last payments cover the cost of OASI benefits arising from certain deemed military wage credits and special age-72 benefits.

10. Employers are required to deduct the employee portion of social security taxes from wages paid to employees and remit those withheld employee social security taxes, together with the matching employer social security taxes, to the United States Treasury on a regular basis. Employers are also required to file quarterly tax returns to account for the employee and employer social security taxes so remitted.


12. In that regard, however, the effective tax rate is slightly lower than 15.3% of income, as a discount should be
applied to take into account the fact that only the employee portion of the social security retirement tax is included in the employee’s income for income tax purposes: the employer portion is excluded.

13. In order to put self-employed individuals in an equivalent situation with employees, however, self-employed individuals can deduct half of these taxes for both social security and income tax purposes. Specifically, the self-employment tax is computed on U.S. Internal Revenue Service Schedule SE (Form 1040): the individual multiplies net earnings from self-employment by .9235, and then applies the 15.3% and 2.9% rates to that lower number to determine the self-employment tax. One-half of the self-employment tax so-determined is deducted from gross income in computing the individual’s adjusted gross income on Form 1040 itself. Of note, see Steuerle, Gene. "Errors in the Calculation of Self-employment Taxes." *Tax Notes* 54(13) (March 30, 1992):1687-1688.

14. For example, according to the Joint Committee on Taxation:

the normal structure of the individual income tax includes the following major components: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax rate schedule, and deductions for investment and employee business expenses. Nearly all other tax provisions can be viewed as exceptions to the normal law.


16. Lawrence Thompson calls this perspective the tax-transfer model of social security, which he describes as follows:

In this model, Social Security is viewed as simply one of several government tax-transfer programs, there is no reason why the benefits received by any one individual need bear any particular relationship to the taxes that individual may have paid. The model implies that the burden of the revenue side should be distributed on the basis of usual tax policy considerations, primarily current-period ability to pay; benefits should be distributed according to whatever value judgments society wishes to employ; and incentive effects should be evaluated by focusing on the current-period effect of tax and benefit provisions.


For that matter, social security program financing could come from higher corporate income taxes, higher excise taxes, higher estate and gift taxes, or even from a newly-adopted value-added tax. See, e.g., McLure, Charles E., Jr. "VAT Versus the Payroll Tax" in Skidmore, Felicity (ed.), *Social Security Financing*, 1981, pp. 129-163. In that regard, foreign countries use a variety of alternative revenue sources to fund their social insurance

19. In that regard, covered earnings is a much smaller tax base than income. For example, in 1988 total personal income in the United States was $4,065 billion, but total earnings in covered employment and self-employed was just $2,561 billion. U.S. Department of Health and Human Services, Social Security Administration. *Social Security Bulletin, Annual Statistical Supplement 1989*, (1989):99, 103. Thus, covered earnings were just 63% of total personal income (.6300123 = $2,561 billion / $4,065 billion).


21. For example, of the $78 billion of dividends reported on federal income tax returns in 1988, over $53 billion were reported by taxpayers with adjusted gross incomes in excess of $50,000. Similarly, of the $183 billion of taxable interest reported on federal income tax returns in 1988, over $69 billion was reported by taxpayers with adjusted gross incomes in excess of $50,000. Also, of the
$159 billion in capital gains reported on federal income tax returns in 1988, over $142 billion was reported by taxpayers with adjusted gross incomes in excess of $50,000. Ibid.

22. For example, Congress could repeal the earnings caps and use the increased tax revenues to reduce the social security tax rates for all covered workers. See, e.g., Taxes, Social Security, and the Deficit: Hearing Before the U.S. House of Representatives Select Committee on Aging, 99th Cong., 1st Sess., Government Printing Office, Washington, D.C., 1985. (discussing a 1985 proposal to that effect made by Representative Edward R. Roybal, D-Cal.)

23. It should not go unmentioned, however, that such flat tax rates contribute to the lack of progressivity of the current social security payroll taxes. Moreover, there is no conceptual bar to having standard deductions, personal exemptions, and progressive tax rates in a payroll tax system.


26. In that regard, the exclusion of fringe benefits is a far more significant tax expenditure under the HI tax with its $130,200 earnings cap than under the OASI and DI taxes with their $55,500 earnings cap. Specifically, the currently excluded fringe benefits of workers with taxable
compensation over $55,500 but less than $130,200 would be HI tax expenditures but not OASI or DI tax expenditures.


28. Alternatively, should such "overpayments" of social security taxes by the self-employed show up as negative payroll tax expenditures?
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