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The Social Security Tax: An Analysis of Proposals for Reform

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FEDERAL TAXATION COMMENTARY

THE SOCIAL SECURITY TAX: AN ANALYSIS OF PROPOSALS FOR REFORM

INTRODUCTION

A. *An Overview of Social Security*[1]

The Social Security Act of 1935 created a number of governmental programs to deal with specific social and economic needs revealed by the economic collapse of 1929-1933. One such program was Old-Age Insurance (OAI). Under OAI, employees, employers and self-employed persons were made subject to a tax on their earnings. The tax receipts were earmarked for a trust fund from which monthly retirement benefits would be paid to retired workers who had reached the age of 65.[2] As time passed, numerous other classes of persons became entitled to receive benefits under OAI: in 1939, certain dependents and surviving family members of a retired or deceased worker were made eligible; in 1950, additional dependents and survivors were included for the first time; in 1956, workers disabled prior to retirement and dependents of disabled workers were brought into the program; and finally, in 1965, retirees[3] receiving OAI payments and other aged persons were made eligible to receive certain medical benefits.[4] What

[1] The present and past provisions and the history of the Social Security Act as presented in the comment have been gathered from the Act itself, 42 U.S.C. §§ 401-29 (1970); R. Stevens, Statutory History of the United States: Income Security (1970); and J. Pechman, H. Aaron & M. Taussig, Social Security; Perspectives for Reform (1968) [hereinafter cited as Pechman].

[2] Presently, to receive old-age insurance (OAI) benefits, one must be both "fully insured" and age 62 at retirement (maximum retirement benefits are paid at age 65). 42 U.S.C. § 402 (1970). The amount of the benefit payable, the primary insurance amount (PIA), is based on the retiree's average monthly wage and ranges from $64.00 for a single person and a $96.00 maximum benefit for a family where the worker has an average monthly wage of less than $76.00, to $250.70 for a single person and a $434.40 maximum benefit for a family where the worker has an average monthly wage of $649 to $650. Id. § 415.

[3] If the retiree is married, he is entitled to receive an additional benefit in an amount equal to one-half of his primary insurance amount. Id. § 402. If the retiree has dependent children under 18, he is entitled to receive additional benefits in an amount equal to one-half of his PIA per child. Id. § 402.

In order to receive survivors' benefits, one must have been dependent in some way upon a person who was insured prior to his death. Id. § 402. Survivors' benefits are computed as a fixed fraction of the deceased's PIA. Id. § 402. A lump sum death payment is also made upon the death of any insured individual in the amount equal to $255.00 or three times the deceased's PIA. Id. § 402.

In order to receive disability benefits, an individual must have been currently insured (e.g., must have contributed to the program for not less than 6 quarters) and unable to engage in any substantial gainful activity for at least 12 months. Id. § 423. The benefits amount to the full PIA of the disabled worker. Id. § 423.

[4] In order to receive hospitalization benefits, one must be 65 or older and entitled to receive old-age and survivors' insurance benefits. Id. § 426. The benefits cover pay-

started out in 1939 as OAI is known in 1972 as Old-Age, Survivors, Disability, and Health Insurance (OASDHI); to most Americans, however, it is known simply as social security.

As social security is presently constituted, its objectives are to guarantee minimum income support and hospitalization benefits for the aged, the disabled and the dependent survivors of insured employees, as well as to moderate the decline in living standards which results from the death, disability or retirement of the head of the family. The achievement of these objectives is financed by payroll taxes imposed on those employers, employees and self-employed persons who are engaged in occupations not exempted from the tax by the Social Security Act. The tax rate on employer-employee payrolls is 10.4 percent—one-half of which (5.2 percent) is deducted from the paycheck of the employee by the employer—and the other half of which is paid directly by the employer. The tax rate on the salary of self-employed persons is 7.5 percent. The tax base in both instances is the first $7,800 of earnings.

B. *Definitions*

The following definitions shall be used throughout this comment unless a different meaning is indicated by the context:

Social Security.—A program or system that provides for the collection of revenue by means of a payroll tax, and the disbursement of benefits at fixed rates to eligible persons.

Eligible Persons.—Those persons eligible under the provisions of the Social Security Act to receive benefits.

Social Security Tax.—The payroll tax which finances social security.

Social Security Trusts.—Accounts, maintained by the government, which designate the amount of liquid assets held by the government to pay social security benefits, and in which is deposited each year the revenue generated by the social security tax.

Low-Income Persons.—Persons whose income is at or below the poverty level.

Poverty Level.—The level of income defined by the Department of Commerce as that necessary to provide a minimum acceptable standard of living for an economic unit. The nonfarm poverty level in 1970 for a family of four was $3968; for a family of two the nonfarm poverty level was $2604, if the head of the family was under 65 years of age; for unrelated persons under 65, the nonfarm poverty level was $2010.[5]

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ment for in-patient services, post-hospital extended care services, and post-hospital home health services furnished in the United States. Id. § 426.

[5] Poverty threshold figures are derived from U.S. Dep't of Commerce, Current Population Reports Series P-60, No. 77, Consumer Income 6 (May 7, 1971) (This report contains advance data from the March 1971 Current Population Survey; poverty level figures are taken from Table 6, Weighted Average Thresholds at the Poverty Level in 1970 by Size of Family and Sex of Head, By Farm-Nonfarm Residence). Poverty threshold standards are outlined and explained in Orshansky, Counting the Poor: Another Look at the Poverty Profile, 28 Social Security Bull. 5 (Jan. 1965).

Horizontal Equity.—All taxpayers with the same ability to pay are liable for the same dollar amount of tax.

Vertical Equity.—The tax burden is distributed fairly among persons having differing abilities to pay.

Regressive Taxation.—The effective rate of tax decreases as the taxpayer's ability to pay increases.

Proportional Taxation.—The effective rate of tax remains the same for all taxpayers.

Progressive Taxation.—The effective rate of tax increases as the taxpayer's ability to pay increases.

Effective Rate of Tax.—A fraction which, prior to being reduced to a base of 100, has a numerator which is the dollar amount of tax paid and a denominator which is the dollar amount of ability to pay.

Ability to Pay.—For purposes of this comment, ability to pay will be treated as being synonymous with total economic income.

Tax Base.—The amount of income which is subject to tax.

Unearned Income.—Gross receipts from all sources other than wages and salaries including but not limited to interest receipts in their entirety, rents in their entirety, capital gains in their entirety, and dividends in their entirety.

C. *Assumptions and Proposals Summarized*

It is contended that the present method of financing social security is unjust and unsound. After demonstrating the correctness of the foregoing characterization, the comment will present and analyze several social security tax reform proposals. It is not intended at this time to discuss the relative merits or faults of the social security benefit structure or the objectives of social security except to the extent that social security financing is directly affected. The social security system will be considered as covering all workers, including those actually covered by alternative retirement programs.

The objective of social security tax reform is to insure that the revenues necessary to provide social security benefits are gathered from taxpayers by the most equitable means possible and in a manner most consistent with the philosophies and realities of social security. It is assumed that these objectives will be harmonized with national policy objectives. It is also assumed that the social security tax will continue as a separate revenue-raising vehicle, distinct in its administration and objectives from other taxes.

The proposals presented in this comment involve modifications to the social security tax base as follows:

1. exempt from the social security tax the earnings of persons whose income is less than the poverty level;
2. broaden the social security tax base to include all earned receipts; and

3. broaden the social security tax base to include all unearned receipts.

I. Analysis of Social Security

A. *Social Security as a Private Insurance Program*[6]

Social security in many ways is treated, discussed, relied upon and structured as a private retirement insurance program. The social security administrators and government officials describe social security in insurance terms: the individual programs are denominated "insurance" programs (for example, old-age insurance and disability insurance); the trust funds are labeled "insurance trust funds"; benefits are termed "insurance benefits"; and the payroll tax revenues are known as "contributions." Social security is structured as though it were a private retirement insurance system. Contributions are collected and paid into trust funds and then distributed to beneficiaries in much the same way as premiums are paid into private insurance reserve funds and paid out as benefits. Since benefit computations are based upon the average monthly wage of the retiree, they are loosely correlated with contribution levels. Overall, it can probably be said that those who contribute the highest percentage of their earnings to social security get a greater percentage of their income in old age from social security.[7] The benefit levels and tax demands are actually balanced over a seventy-five year period. Social security recipients are urged to, and do, consider social security benefits as a right, and social security taxpayers are urged to support the program because it is insurance. Significantly, the normal course of events is for a taxpayer to pay money into social security while he is working, and to draw money from social security when he is disabled or too old to work.

Although there may be a grain of truth behind the characterization of social security as an insurance program, that characterization is founded more upon myth than reality. An examination of present benefit policies indicates clearly in at least two ways that social security is not analogous to private retirement insurance: 1) there is no relationship between the amount of money paid in social security taxes

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[6] The following discussion is based in part upon Pechman, supra note 1, at 66-76.

[7] That this is so can be illustrated by a comparison of two single workers, one of whom earns $7800 per year, the other $78,000. Assuming that each pays his social security tax of $405.60, spends an equal amount of his income to provide himself with the necessities of life, and saves what is left of his disposable income, at the end of his career the $7800 man would have contributed 5.2% of his lifetime wages to social security and the $78,000 man would have contributed .52%. Under present law, they would receive equal social security benefits; yet, because the savings of the second worker would greatly exceed those of the first, the second worker would be receiving a greater return on his savings and the social security payments he receives would be proportionately less of his retirement income. That this was estimated to be the case as of 1965 benefit levels is demonstrated by Pechman, supra note 1, at 180 in Chart VIII-1 (Schematic Relationship Between OASDI Benefits and Total Family Income, for Family with OASDI Benefits, 1965).

by persons in similar circumstances and the amount of social security benefits they are entitled to receive; and 2) there is no vesting in any contributor of an interest in the social security trust fund.

In support of the proposition that benefit payments have no necessary relationship to an individual's tax payments, it is initially noted that the benefits paid to retirees vary on the grounds of noncontributory criteria. As originally enacted, social security established a quasi-contractual relationship with the insured in that each contributor was to receive benefits in proportion to his contributions. In 1937, benefit criteria were altered so that benefit levels were determined with reference to the individual's average monthly wage and number of dependents, rather than to the amount of his previous contributions. After 1939, two workers, each with an average monthly wage of $75, who had contributed exactly the same amount in payroll taxes would receive different benefits solely because of the difference in the number of their dependents. The worker who retired when single and remained single would receive $64 per month at 1971 benefit rates (86 percent of his average monthly wage) while the worker who retired with one or more dependents would receive the maximum benefits of $96 (124 percent of his average monthly wage). At the present time, once a taxpayer has worked a minimum number of years in a job covered by social security, further contributions are of no consequence. Using 1971 elegibility criteria, full benefits under ordinary circumstances are payable to elegible persons after forty quarters of work in a covered position. Thus a person who worked forty years in a covered position at $5,000 per year and paid social security taxes in the amount of $10,400 (at 1971 tax rates) would receive benefits no different from the person who worked ten years at the same position and contributed only one-fourth as much.

Secondly, it has been shown that, because of increases in benefit levels, the benefits presently payable greatly exceed the sum of retirees' contributions and the interest compounded thereon. Computations based on 1967 benefit levels[8] indicate that a single worker who worked in a position covered by social security from 1937 to 1967 and who then retired could expect to receive total benefits over his

[8] The information following in the text has been abstracted from Table A-1—Social Security Benefits as a Percentage of Taxes for 1968 Retirees: Actual Experience, in Pechman, supra note 1, at 237. It is postulated by Pechman that the worker referred to following in the text earned the maximum taxable earnings; if the worker had earned instead one-half of the average earnings in manufacturing industries through the years in question, the benefits he would receive would be increased by 30 to 50% over those benefit percentages given in the text; i.e., rather than his total taxes plus compounded interest being returned at 212% or 324%, they would be returned to 391% or 568%. The higher return would be attributable to benefit payments that would be larger because they were based on higher monthly wages. "The initial 1968 benefits for all estimates are based on the annual earnings histories of each worker and the benefit formula as of 1968. Benefits are assumed to increase by 1.5% a year after 1968. Current mortality estimates are used in computing the value of benefits. Benefits provided in the 1967 amendments to the Social Security Act are assumed to have been payable beginning January 1968." Id.

remaining life in an amount equal to 212 percent of his total contributions plus interest compounded at 6 percent, or 391 percent of his contributions plus interest compounded at 3 percent. If the worker were married, he and his wife could expect to receive total benefits in an amount equal to 360 percent of his total contributions compounded at 6 percent, or 681 percent of his contributions compounded at 3 percent. For a single worker brought under social security in 1951, computations indicate that he could expect to receive after his retirement in 1967 total benefits in an amount equal to 339 percent of his total contributions compounded at 6 percent, or 532 percent of his total contributions compounded at 3 percent. If the same worker were married, he and his wife could expect to receive total benefits on an amount equal to 578 percent of his total contributions compounded at 6 percent, or 926 percent of his total contributions compounded at 3 percent. In addition, it should be noted that persons who were 72 years of age or older prior to 1968 are entitled to receive social security benefits even if they never paid a dollar of social security tax during their lives. On the basis of the above observations, it is certainly clear that the total amount of a person's social security taxes is not determinative of the benefits he will eventually receive.

In support of the second proposition noted above, that there is no vesting in any contributor of an interest in the social security trust fund, it need only be shown that the dollars paid to social security trust funds as taxes are almost immediately paid out again as benefits. Although, as enacted in 1935, social security was dependent upon a reserve similar to a private retirement insurance reserve, in 1939 the reserve was restructured into a contingency fund, thus making social security a pay-as-you-go program. From 1957 to 1967, the total balance of the OASDHI trust funds increased by only 14 percent while the taxes collected increased by more than 200 percent and the benefits paid by more than 190 percent. In 1967, the total assets of the OASDHI trust fund were only 17 percent greater than the cost of social security administration and benefit payments in that year.[9] During the latest year for which there are complete figures (1970), total OASDHI trust fund assets exceeded total expenditures by only 9 percent.[10] It is obvious that to operate social security for one year solely in reliance upon the trust fund would almost totally exhaust the fund and make a second year of operation impossible. It follows that present social security taxpayers have no vested interest in any part of the social security trust fund.

The foregoing analysis of social security indicates the reality

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[9] These computations were made on the basis of information extracted from Table G-2—Income, Expenditures, and Assets of OASI Trust Fund, 1937-67, and DI Trust Fund, 1957-67, in Pechman, supra note 1, at 316-17. This information may also be found in the annual Social Security Bull., Statistical Supp.

[10] The information from which the figures in the text were developed is available in 34 Social Security Bull. 53 (May 1971).

behind the private retirement insurance myth. Social security is an insurance system only in the sense that persons who are presently taxed during their working lives to support the payment of benefits will themselves be eligible to receive benefits when they are no longer able to work. Social security is more accurately described as welfare in its generic sense—an organized effort by society to improve the conditions and standard of living of its members. Social security collects money from those members of society who are working and thus able to pay, and distributes it in various ways to those persons who, because of age or disability, are unable to work and for that reason are presumably unable to maintain the income necessary to provide themselves with the necessities of life.[11]

B. *The Social Security Tax at Work*

Because social security is not insurance and is not dependent upon an insurance contract between the government and the taxpayer, but is, rather, a form of welfare which depends upon a social contract between those who work and those who are unable to do so and thus involves the revenues of all taxpayers, it is appropriate to analyze the method by which social security revenues are raised. The payroll tax as administered since its inception was and is regressive. Although the tax applies at a flat rate on all wages not in excess of $7,800 and is thus proportional within the range of $1–$7,800, those who earn wages in excess of $7,800 pay a smaller percentage of their wages in social security taxes than those who earn $7,800 or less. A worker who earned $7,800 in 1971 paid $405.60 in social security taxes—5.2 percent of his wages. A worker who earned $20,000 also paid only $405.60, but his effective rate of social security tax with respect to his wages was 2.03 percent. A worker who earned $100,000 in wages had an effective social security tax rate of only .41 percent. As of 1971, between 20 and 25 percent of the work force earned wages in excess of $7,800[12] and thus paid a lower effective rate of social security tax with respect to their wages than workers who earned $7,800 or less. Because the tax does not apply to unearned income, and since unearned income is received in greatest amounts by those whose earned income is in excess of $7,800, the effective rate of tax for those earning more than $7,800 is even less than the above figures indicate. The person who receives $10,000 of unearned income and has no earned income pays no social security at all. The social security tax thus is regressive and inversely

[11] The correlation between age and need does not always exist. The economic status of the aged as a class is explored in Pechman, supra note 1, at 6-26. To the extent that age rather than need is the central eligibility requirement of social security, the worth of social security as a welfare system may be jeopardized. Although to some extent outside the scope of this comment, but see pp. 853-54 infra, it is suggested that need should replace age as the essential eligibility requirement of social security.

[12] 117 Cong. Rec. E5219 (daily ed. June 1, 1971) (reprint of D. Broder article in the Washington Post; Mr. Broder cites as authority for the 20-25% statement a social security advisory council study).

related to ability to pay—*i.e.*, the greater the ability to pay, the smaller the tax in relation to total economic income. It is also, in practice, a gross receipts tax for a majority of taxpayers because the 75 percent of the wage earners who earn $7,800 or less and receive little unearned income[13] are thus taxed on almost all of their income.

The realities of the social security tax will not be significantly affected either by scheduled changes in the tax rate and tax base or by changes presently being considered by the House of Representatives in H.R. 1.[14] Under present schedules and proposed H.R. 1, the tax base will be increased in steps to include the first $9,000 of wages, then the first $10,200. These increases will slightly reduce the regressivity of the tax because more wages will be subject to the flat rate tax. Overall, however, the tax will remain regressive. Under present schedules and proposed H.R. 1, the rate of tax will increase for employees/employers from 5.2 percent to 6.05 percent and then to 7.4 percent. Since the tax base will not be affected except as noted above, the regressivity of the tax will not be changed.

Employers are subject to the payroll tax for social security to the same extent as are their employees. Whereas it is clear that the tax

13 Taxpayers with incomes equal to or less than $7800 would not be alone in being subject to a gross receipts tax if all earnings were subject to the social security tax as shown in the table below:

Adjusted AGI Class	*Total Average Income*	*Percentage of Total Average Income which is Earned Income*	*Largest Other Item of Income*
1,000–2,000	$1413.18	87.80%	interest 7.9%
3,000–4,000	3368.00	90.68	interest 5.3%
5,000–6,000	5421.99	93.88	interest 2.9%
10,000–15,000	12059.44	95.32	interest 1.9%
15,000–20,000	16951.66	92.37	interest 2.5%
20,000–25,000	22056.51	87.29	gain on sale of capital assets 4.7%
30,000–50,000	37796.07	78.09	gain on sale of capital assets 7.7%
200,000–500,000	299764.07	31.03	gain on sale of capital assets 38%

These figures were developed from Internal Revenue Service, Statistics of Income, Individual Income Tax Returns 1968 [hereinafter cited as IRS Statistics], Table 1.7—All Returns: Sources Of Income And Loss, Exemptions, Taxable Income, And Tax Items, By Adjusted Gross Income Classes, at 22-25. The items selected to determine total average income were the following: wages and salaries, business or profession net profit, partnership net profit, sale of capital assets (net gain), gain from the sale of depreciable property, dividends, interest, and rents and royalties.

14 H.R. 1, 92d Cong., 1st Sess. (1971) (a bill to amend the Social Security Act to provide increases in benefits, improve computation methods and raise the earnings base under the OA program). House Comm. on Ways and Means, Social Security Amendments of 1971, H.R. Rep. No. 92-231, has been the source for material concerning H.R. 1.

levied upon the employees is indeed paid by the employees, it is not clear that the tax levied upon employers is paid by the employers. It can be argued that a tax levied upon an employer is borne either by consumers (as reflected in higher prices), workers (as reflected in lower wages), financial investors (as reflected in a lower rate of return on their investments), or some combination thereof. There is no agreement as to who pays the employer's social security tax. Many economists theorize that in the long run the economic burden of the employer's social security tax is borne largely by employees.[15] If this is true, the actual tax on employees is 10.4 percent and not 5.2 percent. Empirical analysis of payroll taxes and wages in several different countries supports the above theory. Basic industry wages in countries with a relatively high employer payroll tax vary inversely and proportionately with corresponding wages in countries with relatively low payroll taxes.[16] If the employer's payroll tax is in fact borne by employees, the regressive effect of the tax on employees is doubled.

The social security tax on self-employed persons is no less regressive than it is for employees; indeed, self-employed persons (discounting employee incidence of the employer tax) bear a slightly higher effective rate of tax than do employers. The effective rate of tax on a self-employed taxpayer who earns $7,800 is 7.5 percent, his tax liability being $585. A self-employed person earning $20,000 similarly pays $585 in payroll taxes; his effective rate of tax is 2.9 percent. A self-employed person who earns $100,000 pays an effective rate of tax of .6 percent. The regressivity of the social security tax on self-employed persons will similarly not be affected significantly by presently scheduled increases in the tax rate or the provisions of H.R. 1. Although both the tax rates and the tax base on self-employed individuals would increase slightly, as has been illustrated previously, substantial and obvious inequalities would remain.

II. SOCIAL SECURITY TAX BASE PROPOSALS[17]

A. *Exemption of Low-Income Persons from the Social Security Tax*

1. *The Proposal*

The present base for the social security tax is the first $7,800 of wages, salaries, and self-employed receipts. Because it is the first $7,800 of receipts which is taxed, the burden of the tax falls most heavily upon the working poor, who must pay an effective rate of tax of 5.2 percent on every dollar they earn. A tax of 5.2 percent on wages of

[15] Pechman, supra note 1, at 175-78 discusses this topic and advances the generalization made in the text. Id. at 175.

[16] Id. at 177 and n.7, citing Brittain, The Real Rate of Interest on Lifetime Contributions Toward Retirement Under Social Security, in Old Age Income Assurance: Public Programs, 90th Cong., 1st Sess., 112-14 (1967) (Brookings Reprint 143).

[17] The three proposals presented will be discussed as though each were independent of the other proposals. The revenue effects of the proposals as a whole are indicated at p. 860 infra.

$3968 will leave the wage earner with a disposable income of $3763.56, which is $206.44 less than the amount necessary to maintain a minimum standard of living for a nonfarm family of four.[18] Similarly, a tax of 5.2 percent on earnings of $2010 will leave the wage earner with a disposable income of $1905.48, which is $104.52 less than the amount necessary to maintain a minimum standard of living for a nonfarm individual. These results stand in direct contradiction to the national goal of eliminating poverty and place the government in a position that seems morally unsound. Rather than assisting low-income persons to escape poverty through their own efforts, the government, through a direct tax upon the earnings of low-income persons, is making it more difficult for them to escape poverty; the social security tax may in fact be the only barrier between poverty and self-sufficiency for many of our nation's poor. It would be consistent with national policy as well as morally sound to provide that those who are unable to maintain a minimum standard of living ought not to be additionally burdened by the government through a direct tax upon their earnings.

The national policy of exempting the poor from direct taxation has been accepted by the government in principle and has been embodied in the federal income tax. The low-income allowance provides a standard deduction of $1,000 (for taxable years which begin after December 31, 1971) for single persons and married persons filing a joint return.[19] A family of four having an income of $4,000 and claiming the low-income allowance and four personal exemptions will pay a 1972 income tax bill of $28;[20] yet, under the effective social security tax rates, a total of $208.00 in nonrefundable social security taxes will be withheld from the pay of the wage earner or earners of the same family. Based on the overall wage income of the family, the effective rate of tax with respect to the income tax would be .7 percent; while the effective rate of tax with respect to the social security tax would be 5.2 percent—a discrepancy of more than 700 percent. The magnitude of this discrepancy on the national scale is equally impressive. In 1971, low-income persons would have paid $1500 million in social security payroll taxes while paying only $200 million in income taxes. Since the government itself has recognized and adopted in the income tax laws the principle that the tax liability of low-income persons ought to be kept to a minimum, it should provide that the total tax burden of low-income persons not be increased through the use of social security taxes. It is therefore proposed that low-income persons be made entirely exempt from the social security tax and that any funds withheld from their pay during a given year be credited against their year-end income tax liability.

[18] It is assumed that the amount of income sufficient to exceed the poverty level is the amount of money necessary to maintain a minimum standard of living. The poverty level figures for the economic units discussed in the text are set forth in note 5 supra.

[19] Int. Rev. Code of 1954, § 141(c).

[20] $4,000 less [$1,000 plus $2,800] = $200 × 14% = $28.

2. *The Proposed Administrative Scheme*[21]

a. *Exemption.*—There shall be established a low-income exemption for the social security tax. The amount of the exemption shall vary according to the size of the family of those persons entitled to the exemption and the exemption shall apply to both employees and self-employed persons as follows:

Single Adult (18 years of age or older)	$2000
Husband and Wife	$2600

These basic exemptions shall be increased by $700 for each child under 18 years of age or for each dependent.[22] The total exemption for a family of four would thus be $4000: $2600 (married couple exemption) plus $1400 ($700 × 2 for two children) = $4000.

b. *Adjustment of Exemptions.*—The amounts of the various exemptions shall be periodically adjusted to reflect inflation or deflation and other variations in the economy causing the poverty level to change. The poverty level for a nonfarm family of four is presently $3968. Should the poverty level increase to $4000, the low-income exemption shall increase to $4100. Should the poverty level decrease to $3890, the low-income exemption shall decrease to $4050. Should the poverty level increase to $4000 then decrease to $3890, the exemption will increase to $4100 then decrease to $4050. The low-income exemption will thus stay $100 ahead of the poverty level on the up side and $60 behind the poverty level on the down side. The poverty level shall be adjusted at $100 intervals only, except when changing direction of movement, *i.e.*, up to down. If the rate of change of the poverty level should increase or decrease, the amount of the adjustment shall be varied accordingly.

Changes in exemption amounts shall be computed on the basis of the change in the nonfarm, family of four exemption. An increase or decrease in the exemption by $100 shall cause the single adult exemption to increase or decrease by $50, the married persons' combined exemption to increase or decrease by $65, and the dependent's exemption to increase by $17.50. Increases or decreases in exemption amounts shall be determined on the basis of increases or decreases in the poverty level between the year immediately preceding the year in which the new exemption determination is to apply and the year immediately prior to that year.

c. *Claiming the Exemption.*—If there is only one worker in the economic unit entitled to the exemption, the one worker shall claim the entire exemption. Thus the sole worker supporting a family of four would be entitled to claim an exemption of $4000. If there are two

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21 Each individual element of the "Proposed Administrative Scheme" for each proposal is explained in a subsequent section entitled "Discussion of the Administrative Scheme."

22 The definition of "dependent" for the purposes of this proposal shall be the same as the definition used in the Internal Revenue Code. Int. Rev. Code of 1954, § 152.

workers in the economic unit entitled to the exemption, each of the workers shall be required to claim one-half of the total exemption to which the unit is entitled. Thus if both spouses in a family of four were working, each would be required to claim an exemption of $2000. Two workers from the same economic unit would be required to split the exemption only if each worker were employed for more than 125 days in any one calendar year. Children under 18 and dependents shall not be entitled to claim an exemption. If a single adult is living with a parent or parents, he or she shall be entitled to claim an exemption of $2000 but the parents shall not be entitled to claim the offspring as a dependent.

The exemption applicable to the employee shall be claimed by the employee at the time the proposal becomes law and again at any time he or she enters a new employment. In addition, if one family member is working and a second family member becomes a permanent member of the work force (takes a job which is expected to last more than 125 days), the already-employed family member shall change his exemption level to one-half of the exemption to which he or she was formerly entitled. The newly-employed family member shall claim one-half the exemption to which he or she would otherwise be entitled.

d. *Withholding.*—Those persons whose yearly earnings are less than the amount of the exemption which they are entitled or required to claim shall not be subject to social security withholding. For the purpose of determining the yearly earnings of a person entitled or required to claim an exemption, the weekly wage of the employee shall be computed on the basis of a 40 hour week, then multiplied by 39 to determine the yearly earnings. A single worker supporting a family of four thus would not be subject to withholding if his weekly wage were $102.55, or $2.56 per hour.[23] Withholding for the social security tax shall continue to be administered as it is presently administered except that the withholding tables shall be modified to encompass the provisions of this proposal.

e. *Adjustment of Tax.*—Because of failure to remain steadily employed, because of variations in wage levels of different jobs, or for various other reasons, some employees may pay social security taxes on a portion of their earnings even though their total earnings did not exceed the amount of their exemption; other employees may pay higher taxes on some earnings than they would have been required to pay if their earnings had been totaled and then taxed. One who has paid more social security taxes than he or she is required to pay shall be entitled to a refund. The distribution of refunds shall be administered by means of the income tax return and any person who is entitled to a refund shall submit an income tax return if he or she desires to receive it. As a final adjustment in computing income tax liability, those persons who have paid social security taxes shall add to

[23] The present minimum wage is $1.60 per hour. 29 U.S.C. § 206 (1970).

their year-end income tax liability an amount equal to the amount of social security taxes for which they were properly liable, then deduct from that sum the total amount of social security taxes actually withheld from them during the year. If the resulting balance is positive, the taxpayer shall pay to the government that amount; if the resulting balance is zero, the taxpayer shall pay nothing; if the resulting balance is negative, the taxpayer shall be entitled to a refund in that amount.

f. *Phase-out.*—The low-income exemption shall be phased out as the total earnings of the worker exceed the amount of the exemption which he is entitled or required to claim. The phase-out shall be accomplished by reducing the low-income exemption by $4.9615 for each dollar of employee earnings in excess of the exemption amount (a ratio of 4.9615 to 1) and by $3.1333 for each dollar of self-employment earnings in excess of the exemption amount (a ratio of 3.1333 to 1).[24] The phase-out shall terminate at $4806.21 for an employee who supports a family of four and at $5276.61 for a self-employed worker who supports a family of four.[25] The phase-out is calculated to produce a combined marginal rate of tax of 45 percent (the combined marginal rate being composed of a marginal rate of income tax of 14 percent plus a marginal rate of social security tax of 31 percent).

In applying the phase-out, a two-worker family of four in which only one of the workers is self-employed shall be subject to the phase-out as though the self-employed spouse were married to another self-employed person and as though the wage-earning spouse were married to another wage-earning person. Thus the wage-earning spouse would have his or her exemption phased out at $2403 and the self-employed person would have his or her exemption phased out at $2638.

g. *Adjustment of Phase-out.*—Variations in the marginal rate of either the income or social security tax or in the amount of the low-income exemption will necessitate a recomputation of the phase-out reduction amount and of the termination amount in accordance with the formulae indicated in footnotes 24 and 25, to insure that the total marginal rate of tax does not exceed 45 percent. Such recomputation shall be made as variations become apparent.

h. *Employer Liability.*—The implementation of the exemption

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24 The equation to determine the amount of the phase-out reduction for each dollar of earnings is the following: $a[(y+1)-(y-x)]+b=.45$, where a equals the social security tax rate, b equals the marginal income tax rate, x equals the amount which will be deducted from the exemption for each dollar of earnings in excess of the exemption level, and y equals the exemption to which the taxpayer is entitled. To determine x for an exemption of $4000, the equation would read: $.052[(400+1)-(400-x)]+.14=.45$. The solution for x is 4.9615.

To determine the phase-out tax at any given income, the equation is the following: $a[(i-y)\ (1+x)]=w$, where i equals total earnings, w equals the phase-out tax, and the remaining values are unchanged from the previous equation.

25 The equation to determine the phase-out termination amount is as follows: $z=y \div x$, where z equals the amount to be added to y to yield the phase-out termination amount, and x and y are unchanged from note 24 supra. Where x equals 4.9615 and y equals $4000, the solution for z is $806.21.

and phase-out shall not entitle employers to reduce their social security tax liability. Employers shall continue to pay their entire share of the social security tax as though the exemption and phase-out did not exist.

i. *Computation of Benefits.*—Neither the computation of a worker's social security benefits nor his right to receive social security benefits shall be affected by the fact that he or she is entitled to take advantage of or does take advantage of the low-income exemption or phase-out. The schedule of benefits shall be computed on the basis of the employee's or self-employed person's average monthly earnings, disregarding the phase-out and exemption, as though the earnings had been fully subject to social security tax.

3. *Effects on Taxpayers*

a. The wage earner or self-employed person whose total earnings do not exceed the amount of the exemption he or she is entitled to or required to claim would be relieved of social security tax entirely.

b. The wage earner or self-employed person whose total earnings exceed the amount of the exemption he or she is entitled or required to claim, but do not exceed the phase-out termination amount, would be relieved of social security tax as outlined below:

EFFECTS OF THE PHASE-OUT ON A WAGE-EARNER—FAMILY OF FOUR

	Wage Earnings	*5.2% Flat Tax*	*Phase-out Tax 31%*	*Tax Relief*	*Effective Rate of Tax*
One Wage Earner	$4001	$208.05	$ .31	$207.74	.008%
	4010	208.52	3.10	205.42	.08%
	4100	213.20	31.00	182.20	.8%
	4403	228.96	124.93	104.03	2.8%
	4500	234.00	155.00	79.00	3.4%
	4806	249.91	249.86	.05	5.2%
Two Wage Earners, Each Wage Earner [Also Applies For Single Person]	$2001	$104.05	$ .31	$103.74	.015%
	2010	104.52	3.10	101.42	.15%
	2100	109.20	31.00	78.20	1.5%
	2201.55	114.48	62.48	52.00	2.8%
	2300	119.60	93.00	26.60	4.0%
	2403	124.96	124.93	.03	5.2%

EFFECTS OF THE PHASE-OUT ON A SELF-EMPLOYED PERSON—FAMILY OF FOUR

	Wage Earnings	*7.5% Flat Tax*	*Phase-out Tax 31%*	*Tax Relief*	*Effective Rate of Tax*
One Self-Employed Person	$4001	$300.08	$ .31	$299.77	.008%
	4010	300.75	3.10	297.65	.08%
	4100	307.50	31.00	276.50	.8%
	4638.31	347.87	197.87	150.00	4.3%
	4900	367.50	279.00	88.50	5.7%
	5276.61	395.75	395.75	0.0	7.5%
Two Self-Employed Persons, Each Self-Employed Person [Also Applies for Single Person]	$2001	$150.08	$ .31	$149.77	.015%
	2010	150.75	3.10	147.65	.15%
	2100	157.50	31.00	126.50	1.5%
	2319.16	173.93	98.94	74.99	4.3%
	2500	187.50	155.00	32.50	6.2%
	2638	197.85	197.78	.07	7.5%

c. The wage earner or self-employed person whose total income is in excess of the exemption phase-out termination amount to which he or she is subject shall be liable for the social security tax as though the exemption and phase-out did not exist. He or she shall not benefit from the enactment of the low-income exemption proposal.

4. *Effect of the Proposal on Tax Revenues and Efficiency Estimates*

a. *Revenue Loss.*—The enactment of the low-income exemption and the exemption phase-out would result in a revenue loss to the government. Assuming the 1971 social security tax rates of 5.2 percent and 7.5 percent, the 1970 poverty level figures, and the 1968 Social Security Administration's earnings of wage and salary and self-employed workers, the amount of revenue loss would be $2,540,522,173 or 12.5828 percent of the total social security revenues.[26] The loss can be broken down as follows:

Origin of Loss	*Amount of Loss*	*Percent of Tax Revenue*	
Wage and salary low-income exemption	$1,546,826,100	8.5258%[a]	7.6612%[c]
Wage and salary phase-out	258,686,570	1.4258%[a]	1.2812%[c]
Self-employment low-income exemption	616,901,513	30.1295%[b]	3.0554%[c]
Self-employment phase-out	118,107,990	5.7684%[b]	0.5850%[c]

[a] Wage and salary tax revenues
[b] Self-employment tax revenues
[c] Total tax revenues

b. *Efficiency.*—The efficiency of the proposal is measured by the ratio of tax forgiveness for low-income persons, as measured by the

[26] The Social Security Administration tax base was computed from Social Security Bull., Annual Statistical Supp. 1968, at 51, Table 34—Workers and Earnings of Wage and Salary and Self-Employed Workers Under OASDHI, 1951, 68 [hereinafter cited as Table 34]. The wage and salary tax base is the amount of wages and salaries reported as taxable, $348,900,000,000; the self-employment earnings reported as taxable were in the amount of $27,300,000,000. The total reported social security tax base is the total of these figures, or $376,200,000,000.

To compute the revenue loss estimates, three steps were followed: 1) From IRS Statistics, 1968, were computed an actual wage and salary tax base, an actual revenue loss due to the proposed exemption, and a percentage revenue loss figure. The computations used to reach these figures are summarized in the Statistical Appendix to this comment, pt. I, §§ 1-5. 2) From IRS Statistics, 1968, were computed an actual self-employment tax base, an actual revenue loss due to the proposed exemption, and a percentage revenue loss figure. The computations used to reach these figures are summarized in the Statistical Appendix to this comment, pt. I, §§ 6-8. 3) The percentage tax loss figures, which appear in the Statistical Appendix at numbers [23], [39], [53b], and [69], were then expressed as dollar amounts in relation to the Social Security Administration tax base and revenues in order to arrive at net results, which are immediately following in the text. The tax revenues from the Social Security Administration tax base are as follows:

wage and salary tax base revenues	(at 5.2 percent):	$18,142,800,000
self-employment tax base revenues	(at 7.5 percent):	2,047,500,000
total social security tax revenues:		20,190,300,000

cost of the exemption, to tax forgiveness for nonlow-income persons, as measured by the cost of the phase-out. The total cost of the exemption would be $2,163,727,613 and the total cost of the phase-out would be $376,794,560. The ratio of tax forgiveness as between the exemption and the phase-out would be 5.7425 to 1.0000. The proposal would thus be 85.1686 percent efficient across the entire tax base: $.851686 out of every dollar of revenue lost would go to low-income persons while only $.148414 would go to nonlow-income persons. Considering each tax base alone, the exemption applying to wages and salaries would be 85.6724 percent efficient while the exemption applying to self-employment earnings would be 83.9310 percent efficient.[27]

5. *Discussion of the Administrative Scheme*

a. *The Exemption.*—The structuring of the exemption provision was affected by competing considerations with respect to two principal issues: 1) the treatment of single adults as compared to married persons, and 2) the treatment of children and other dependents. The overall objective was to insure that the exemption amount applicable to each person corresponded with the amount of earnings required to increase the recipient's income to the poverty threshold for his economic unit. The problem with respect to single adults and married persons is that the result of attempting to achieve the overall objective is a tax on marriage. The marriage tax result can be simply illustrated: two unmarried persons living together and working may each claim an exemption under the proposal of $2000, for a total exemption of $4000; two married persons both working may each claim an exemption of only $1300, a total exemption of $2600. Because the phase-out termination amount for an exemption of $1300 is less than $2000, each married person earning $2000 would be subject to a social security tax of $104. Since, if they were living together and unmarried, they would each be entitled to an exemption for the full amount of their $2000 in earnings, the total marriage tax as illustrated under the proposal would be $208.

Balanced against the evils of the marriage tax (assuming that discouraging marriage is an evil) are the two considerations of eliminating poverty and minimizing cost. To eliminate the marriage tax effect it would be necessary to lower the single-adult exemption to exactly one-half of the married persons' exemption, or to raise the married persons' exemption to exactly twice the single person exemption, or to adjust the single exemption downward and the joint exemption upward until the latter equalled twice the former. Elimination of the marriage tax effect would thus result either in the imposition of a social security tax on the low-income person or in the granting of a higher than poverty

[27] The efficiency computations are based on the social security definition of who ought to benefit from the exemption; since social security ignores the existence of unearned income in distributing benefits, unearned income has been ignored in computing the efficiency factors. For a more realistic evaluation, see pp. 859-60 infra.

level exemption to married persons. If the single exemption and joint exemption were both adjusted, the former would be $1650—$350 less than the poverty threshold—while the latter would be $3300—$700 in excess of the poverty level. The single taxpayers would each be paying $18.20 in social security tax while married couples could jointly be relieved of $36.40 in tax. The reduction of the single exemption below the poverty threshold is rejected as an alternative because it would be contrary to the purpose of the proposal. Although the increase of the joint exemption will result in increased costs to the government, it would not be unacceptable. Therefore, to the extent it is deemed desirable to eliminate the marriage tax effect, the joint exemption should be increased.[28]

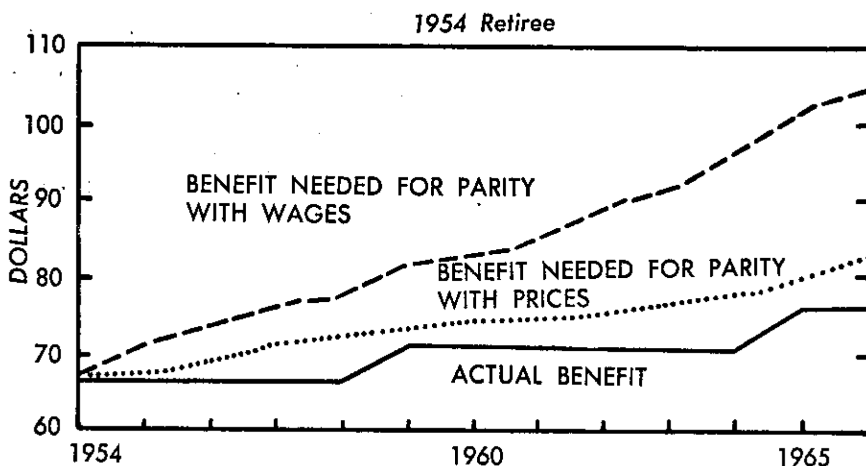
The problem with respect to the treatment of children and other dependents under the exemption provision lies in determining the extent to which the number of children or dependents claimed by a low-income person ought to affect the total amount of the exemption to which the economic unit is entitled. There are three possible solutions: 1) ignore the existence of dependents other than the spouse in determining the proper exemption; 2) fully recognize the existence of dependents other than the spouse; or 3) recognize the existence of dependents other than the spouse to a limited extent. Absent the creation of a children's allowance (that is, a specific grant to the parents of children to be used in bringing up the children), failure to fully recognize the existence of dependents other than the spouse will result in the imposition of a social security tax on low-income persons. A nonfarm family of four, without recognition of dependents, would pay a social security tax of $205.40 on an income of $3968 even though by definition the family would be at the poverty threshold. To the extent that recognition of dependents were permitted, the social security tax paid by the family would decrease, but unless dependents were fully recognized the tax would remain to some extent. On the other hand, it is at least arguable that the recognition of dependents to any extent creates an incentive on the part of the recipient of the exemption to create additional dependents. Such would be the case because each additional dependent would shelter from the social security tax $700 of earnings. To the extent that the creation of dependents ought not to be encouraged by a tax system, the dependent exemption may be criticized. Since, however, the extent of the benefit received from the exemption is only $36.40 per dependent, and since the elimination of the exemption would result in the taxation of low-income persons (a result contrary to the purpose of the proposal), it is felt that full recog-

[28] If the married exemption were increased to twice the single exemption, it is suggested that deductions for the first two dependents claimed by a married couple should be eliminated. Families of two, three, and four persons would then all receive an exemption of $4000. Only when more than two dependents were claimed would the $700 dependent exemption provision become operative. The marriage tax effect would thus be eliminated, but at some cost to the government.

nition of dependents is warranted. There is, of course, precedent for full recognition of dependents in the Internal Revenue Code.[29]

The exemption amounts were arrived at through an examination of the latest poverty threshold figures for nonfarm residence families totaled regardless of sex of the head of the family. The poverty threshold for unrelated individuals under 65 years of age, nonfarm residence, was $2010; for two-person families, age of head less than 65 years, the poverty threshold was $2604; and for four-person families, the poverty threshold was $3968. Combining farm and nonfarm poverty level figures would yield the following results: unrelated individuals under 65, $2005; two-person families, head less than 65, $2589; four-person families, $3944.[30] Nonfarm levels were chosen to insure reaching all the poor with the full exemption.

b. *Adjustment of Exemptions.*—The provision for adjusting the exemption in response to changes in the poverty threshold is based on the premise that unless the exemption is adjusted upward automatically to offset inflationary cost-of-living increases it will be moved upward in response to trends that have already left it well behind. That such is likely to be the case can be seen from an examination of social security benefit increases payable to a worker who retired in 1954. The chart below is a summary of the legislated increases as compared to



simultaneous wage and price variations.[31] Automatic exemption adjustments in response to changes in the poverty threshold level will greatly reduce the significance of the notch effect demonstrated on the chart and will almost eliminate the time delay in responding to base figure variations.

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[29] Int. Rev. Code of 1954, § 152.

[30] The total of farm and nonfarm figures is available in the Current Population Report, note 5 supra.

[31] The chart is taken from Pechman, supra note 1, at 100.

The premise behind the $100/$60 cushions is that, given the past history of the economy, such a cushion is needed to insure that the normal 4-6 percent rate of inflation does not reduce the benefit of the exemption to the poor. If the increase in the exemption amount did not exceed the poverty threshold, the first day after the exemption were adjusted the exemption would already be out of date. The amount of the cushion on the upside is based on the movement of the poverty threshold level over the past eleven years. The average yearly increase of the poverty level for a family of four over the eleven years has been $90; the average yearly increase of the level for a family of four over the past three years has been $186.[32] The upside cushion is approximately one-half of the average yearly increase over the past three years, as it is theorized that the advantage given to low-income persons immediately after the adjustment upward of the exemption level will eventually be cancelled out over the course of the year. The $60 cushion on the downside is based on the premise that if the cost of living decreases, it will not stay decreased for long. The amount of the cushion is arbitrary (the poverty level has not gone down in recent years). The amount of adjustment of the exemption levels other than that of the family of four shall be based on the variation in the family of four poverty threshold level, in accordance with the ratio between the other exemptions and the family of four exemption:

$$\frac{2000}{4000} \times \$100 = \$50.00$$

$$\frac{2600}{4000} \times \$100 = \$65.00$$

$$\frac{700}{4000} \times \$100 = \$17.50$$

c. *Claiming the Exemption.*—The exemption-splitting provision was adopted in order to achieve accurate withholding of the social security tax. In a two-worker family with two dependents, where each worker earns $2000, if the exemption were not split one worker would be entirely exempt while the other would be fully subject to the social security tax. With the exemption split in half, the entire earnings of both workers would be exempt.

The permanent employment definition of 125 days represents six months of employment. It was selected with the intent of excluding

[32] The information upon which the poverty level computations are based was extracted from U.S. Dep't of Commerce, Current Population Reports Series P-23, No. 28, Special Studies 5 (Aug. 12, 1969) (Table C—Comparison Of Weighted Average Thresholds At The Poverty Level In 1967, 1963, And 1959, By Size Of Family And Sex of Head, For The United States By Farm-Nonfarm Residence Based On Revised And Original Poverty Definitions). The revised definitions of the total nonfarm poverty threshold as of 1967 are as follows: 1 member: $1675; 2 members: $2168; 4 members: $3410. The revised definitions of the total nonfarm poverty threshold as of 1959 are as follows: 1 member: $1467; 2 members: $1894; 4 members: $2973.

part-time employees from the requirement of exemption splitting and also in order to reduce the number of times one worker would have to make adjustments in his withholding. Six months is an arbitrary figure.

d. *Withholding.*—The 39 week provision is equivalent to nine months of employment; the choice of 39 weeks was arbitrary.

e. *Adjustment of Tax.*—As a result of the adjustment provision, certain persons who presently are not required to file income tax returns will in the future need to file a return to claim the social security tax refund to which they will be entitled. As of 1973, federal income tax returns will not be required of individuals having a gross income of less than $1750, or of married persons having a gross income of $2500. The head of a family of four will not be required to file a return unless his gross income exceeds $4000. As of 1968, 22 percent of the wage and salary earners received wages and salaries of less than $2000. The filing of a return to claim a social security tax refund seems unavoidable. The alternative would be not to withhold any tax from low-income persons. The problem with this would be one of identifying low-income persons for the purpose of the withholding provisions. Identifying low-income persons by wage level would be possible if they worked steadily; it is suspected, however, that low-income persons, particularly the urban poor, are marked more by irregularity of work and fluctuating wages than regular work and a constant wage scale. If low-income persons are irregularly employed, defining the low-income person in terms of weekly wage level would result either in a significantly low wage scale definition to reach steady workers (thus exacting withholding from poverty level persons who receive higher wages when they do work), or in a higher wage scale definition to reach irregular workers (thus not withholding from many nonlow-income persons who work steadily at lower wages). The same problem exists with respect to withholding the federal income tax. The withholding provisions of the latter tax should be adopted for use with the social security tax. In any case, requiring the filing of returns would provide needed information as to the numbers and resources of low-income persons.

f. *Phase-out.*—The phase-out provision was introduced to confine the benefits of the low-income exemptions to low-income persons. Without the phase-out, a taxpayer earning $20,000 a year with a family of four would have his social security tax liability lowered by $104. With the phase-out, the liability of the $20,000 taxpayer would be unchanged. The marginal rate of the phase-out was set at 31 percent so that the marginal rate of tax for which the persons subject to the phase-out were liable would not exceed 45 percent—14 percent marginal rate from the income tax and 31 percent marginal rate from the social security tax. The limit of 45 percent for the marginal rate was selected to reduce quickly the effects of the phase-out, while at the same time retaining work incentives by allowing the taxpayer to keep at least $.55 of each dollar he earns.

g. *Adjustment of the Phase-out.*—Adjustment of the phase-out is necessary to insure that the phase-out keeps pace with the changes in social security tax rates and low-income exemption revisions.

h. *Employer Liability.*—If employers were relieved of contributing their share of the social security tax on account of the low-income exemption and phase-out provisions, the revenue loss attributable to those provisions would double. It does not seem that the consequent revenue loss would benefit anyone other than employers. If it could be shown that relieving employers of the social security tax liability which corresponds to the low-income exemption and phase-out provisions would result in the hiring of low-income persons who would not otherwise find work, some consideration might be given to reduction of employers' liability.

i. *Computation of Benefits.*—If the social security benefits payable to low-income persons were to be reduced by reason of the low-income exemption and exemption phase-out provisions, the result would be that a person who had been subject to the low-income exemption for every quarter of his entire working career would not be entitled to receive any benefits because he had not been taxed at all on his earnings. Such a result would be an unwarranted penalty. Social security is a welfare system, not an insurance system. To penalize low-income workers for their failure to earn enough in order to escape poverty by refusing to pay them social security benefits in their old age would be to deny social security to those persons who most obviously need it. Such a result is contrary to the purpose of social security and therefore unacceptable.

B. *Inclusion of All Earned Income in the Social Security Tax Base*

1. *The Proposal*

Because the social security tax base includes only the first $7,800 in wages, salaries and self-employment earnings, the tax burden falls unequally on economic units having equal earnings and is not fairly spread out among economic units having different levels of earnings. The disparate treatment of earnings by the social security tax can be illustrated most readily in a comparison of two families. In family A the husband is the sole wage-earner, having a job at which he earns $15,600 in salary. The first $7,800 is taxed for social security purposes in the amount of $405.60; the second $7,800 is received free of any additional social security tax. The wife of family A does not work at all. The total income from the family unit is $15,600; the total social security tax is $405.60. In family B, the husband and wife both hold jobs and are covered by social security. They each earn $7,800 and each pay a social security tax of $405.60. Although the total income of both families is identical, $15,600, the social security tax paid by family B is twice that paid by family A. The effect of the disparity in treatment between the two family economic units is to reward the

economic unit that relies upon the higher earnings of one worker. Upon the retirement of all family A and B breadwinners, the economic units will receive equal social security benefits if the number of survivors and dependents in each unit are equal. Yet assuming steady work by all the breadwinners involved, family B will have contributed twice as much in social security taxes as family A.

There also exists inequitable treatment by the social security tax of workers having different earnings levels. The worker who earns $50,000 pays a social security tax of $405.60 on his earnings; the same tax is paid by the worker who earns $7,800. The effective rate of tax of the latter is 6.4 times that of the former, even though the earnings of the former are 6.4 times the earnings of the latter. These inequities serve no obvious purpose and yield no good for society. On the contrary, they have the effect of rewarding workers with high earnings solely because they have high earnings. Such a result is unfair to those whose earnings are fully taxed, because it is they who must support social security to the greatest extent. The social security tax base should be broadened to the point where the social security tax becomes proportional across the entire range of income classes so that every taxpayer will contribute in taxes an identical proportion of his earnings to social security.[33] This position has been half-heartedly adopted by the government and the proponents of H.R. 1. The present social security law schedules increases of the earnings tax base; H.R. 1 proposes further increases.[34] The proposed increases; however, still leave the earnings in excess of the proposed upper limits of the tax base free from the social security tax. Proportional taxation of earnings by definition cannot exist until all earnings are subject to tax.

As has been noted, social security is not an insurance system and individual benefit payments are not related to the amount of taxes paid in by individual beneficiaries. Social security is a welfare program funded by the working generation; the level of benefit payments is based on need, and its purpose is to provide aged persons who no longer work an adequate income. There is no rationale for exempting from the tax base the earnings of those who receive the benefits of our society in greater amounts than many of their fellow taxpayers. Persons with high incomes during their working lives are eligible to receive social security benefits when they are no longer able to work, therefore they should contribute a fair share of their earnings to social security while they are working. The fact that high income persons

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[33] The implicit assumption of the position expressed in the text is that regressive taxation is unfair and that proportional taxation embodies the minimum standard of fairness for a general revenue tax system. That implicit assumption is the working assumption for this comment. It is certainly possible to argue that progressive taxation is fairer than proportional taxation but the assumption of that proposition as a conclusion is unnecessary to the proposals and analyses presented in this comment.

[34] See the discussions at p. 834 supra for the proposed H.R. 1 increases.

may be receiving amounts of deferred compensation or other income in their old age which may replace or dwarf social security benefits is not a reason to exclude their earnings from social security tax. High income persons are eligible to receive benefit payments and will receive benefit payments if they are otherwise not disqualified through the receipt of earnings. The fact that high income persons may plan during their working careers to rely primarily on other retirement funds does not relieve the government of the responsibility for providing them with a minimum retirement income. High income persons should contribute the same proportion of their earnings to social security as persons whose earnings are now more fully subject to the tax. It is therefore proposed that the present limitation on the amount of earnings subject to the social security tax be removed and that all earnings be made subject to the tax without limit.

2. *The Proposed Administrative Scheme*

a. *Removal of the Limitation on Earnings Subject to Tax.*—All wages, salaries, and self-employment earnings shall be subject to the social security tax without limitation. The social security tax shall be computed by multiplying an individual's total earnings by the social security tax rate in effect. No other computation shall be permitted.

b. *Employer Liability.*—The employer social security tax liability shall be eliminated entirely.

c. *Tax Rate Provisions.*—Wage earners and self-employed persons shall have their entire tax liabilities subject to tax at identical rates—that is, the tax rate on self-employment earnings shall be identical to the tax rate imposed on employees.

d. *Phase-in.*—The increase in tax on employee earnings shall be phased-in over a ten year period—1/10th of the increase in tax liability to be paid the first year, 2/10ths of the increase the second year, and so on, with the full liability to be phased-in in the tenth year. The increase in tax on self-employment earnings shall similarly be phased-in over a ten year period. The decrease in tax shall be phased-in immediately.

e. *Computation of Benefits.*—It is not intended that anything in this proposal affect the benefit computation procedure.

3. *Effects on Taxpayers*

a. The wage earner or self-employed person whose earnings do not exceed the present tax base upper limit would not be affected by the removal of the limit.

b. The wage earner or self-employed person whose earnings exceed the present base limitation of $7,800 would be subject to social security taxes as follows:

Employee Earnings	*Present Social Security Tax @ 5.2%*	*Proposed Tax @ 5.2%*	*Dollar Increase*	*Percentage Increase*
$10,000	$405.60	$520.00	$114.40	28.2%
20,000	405.60	1,040.00	634.40	156.4%
30,000	405.60	1,560.00	1,154.40	284.6%
50,000	405.60	2,600.00	2,194.40	541.0%
70,000	405.60	3,640.00	3,234.40	797.4%
100,000	405.60	5,200.00	4,794.40	1,182.1%
1,000,000	405.60	52,000.00	51,594.40	12,720.5%

Self-Employment Earnings	*Present Social Security Tax @ 7.5%*	*Proposed Tax @ 5.2%*	*Dollar Increase (Decrease)*	*Percentage Increase (Decrease)*	*Marginal Rate Of Tax*
$10,000	$585.00	$520.00	$(65.00)	(11.1%)	—.69%
20,000	585.00	1,040.00	455.00	77.8%	2.34%
30,000	585.00	1,560.00	975.00	166.7%	3.31%
50,000	585.00	2,600.00	2,015.00	344.4%	4.08%
70,000	585.00	3,640.00	3,055.00	522.2%	4.40%
100,000	585.00	5,200.00	4,615.00	788.9%	4.64%
1,000,000	585.00	52,000.00	51,415.00	8,788.9%	5.14%

c. The working of the phase-in is illustrated as follows:

Earnings	×	*Tax Rate*	=	*Tax Burden*	—	*Former Tax*	=	*Tax to be Phased-in*
$10,000		5.2%		$520.00		$405.60		$114.40

In year 1, taxpayer would compute his full tax burden and the amount of tax to be phased-in as outlined above. In addition to the full amount of his former tax, $405.60, the taxpayer would also pay 1/10th of his tax to be phased-in, $11.44 in the above illustration, for a total tax payment of $417.04. In year 2, the taxpayer would compute his tax in exactly the same manner except that 2/10ths would be used instead of 1/10th. The effect of the phase-in is illustrated as follows:

Year	*Former Tax*	*Phase-In Tax*	*Total Tax*	*Effective Rate of Tax*	*Marginal Rate of Tax*
$10,000 Earnings:					
1	$405.60	$11.44	$417.04	4.2%	.52%
2	405.60	22.88	428.48	4.3%	1.04%
3	405.60	34.32	439.92	4.4%	1.6%
5	405.60	57.20	462.80	4.6%	2.6%
8	405.60	91.52	497.12	5.0%	4.2%
10	405.60	114.40	520.00	5.2%	5.2%
$100,000 Earnings:					
1	$405.60	$479.44	$885.04	.89%	.52%
2	405.60	958.88	1,364.48	1.4%	1.04%
3	405.60	1,438.32	1,843.92	1.8%	1.6%
5	405.60	2,397.20	2,802.80	2.8%	2.6%
8	405.60	3,835.52	4,241.12	4.2%	4.2%
10	405.60	4,794.40	5,200.00	5.2%	5.2%

4. *Effect of the Proposal on Tax Revenues*[35]

a. *Removal of the Earnings Limitation.*—Removal of the earnings limitation on the wage and salary tax base as of 1968 would have resulted in an increase of tax receipts in the amount of $3,400,800,000 or 18.7 percent of the wage and salary tax base. The removal of the earnings limitation on the self-employment earnings tax base as of 1968, not taking into account the removal of self-employment tax rate differential but taking into account the nonapplication of the differential for earnings in excess of $7800, would have resulted in an increase of tax receipts in the amount of $998,400,000, or 48.76 percent of the self-employment tax base. The total increase would have been $4,399,200,000, or 21.7887 percent of the total social security tax revenues.

b. *Elimination of the Social Security Tax on Employers.*—The elimination of the social security tax on employers as of 1968 would have resulted in a decrease of social security tax receipts in the amount of $9,094,800,000, that is, 50 percent of the wage and salary tax base and 45.045 percent of the total social security tax revenues.

c. *Elimination of Social Security Tax Rate Differential.*—The elimination of the social security tax rate differential between the self-employed earnings tax rate and the wage and salary tax rate as of 1968 would have resulted in a loss to the government of $627,900,000, that is, 30.7 percent of the self-employment earnings tax base and 3.11 percent of the total social security tax base.

d. *Net Effect on Tax Revenues.*—The net effect on social security tax revenues of the enactment of the proposal in 1968 would have been a decrease of $5,323,500,000, that is, 26.6367 percent of the total original tax revenues.

5. *Discussion of the Administrative Scheme*

a. *Removal of the Limitation on Earnings Subject to Tax.*—The objective of the proposal is to remove the horizontal and vertical inequities that exist with respect to the taxation of earnings. The removal of the earnings limitation would insure that, after the phase-in period, families having equal earnings would bear equal social security tax burdens—a wage earner with earnings of $15,600 would pay $811.20 in social security taxes, the same amount that would be paid by a family of two wage earners each having earnings of $7,800 and a tax liability of $405.60. The removal of the earnings limitation would also insure that, after the phase-in period, persons having different earnings would nevertheless pay a proportional amount of those earnings in social security tax.

[35] The computations which produced the figures in the text are based on Table 34, supra note 26. Total wages and salaries in covered employment, including estimated amounts above the taxable limit, were $414,300,000,000. Total self-employment earnings in covered employment, as represented by total net earnings reported by self-employed persons, were $46,500,000,000.

b. *Employer Liability.*—If the theoretical and empirical conclusions with respect to the incidence of the tax are correct and the tax does actually fall on employees, the burden of the tax is just too great and the tax should be eliminated. Assuming that the tax falls entirely on employees, a wage earner with a family of four having earnings of $7,800 in effect pays $811.20 in social security taxes, almost $200 more than he would pay in income taxes in 1972. Families of four would not pay greater income taxes than social security taxes until their income exceeded almost $10,000. If the income tax is based on ability to pay, it is difficult to see why the social security tax burden should exceed the income tax liability of more than three-quarters of the population. On the other hand, if the employer side of the social security tax is borne by employers, it is a peculiarly irrational tax. Since social security is a welfare system and benefits the entire society, there is no reason to vary employer support of social security in relation to the number of employees hired by any particular employer. Capital-intensive companies or industries benefit as much from society as do labor-intensive companies or industries and they ought to bear equally the burdens of society, including the social security tax. If the tax is borne by employers, its imposition according to the use of labor is tantamount to the government's saying that labor ought not to be favored as a means of achieving economic ends; to the extent that the tax is passed on to consumers, the government is similarly encouraging the use of capital rather than labor. The sole benefit of the employer tax is revenue. The uneven application of the tax does not have a rational relationship with the benefit gained from the tax, and the tax ought not to continue in its present form.[86]

c. *Tax Rate Differential Elimination.*—The elimination of the tax rate differential between employees and self-employed persons is a result in part of the elimination of employer liability. The theory behind the 7.5 percent rate for self-employed persons is that 5.2 percent is paid by the self-employed person in his character of employee, while the additional 2.3 percent is paid by the self-employed person in his character as employer. The elimination of employer tax liability would seem to indicate that the 2.3 percent employer portion of the self-employment tax should also be removed in order to achieve consistency. If the tax on self-employed persons were not reduced to 5.2 percent, the government would effectively be taxing self-employed persons solely because of their self-employment—a seemingly unreasonable and undesirable result.

d. *Phase-in.*—The phase-in provision is designed to permit a gradual implementation of the full social security tax. It is felt that the

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[86] Simultaneously with the enactment of this proposal there should be enacted a tax on all organizations presently subject to the social security tax. The tax rate should be set to yield revenues equal to the revenues presently raised by the employer side of the social security tax.

immediate full implementation of the tax on high-earnings taxpayers would be unfair. The ten year figure selected was to some extent arbitrary but seems to balance revenue and tax equity considerations.

C. *Inclusion of All Unearned Income in the Social Security Tax Base*

1. *The Proposal*

The inclusion of earned income without limit in the social security tax base will not alone make the social security tax proportional; proportionality can only be achieved by also including in the tax base unearned income—*i.e.*, income that results from ownership of property. An examination of the character of unearned income, as distinguished from earned income, does not seem to disclose any reason in principle for not subjecting unearned income to the social security tax: 1) unearned income is produced, generally speaking, without any additional effort on the part of the owner after investment; 2) there is a prerequisite to its being received, *i.e.*, the possession of or control over the property with which to make the investment; and 3) it is produced at a fairly standard rate of return which, generally speaking, does not vary depending upon the skills of the possessor of the property. None of these distinctions seems to require the exclusion of unearned income from tax.

One must look, then, to the character of social security for a rationale for not including unearned income in the social security tax base. The objectives of social security are twofold: 1) to provide supplementary payments to persons who, for certain reasons, are no longer able to work; and 2) to cushion the family of a deceased worker from the economic impact of his or her death. A family which receives an adequate income solely from return on property, rather than from wages and salaries, is insulated from the effects of the circumstances upon which social security is predicated. The death, disability or age of the head of the household will not operate to reduce the income produced by property holdings; there is consequently no reason why the family should require the added income from social security. Additionally, unless the recipient of unearned income is also a wage or salary earner, he or she is not eligible to receive social security benefits and therefore ought not to be taxed in support of social security.

Although both of the above points are valid, they do not resolve the issue. Answering the second contention first, there is no policy reason for not permitting recipients of unearned income to receive social security benefits upon retirement if their unearned income has been subject to social security taxes prior to their retirement. Secondly, even though a person may have lived his working life subsisting solely on unearned income, if at age 65 he is unable to muster sufficient unearned income to live adequately, he ought to be entitled to receive income supplements. His situation would be no different from that of a retired wage-earner living on unearned income; both are unable to work to

supplement their income and both need government assistance if they are to live adequately.

There are, in addition, affirmative reasons for including unearned income in the social security tax base. Recipients of unearned income are members of society and receive the benefits of society no less equally than other members. Social security is a welfare system which benefits the entire society by assuming the burden of supporting all aged members of society. Recipients of unearned income ought not escape the burdens of the society that benefits them. Inclusion of unearned income in the social security tax base would result in each member of society paying a proportionate share of social security taxes. Unfortunately, there is at present no support for the inclusion of unearned income in the social security tax base.

It is therefore proposed that the social security tax base be expanded to include unearned income and, accordingly, that the social security benefit schedule be modified to provide for the payment of social security benefits in relation to the amount of social security taxes paid on unearned income.

2. *The Proposed Administrative Scheme*

a. *Inclusion of Unearned Income in the Social Security Tax Base.*—All gross receipts of unearned income from whatever source derived shall be included in the social security tax base; unearned income shall include, but not be limited to, rents, interest, dividends, royalties, annuities, gains on sales of property and transfer payments. Gain from the sale of an asset shall be determined through the use of straight-line depreciation or cost depletion only. Annuities shall be included to the extent they represent other than return of capital. Losses will not offset gains. Gross receipts of unearned income will be taxed at 4.68 percent.

b. *Realization and Recognition of Gain.*—Unearned receipts must be realized before they will be subject to the social security tax and all realized gain will be recognized for the purposes of the tax unless otherwise specifically provided. The fact that gain once realized would or might not be recognized for income tax purposes shall have no bearing upon the administration of the social security tax, except that where the Internal Revenue Code provides for roll-over treatment for the purpose of forming a corporation or a partnership or for other contributions thereto or dealings therewith,[87] there shall be no recognition for social security purposes. Death and gifts are recognition events for purposes of the social security tax.

c. *Capital Gains.*—Capital gains shall be taxed in full in the year in which they are received, except that the owner of the asset shall have the option of paying the yearly gain in the average fair market value of the asset. Once an asset is treated on a yearly basis, such

[87] For example, Int. Rev. Code of 1954, § 351.

treatment must continue until the gain on the asset is recognized for final accounting, at which time the yearly payments made shall be credited against the tax due. The average fair market value of stock shall be the median between the high and low transfer prices for the year as quoted by a stock market of national character.

d. *Payment.*—Payment of social security tax on unearned income shall be made in the same manner and on the same forms as it would be made if it were the federal income tax, including the estimated tax form. In making out an estimated tax for the year, taxpayers shall compute, in addition to income, gross receipts of unearned income. These gross receipts shall be taxed at social security tax rates. Payment shall be made together with the estimated income tax payments, and adjustments in estimated taxes shall similarly be made. A final adjustment shall be made on the income tax form at year's end in the same way as the low-income exemption is adjusted. Those who are not presently required to file estimated returns for income tax purposes shall not be required to file an estimated return for social security tax purposes. All other persons having net receipts of unearned income shall declare such income and shall compute and pay the social security tax thereon as their final computations on their income tax returns. Net payments shall be made by April 15th of each year.

e. *Application of the Tax.*—The inclusion of unearned receipts in the social security tax base shall apply to all adults who receive unearned receipts. Employers shall not be affected. There shall be no distinction of any kind between self-employed persons, employees, or other recipients of unearned receipts with respect to the tax rate.

f. *Phase-in.*—The increase in the social security tax payments resulting from the inclusion of unearned income in the tax base shall be phased-in over a twenty-year period with 1/20th of the additional tax due being paid the first year, 2/20ths being paid the second year, and so on, until the tax is fully phased-in in the twentieth year. For the purpose of determining gain on the sale of an asset, depreciation shall be computed based on the fair market value of the asset as of January 1, 1972.

g. *Revision of Benefits.*—The benefit provisions of social security shall be revised to provide for the payment of social security benefits to persons who receive unearned income, and the computation of benefit tables shall be revised to take into account receipts of unearned income.

h. *Low-Income Exemption.*—The low-income exemption shall apply with respect to unearned income and unearned income shall be taken into account in determining whether or not to apply the exemption.

3. *Effects on Taxpayers*

a. Those persons who do not receive unearned income would not be affected.

b. Those persons who receive unearned income would be taxed in the future on their gross unearned receipts. The increase in their social security tax burden is illustrated as follows:

Unearned Receipts	*Tax at 4.68%*	*Dollar Increase*	*First Year Phase-in*	*Marginal Rate of Tax*
$ 100	$ 4.68	$ 4.68	$ .23	
1,000	46.80	46.80	2.34	
10,000	468.00	468.00	23.40	
20,000	936.00	936.00	46.80	.234%
50,000	2,340.00	2,340.00	117.00	
90,000	4,212.00	4,212.00	210.60	
100,000	4,680.00	4,680.00	234.00	

4. *Effect of the Proposal on Tax Revenues*[38]

The unearned income tax base as of 1968 has been estimated to be $84,952,624,000. This tax base would generate social security tax revenues of $3,975,782,803 at the 4.68 percent tax rate, an increase of 19.692 percent in the total social security tax revenues.

5. *Discussion of the Administrative Scheme*

a. *Inclusion of Unearned Income in the Social Security Tax Base.*—The definition of unearned income is intended to embrace all gross receipts of unearned income, without the allowance of any tax preferences or exceptions. Only if all unearned income is included in the tax base can the tax be truly proportional. Losses shall not be taken into account because losses are not considered in determining the tax base with respect to earnings. The tax rate was reduced by 10 percent to offset costs directly relating to the production of unearned receipts.

38 The components of the unearned income tax base are as follows:

gain from the sale of capital assets:	$36,559,982,000
ordinary gain from the sale of depreciable property:	348,511,000*
net gain from the sale of property other than capital assets:	94,899,000*
dividends:	16,354,940,000
interest:	16,782,128,000*
pensions and annuities:	5,988,460,000*
rents and royalties:	5,539,958,000*
estates and trusts:	1,190,542,000*
other sources (net):	2,093,204,000*

The asterisked items were taken from IRS Statistics, 1968, Table 1.7. The dividend amount was taken from IRS Statistics, 1968 (Table 1.10—Returns with Foreign and Domestic Dividends Received: Number of Returns and Dividends Received, By Adjusted Gross Income Classes and Size of Dividends), and represents the total amount of dividends received. The gain from the sale of capital assets amount was computed from IRS Statistics, 1968 (Table 1.18—Capital Gains and Losses and Capital Loss Carryover by Adjusted Gross Income Classes). The following items were used from returns with net gain from the sales of capital assets and from returns with net loss: net short-term capital gain after carryover and net long-term capital gain after carryover.

Transfer payments such as social security benefits are to be included in gross receipts of unearned income. It is expected that the low-income exemption and phase-out will protect the low-income aged from being taxed on social security payments. No reason can be seen for creating any additional exemptions.

b. *Realization and Recognition of Gain.*—The realization and recognition provision is designed to insure that all gain is subject to tax, except where such realization and recognition would interfere with the formation of corporations and partnerships.

c. *Capital Gains.*—The provision for subjecting capital gains to the social security tax is intended to give the taxpayer the option of paying tax on yearly accretion of wealth or paying the tax in lump sum at the time the wealth is realized.

d. *Payment.*—The payment procedures of the Internal Revenue Code were utilized because they appear to work well and are familiar to all taxpayers. The requirements for filing an estimated return were chosen to achieve uniformity with the Internal Revenue Code.

e. *Application of the Tax.*—The provision insures that the imposition of the tax will affect everyone equally.

f. *Phase-in.*—The phase-in is utilized to alleviate the financial impact of immediately imposing the additional tax on unearned income. Recipients of unearned income have not planned for the tax and may not be prepared to bear immediately its full burden. The twenty-year phase-in period was selected because it is suspected that many persons having larger receipts of earned income will also be recipients of large amounts of unearned income and therefore will be affected dramatically by the imposition of the tax on all earned and unearned income. If this suspicion is unfounded, the phase-in period should be lessened. The revaluation of capital assets as of January 1, 1972, is proposed in order to make the application of the tax as uniform as possible for everyone.

g. *Revision of Benefits.*—The benefit is revised to reflect the inclusion of unearned income in the tax base.

h. *Low-Income Exemption.*—The low-income exemption insures that persons who receive social security and minimum amounts of earned or unearned income will not pay social security taxes on such receipts. Since elderly persons require less income than do younger persons (poverty levels for nonfarm elderly persons are $159 less for individuals and $250 less for families of two), a slight amount of additional income is sheltered for the elderly by the low-income exemption.

D. *Summary of Tax Base Proposals*

The three proposals presented have been explained and considered as though each were to be applied independently of the others. Such a piecemeal enactment would be possible. The enactment of any one or more of the proposals would result in improving the equity of the social security tax; but if the social security tax is to be made equita-

ble throughout, the implementation of all three proposals is necessary. In the event all three proposals were enacted, the employer liability for the social security tax would cease in accordance with the proposal presented in Part II, section B, above, unless the employer tax were restructed as suggested in footnote 36.

1. *Effect on Taxpayers*

The impact of all three proposals in the first year after enactment on various taxpayers, each of whom is the head of a family of four, would be as follows:

Average Income	*Unearned Income*	*Present Tax*	*Proposed Tax Year 1*	*Dollar Increase (Decrease)*	*Percentage Change*	*Effective Rate of Tax*
$ 3,600.00	$ 400.00	$187.20	$ 0.00	$(187.20)	— 100%	0.0%
4,600.00	430.00	227.24	115.71	(111.53)	—49.1%	2.5%
12,000.00	600.00	405.60	425.72	20.12	5.0%	3.5%
50,000.00	10,000.00	405.60	596.44	190.84	47.1%	1.2%
300,000.00	100,000.00	405.60	1639.04	1233.44	304%	.5%
300,000.00	300,000.00	0.00	702.00	702.00	∞	.2%
300,000.00	297,000.00	156.00	850.98	694.98	446%	.3%

2. *Effects of the Proposals on Tax Revenues*[39]

If all three proposals are enacted, the effect of the proposals on the tax revenues will not simply be the result of netting the costs of all three proposals. The cost of the low-income exemption and exemption phase-out proposal will be affected by the enactment of the earned income and unearned income proposals.

a. *The Earned Income Proposal.*—The earned income proposal would affect the low-income exemption and phase-out because of the provision for eliminating the social security tax rate differential between those persons whose earnings are comprised of wages and salaries and those persons who receive self-employment earnings. The elimination of the differential would mean that both self-employed persons and wage earners would be subject to an identical phase-out provision. Rather than phasing out the low-income exemption for self-employed persons at a ratio of 3.1333 to 1, the exemption would be phased out at the ratio of 4.9615 to 1. The exemption for a family of four would terminate at $4806.21, whether the bread winner were a wage earner or self-employed. The revenue loss that would result from a 4.9615 to 1 phase-out of the low-income exemption for self-employed persons would be $77,177,671, or $41,030,319 less than the revenue loss of

[39] The figures in this subsection are the result of computations demonstrated in Part II of the Statistical Appendix to this comment.

$118,107,990 that would result from a 3.1333 to 1 phase-out (the $41,030,319 represents a reduction in the revenue loss due to the phase-out of 34.65 percent). The revenue loss from the phase-out as modified by the elimination of the tax rate differential would be 3.769 percent of the self-employment tax revenues and 0.382 percent of the total tax revenues.

b. *The Unearned Income Proposal.*—The enactment of the unearned income proposal would affect the low-income exemption and phase-out because the recognition of unearned income for purposes of the social security tax would disqualify from the low-income exemption and phase-out those persons whose earnings do not exceed the poverty level, but whose total economic income does exceed the poverty level. The inclusion of unearned income in the social security tax base would reduce the cost of the low-income exemption and phase-out with respect to the wage and salary tax base by $386,576,898, or 15.380 percent of the combined cost of the exemption and phase-out. With respect to the self-employment tax base the reduction would be $479, 973,794 or 19.096 percent. The total reduction would be $866,550,692, —4.292 percent of the total tax revenues or 34.476 percent of the cost of the original exemption and phase-out proposals. The inclusion of unearned income in the social security tax base would reduce the cost of the exemption and phase-out by subjecting to the phase-out those persons whose earnings would not otherwise qualify them for the phase-out. The inclusion of unearned income would result in an increase of social security tax revenues from persons newly subject to the phase-out in the amount of $171,919,220 with respect to the wage and salary tax base. With respect to the self-employment tax base, the increase would be $43,878,953. The total increase in revenues would be $215,798,174,—1.069 percent of the original social security tax revenues or 8.585 percent of the cost of the original exemption and phase-out proposals. The total reduction of the cost of the low-income exemption and phase-out would be $1,082,348,866, —a reduction of 43.061 percent in the cost of the exemption and phase-out as originally proposed.

c. *Modification of Efficiency Estimates for the Low-Income Exemption and Phase-out.*[40]—The efficiency estimates presented on page 842 above were made on a misleading premise—namely, that those persons whose earnings did not exceed $2202.58 or $3742.68 were in need of the exemption and that those persons whose earnings did not exceed $2646.51 or $4497.02 were in need of the phase-out. The efficiency estimates in no way took into account the receipt of unearned income by persons whose earnings made them subject to the exemption or phase-out proposals. The recognition of unearned income would have affected the efficiency estimates as follows:

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40 See the Statistical Appendix to this comment, Part II § 8.

Original cost of the exemption proposal:	$2,136,727,613
Original cost of the phase-out proposal:	376,794,560
Total original cost:	$2,513,522,173
Less reduction due to inclusion of unearned income:	$1,082,348,866
Total revised cost:	1,431,173,307
Less revised cost of phase-out proposal [B15]:[41]	105,603,756
Revised cost of exemption proposal:	$1,325,569,551

Amount of original cost of exemption and phase-out which was going to persons whose total economic income exceeded the poverty level:

Total original cost:	$2,513,522,173	
Less revised cost of exemption proposal:	1,325,569,551	
Net unnecessary expenditure:	1,187,952,662	
Unnecessary expenditure per dollar of exemption:	$0.8962	
Revised efficiency estimate:		52.738%

d. *Net Revenue Calculations.*—The net revenue loss due to the enactment of the three proposals would be as follows:

Original total tax revenues:	$20,190,300,000	
Less: Low-income exemption and phase-out cost, unadjusted:	2,540,522,172	
Subtotal:	17,649,777,828	
Plus: Inclusion of earned income in tax base:	4,399,200,000	
Subtotal:	$22,048,977,828	
Less: Elimination of employer tax:	9,094,800,000	
Elimination of tax rate differential:	627,900,000	
Subtotal:	12,326,277,828	
Plus: Inclusion of all unearned income in tax base:	3,975,782,803	
Subtotal:	$16,302,060,631	
Plus: Adjustment to the exemption phase-out due to the elimination of the tax rate differential:	77,177,671	
Adjustment to the exemption phase-out due to the inclusion of unearned income in the tax base:	1,082,348,866	
Total revised tax revenues:	$17,461,587,168	
Deficiency:	2,728,712,832	
Percentage deficiency:		13.515%
Addition of offsetting business organization tax revenues [see footnote 36]:	9,000,000,000	
Total:	$26,461,587,168	
Gain in tax revenues:	6,271,287,168	
Percentage gain (as a percentage of original tax revenues):		31.061%

[41] Id.

III. Conclusion

This comment has presented certain social security tax reform proposals and has analyzed those proposals both in terms of tax policy and with respect to revenue gain or loss. It has been demonstrated that (a) if the social security tax base is structured to provide the minimum amount of tax equity, (b) if an equal percentage of total economic income is contributed no matter how much income is received, and (c) if the employer tax revenues are not surrendered, the social security tax will create greater revenues than it presently generates and at the same time afford to low-income persons shelter from the tax. The enactment of the above proposals substantially as suggested in this comment will place the financing of social security on a fiscally and morally sound basis.

James H. Belanger
Raymond G. Bolton

Statistical Appendix

Part I: Computations Supporting Section II A, The Low-Income Exemption and Phase-out Proposal (p. 835 of text.)

1. Computation to Determine the Estimated Wage and Salary Tax Base, $0-7800 [*Source:* IRS Statistics 27 (1968) (Table 1.9—Returns With Salaries And Wages: Number of Returns And Salaries And Wages, By Adjusted Gross Income Classes and Size of Salaries And Wages [taxable and nontaxable returns]) [hereinafter cited as Table 1.9].]

Total amount of wages and salaries from $0-8000 in size:
$151,492,812,000.00. [1]
Number of returns having salaries and wages in size from
$7000-8000:4,449,686.
Number of returns from $7800-8000 pro-rata: 889,937.
Pro-rata difference between all returns $7800-8000 in size and $7800: $100.00.
Total of wages and salaries from $7800-8000 in excess of $7800:
$88,993,700.00. [2]
Total amount of wages and salaries subject to the social security tax from wages and salaries greater than $8000 in size: *$184,124,460,200.* [3]
Estimated Wage and Salary Tax Base, $0-7800:([1] − [2] + [3])
$335,528,278,500.00. [4]

2. Computation to Determine Classes and Sizes of Exemptions and Average Exemption Levels. [*Source:* IRS Statistics 57 (1968) (Table 2D.—Number of Returns And Number Of Exemptions By Type Of Exemption And Marital Status Of Taxpayer).]

Assumption: Only joint taxpayers are married and required to use the $2600 married person exemption.

Percentage of joint returns to total returns: *56.076%.* [5]
Percentage of nonjoint returns to total returns: *43.924%.* [6]
Average number of dependents per joint return: *1.6324* [7]

Average number of dependents per individual [i.e., nonjoint] return: *0.2894.* [8]
Average joint return poverty level exemption: $2600 + ($700 × [7]) *$3742.68.* [9]
Average individual return poverty level exemption: $2,000 + ($700 × [8]) *$2202.58.* [10]

3. Computation to Determine the Cost of Low-Income Exemptions with Respect to the Wage and Salary Tax Base. [*Source:* Table 1.9]

Total wages and salaries on returns $2000-3000 in size: *$12,081,563,000.00.* [11]
Total wages and salaries pro-rata on returns from $3000-3742.68: *$12,584,670,270.00.* [12]
Total wages and salaries on joint returns from $2000-3742.68: ([6] × ([11] + [12])) *$13,831,836,970.00.* [13]
Total wages and salaries pro-rata on returns from $2000-2202.58: *$2,318,983,500.00.* [14]
Total wages and salaries pro-rata on individual returns from $2000-2202.58: ([14] × [8]) *$1,018,590,313.00.* [15]
Pro-rata wages and salaries on joint returns less than $2000: *$7,713,914,375.00.* [16]
Pro-rata wages and salaries on individual returns less than $2000: *$6,042,263,625.00.* [17]
Total wages and salaries on joint returns $0-3742.68 ([16] + [13]) *$21,545,751,345.00.* [18]
As a percentage of the wage and salary tax base [4]: *6.4214%*
Revenue loss: ([18].052) *$1,120,379,069.94.* [19]
Total wages and salaries on individual returns $0-2202.58 ([17] + [15]) *$7,060,853,938.00.* [20]
As a percentage of the wage and salary tax base: *2.1044%*
Revenue loss: ([20].052) *$367,164,404.78.* [21]
Total revenue losses: ([19] + [21]) *$1,487,543,474.72.* [22]
As a percentage of the wage and salary tax revenue: *8.5258%* [23]

4. Computation to Determine the Cost of the Low-Income Exemption Phase-Outs with Respect to the Wage and Salary Tax Base. [*Source:* Table 1.9]

Joint return phase-out termination amount for exemption of $3742.68. [9] (computed by the formula in footnote 25, supra): $4497.02. [24]
Median phase-out termination amount: *$4119.85.* [25]
Revenue loss at median phase-out termination amount
Revenue at 5.2% tax without exemption: *$214.33.* [26]
Revenue from phase-out tax (computed by the formula in footnote 24, supra). *$116.92.* [27]
Revenue loss: ([26] — [27]) *$97.41.* [28]
Total number of wage and salary joint returns $3742.68-4497.02[24] pro-rata subject to the phase-out: *1,989,421.463.* [29]
Revenue loss from all joint returns subject to the phase-out: ([28] × [29]) *$193,590,602.60.* [30]
Individual return phase-out termination amount for exemption of $2202.58. [10] (computed by the formula in footnote 25, supra): *$2646.51.* [31]
Median phase-out termination amount: *$2424.55.* [32]

Revenue loss at median phase-out termination amount
Revenue at 5.2% tax without exemption: *$126.08.* [33]
Revenue from phase-out tax (computed by the formula in footnote 24, supra)*$68.81.* [34]
Revenue loss: ([33] − [34]) *$57.27.* [35]
Total number of wage and salary individual returns $2202.58-2646.51[31] pro-rata subject to the phase-out: *963,536.107.* [36]
Revenue loss from all individual returns subject to the phase-out: ([36] × [35]) *$55,181,712.87.* [37]
Total revenue loss due to phase-outs: ([30] + [37]) *$248,772,315.47.* [38]
As a percentage of wage and salary tax revenues: *1.4258%* [39]

5. Total Revenue Loss from the Low-Income Exemptions and Phase-Outs with Respect to the Wage and Salary Tax Base: ([22] + [38]) *$1,736,315,791.00.* [40]
As a percentage of wage and salary tax revenues: *9.95%* [41]

6. Computation to Determine the Estimated Self-Employment Tax Base, $0-7800. [*Source:* IRS Statistics 30 (1968) (Table 1.12—Returns With Business or Profession Net Profit: Number Or [sic] Returns And Business Or Profession Net Profit, By Adjusted Gross Income Classes And Size Of Business Or Profession Net Profit [taxable and nontaxable returns]) [hereinafter cited as Table 1.12].]

Total amount of self-employment earning from $0-8000 in size: *$9,706,222,000.00.* [42]
Pro-rata number of returns from $7800-8000 in size: 36547.4.
Pro-rata difference between all returns $7800-8000 in size and $7800: $100.00.
Total of self-employment earnings from $7800-8000 in excess of $7800: *$3,654,740.00* [43]
Total amount of self-employment earnings subject to the social security tax from self-employment earnings greater than $8000 in size: *$8,711,679,600.* [44]
Estimated Self-Employment Tax Base, $0-7800: ([42] − [43] + [44]) *$9,681,936,326.00.* [45]

7. Computation to Determine the Cost of Low-Income Exemptions with Respect to the Self-Employment Tax Base. [*Source:* Table 1.12]

Self-employment earnings on joint returns pro-rata from $2000-3742.68: *$1,215,193,484.00.* [46]
Self-employment earnings on individual returns pro-rata from $2000-2202.58: *$100,605,926.00.* [47]
Self-employment earnings on joint returns less than $2000: *$897,957,885.00.* [48]
Self-employment earnings on individual returns less than $2000: *$703,365,114.50.* [49]
Total self-employment earnings pro-rata on joint returns $0-3742.68: ([46] + [48]) *$2,113,151,340.00.* [50]
As a percentage of self-employment earnings tax base [45]: *21.8257%*
Revenue loss: ([50].075) *$158,486,351.00.* [51]
Total self-employment earnings on individual returns $0-2202.58: *$803,971,040.50.* [52]
As a percentage of self-employment earnings tax base: 8.3038%
Revenue loss: ([52].075) *$60,297,828.00.* [53]

Total revenue losses: ([51] + [53]) *$2,917,122,380.00.* [53a]
As a percentage of self-employment tax revenues: *30.1295%* [53b]

8. Computation to Determine the Cost of the Low-Income Exemption Phase-Outs with Respect to the Self-Employment Earnings Tax Base. [*Source:* Table 1.12]

Joint return phase-out termination amount for exemption of $3742.68[9] (computed by the formula in footnote 25, supra): *$4937.17.* [54]
Median phase-out termination amount: *$4119.85.* [55]
Revenue loss at median phase-out termination amount
Revenue at 7.5% tax without exemption: *$325.49.* [56]
Revenue from phase-out tax (computed by the formula in footnote 24, supra): *$185.14.* [57]
Revenue loss: ([56] — [57]) *$140.36.* [58]
Total number of self-employment joint returns $3742.68-4937.17([54]) pro-rata subject to the phase-out: *213,781.1.* [59]
Revenue loss from all joint returns subject to the phase-out: ([59] × [58]) *$30,006,315.20.* [60]
Individual return phase-out termination amount for exemption of $2202.58 [10] (computed by the formula in footnote 25, supra): *$2905.54.* [61]
Median phase-out termination amount: *$2554.06.* [62]
Revenue loss at median phase-out termination amount
Revenue at 7.5% tax without exemption: *$191.55.* [63]
Revenue from phase-out (computed by the formula in footnote 24, supra): *$108.96.* [64]
Revenue loss: ([63] — [64]) *$82.59.* [65]
Total number of self-employed individual returns $2202.58-2905.54 [61] pro-rata subject to the phase-out: *743,854.96.* [66]
Revenue loss from all individual returns subject to the phase-out: ([66] × [65]) *$11,880,961.19.* [67]
Total revenue loss due to phase-outs: ([60] + [67]) *$41,887,296.39.* [68]
As a percentage self-employment tax base revenues: *5.7684%* [69]

Part II: Computations Supporting Section II, D, Summary of Tax Base Proposals (p. 857 of text.)

The following factors remain unchanged from Part I of the Statistical Appendix:

Average joint return exemption amount: $3742.68.
Average individual return exemption amount: $2202.58.
Percentage of returns that are joint returns: 56.076%
Percentage of returns that are individual returns: 43.924%
Joint return phase-out termination amount: $4497.02.
Individual return phase-out termination amount: $2646.51.

1. Computation to determine the effect upon the low-income exemption phase-out of the elimination of the tax rate differential between wage and salary earners and self-employed persons. [*Source:* Table 1.12]

Pro-rata number of joint returns $3742.68-4497.02 subject to the phase-out: (249085.3 × .56076) *139677.0728.* [A1]
Revenue loss at median phase-out termination amount (computed at a tax rate of 7.5% to avoid measuring the effect of the elimination of tax rate

differential already measured by the computation for Part II, B, 4(c) of the text).

Ordinary revenue at $4119.85 (.075): $308.99.

Revenue from phase-out tax at median phase-out level:

(2248.51 × .075) $168.64.

Revenue loss: *$140.35.* [A2]

Total revenue loss for all self-employment joint returns subject to the phase-out: ([A1] × [A2]) *$19,603,921.60.* [A3]

Total number of self-employment individual returns $2202.58-2646.51 pro-rata subject to the phase-out: *94037.99.* [A4]

Revenue loss at median phase-out termination amount (computed as for [A2] above)

Ordinary revenue at $2424.55 (.075): $181.84.

Revenue from phase-out tax (1323.26 (.075)): $99.24.

Revenue loss: *$82.60.* [A5]

Total revenue loss for all self-employment individual returns subject to the phase-out: ([A4] × [A5]) *$7,767,114.80.* [A6]

Total revenue loss for joint and individual self-employment returns subject to the phase-outs: ([A3] + [A6]) *$27,371,036.40.* [A7]

As a percentage of total self-employment tax revenues ([A7] ÷ (9,681,936,326 × .075)): *3.7693%* [A8]

Total revenue loss on basis of SSA self-employment tax revenues: ([A8] × 20.475(10^8)) *$77,177,670.78.* [A9]

Tax savings resulting from the elimination of the tax rate differential: (Revenue loss from original self-employment phase-out of $118,107,990 − [A9]) *$40,930,319.22.* [A10]

As a percentage of the original phase-out revenue loss:

([A10] ÷ $118,107,990): *34.6550%* [A11]

Revenue loss from new phase-out as a percentage of original total tax revenues: ([A9] × 201.903(10^8)) *.3823%* [A12]

2. Computation to determine the amounts of income on returns which would not be subject to the low-income exemption or phase-out because their total economic income would be in excess of the low-income exemption and phase-out termination amount for the wage and salary tax base. [*Source:* Table 1.9]

Income on returns with wages and salaries under $4000 but with adjusted gross income (agi) greater than $5000: *$2,567,722,000.* [A13]

Income on returns with wages and salaries under $4000 but with agi between $4000-5000: *$1,547,211,000.* [A14]

Pro-rata income on returns with agi between $4000-5000 and with agi greater than $4497.02: ([A14] × .50298) *$778,216,188.80.* [A15]

Income on returns with wages and salaries $4000-5000 but with agi greater than $5000: *$2,940,672,000.* [A16]

Pro-rata income on returns with wages and salaries $4000-4497.02 but with agi greater than $5000: ([A16] × .49702) *$1,461,572,797.* [A17]

Income on returns with wages and salaries $4000-5000 and with agi $4000-5000: *$17,295,970,000.* [A18]

Income on returns with wages and salaries $4000-4497.02 but with agi $4000-5000: ([A18] × .49702) *$8,596,443,009.* [A19]

Income on returns with wages and salaries 4000-4497.02 and with agi greater than $4497.02: ([A19] × .50298) *$4,323,838,905.* [A20]

Income on joint returns with wages and salaries and agi greater than $4490.72: (([A13] + [A15] + [A17] + [A20]) × .56076) *$5,120,495,765.* [A21]

Income on returns with wages and salaries under $2500 but with agi greater than $3000: *$1,775,647,000.* [A22]

Income on returns with wages and salaries under $2500 but with agi between $2000-3000: *$5,652,089,000.* [A23]

Pro-rata income on returns between $2000-3000 and with agi greater than $2646.51: ([23] × .35349) *$1,997,956,941.* [A24]

Income on returns with wages and salaries $2500-3000 but with agi greater than $3000: *$1,028,388,000.* [A25]

Pro-rata income on returns with wages and salaries $2500-2646.51 but with agi greater than $3000: ([A25] × $\frac{14651}{50000}$) *$301,338,251.80.* [A26]

Income on returns with wages and salaries between $2500-3000 and with agi between $2000-3000: *$5,250,543,000.* [A27]

Income on returns with wages and salaries between $2500-2646.51 but with agi between $2000-3000: ([A27] × $\frac{14651}{50000}$) *$1,538,514,110.* [A28]

Income on returns with wages and salaries between $2500-2646.51 and with agi greater than $2646.51: ([A28] × .35349) *$543,849,352.70.* [A29]

Income on individual returns with wages and salaries and agi greater than $2646.51: (([A22] + [A24] + [A26] + [A29]) × .43924) *$2,028,757,998* [A30]

Amounts of income on wage and salary returns less than the phase-out termination amount but with agi greater than the phase-out termination amount ([A21] + [A30]) *$7,149,253,763.* [A31]

As a percentage of the wage and salary tax base: ([A31] ÷ [4]) *2.1307%.* [A32]

Revenue not lost to exemption or phase-out because of the inclusion of unearned income, SSA wage and salary tax revenues: ([A32] × 181.428(10^8)) *$386,576,898.20.* [A33]

3. Computation to determine the amounts of income on returns which would not be subject to the low-income exemption or phase-out because their total economic income would be in excess of the low-income exemption and phase-out termination amount, for self-employment tax base. [*Source:* table 1.12]

Income on returns with self-employment earnings under $4000 but with agi greater than $5000: *$2,033,048,000.* [A34]

Income on returns with self-employment earnings under $4000 but with agi between $4000-5000: *$381,707,000.* [A35]

Pro-rata income on returns with agi between $4000-5000 and with agi greater than $4497.02: ([A35] × .50298) *$191,990,986.90.* [A36]

Income on returns with self-employment earnings $4000-5000 but with agi greater than $5000: *$847,512,000.* [A37]

Pro-rata income on returns with self-employment earnings $4000-4490.72 but with agi greater than $5000: ([A37] × .49702) *$421,230,414.20.* [A38]

Income on returns with self-employment earnings $4000-5000 and with agi $4000-5000: *$466,403,000.* [A39]

Income on returns with self-employment earnings $4000-4497.02 but with agi $4000-5000: ([A39] × .49702) *$231,811,619.10.* [A40]

Income on returns with self-employment earnings $4000-4497.02 and with agi greater than $4497.02: ([A40] × .50298) *$116,596,608.20.* [A41]

Income on joint returns with self-employment earnings and agi greater than $4490.72: (([A34] + [A36] + [A38] + [A41]) × .56076) *$1,549,304,743.* [A42]

Income on returns with self-employment earnings under $2500 but with agi greater than $3000: *$1,383,699,000.* [A43]

Income on returns with self-employment earnings under $2500 but with agi between $2000-3000: *$316,978,000.* [A44]

Pro-rata income on returns with agi between $2000-3000 and with agi greater than $2646.56: ([A44] × .35349) *$112,048,553.20.* [A45]

Income on returns with self-employment earnings $2500-3000 but with agi greater than $3000: *$411,127,000.* [A46]

Pro-rata income on returns with self-employment earnings $2500-2646.51 but with agi greater than $3000: ([A46] × $\frac{14651}{50000}$) *$120,468,429.20.* [A47]

Income on returns with self-employment earnings between $2500-3000 and with agi between $2000-3000: *$117,119,000.* [A48]

Income on returns with self-employment earnings between $2500-2646.51 and with agi between $2000-3000: ([A48] × $\frac{14651}{50000}$) *$51,899,409.38.* [A49]

Income on returns with self-employment earnings between $2500-2646.51 and with agi greater than $2646.51: ([A49] × .35349) *$18,345,922.22.* [A50]

Income on individual returns with self-employment earnings and agi greater than $2646.51: (([A43] + [A45] + [A47] + [A50]) × .43924) *$717,964,971.* [A51]

Amounts of income on self-employment returns showing income less than the phase-out termination amount but with agi greater than the phase-out termination amount: ([A42] + [A51]) *$2,267,269,714.* [A52]

As a percentage of the self-employment tax base: ([A52] ÷ [45]) *23.4175%.* [A53]

Revenue not lost to exemption or phase-out because of the inclusion of unearned income, SSA self-employment tax revenues ([A53] × 20.475 (10^8)) *$479,973,794.* [A54]

4. Total revenues from wages, salaries, and self-employment earnings subject to tax because of the inclusion of unearned income in the tax base: ([A33] + [A54]) *$866,550,692.20.* [A55]

As a percentage of total tax revenues: ([A56] ÷ 201.903(10^8)) *4.2919%.* [A56]

5. Computation to determine the amount of revenue collected from those persons who would be subject to the phase-out because of the inclusion of unearned income in the tax base, for wage and salary tax base. [*Source:* Table 1.9]

Number of persons with wages and salaries less than $4497.02 and with agi between $4000-4497.02: (2,520,786.04 × .49702) *1,252,881,078.* [A57]

Number of persons with wages and salaries less than $4000 and with agi between $3742.68-4000: (1,592,744.133 × .25732) *409,844.92.* [A58]

Number of persons filing joint returns and subject to the phase-out: (([A57] + [A58]) × .56076) *932,390.2308.* [A59]

Revenue gain due to phase-out tax on wage and salary earners subject to

the phase-out because of the inclusion of unearned income on the tax base: ($116.92 × [A59]) *$109,015,065.80.* [A60]
Number of persons with wages and salaries less than $2646.51 and with agi between $2000-3000: (3,338,275.815 × .64651) *2,158,228.698.* [A61]
Number of persons with wages and salaries less than $2202.58 and with agi between $2000-3000: (1,456,073.052 × .20258) *294,971.2789.* [A62]
Number of persons filing single returns and subject to the phase-out: (([A61] − [A62]) × .43924) *818,417.1888.* [A63]
Revenue collected from phase-out tax on persons subject to the tax because of the inclusion of unearned income: ($68.81 × [A63]) *$56,315,286.76.* [A64]
Revenue gain due to phase-out: ([A60] + [A64]) *$165,330,352.50.* [A65]
As a percentage of wage and salary tax revenues: ([A65] ÷ $17,447,470,460) *.9475%.* [A66]
Revenue gain for SSA wage and salary tax revenues: ([A66] × 181.428 (10^8)) *$171,919,220.60.* [A67]

6. Computation to determine the amount of revenue collected from those persons who would be subject to the phase-out because of the inclusion of unearned income in the tax base, for self-employment earnings tax base. [*Source:* Table 1.12]

Number of persons with self-employment earnings less than $4497.02 and with agi between $4000-5000: (255,988.4088 × .49702) *127,231.359.* [A68]
Number of persons with self-employment earnings less than $4000, greater than $3742.68 and with agi between $3000-4000: (210,966.8605 × .25732) *54,285.99254.* [A69]
Number of persons filing joint returns and subject to the phase-out: (([A69] + [A68]) × .56076) *101,787.6701.* [A70]
Revenue gain due to phase-out tax on self-employment earnings subject to the phase-out because of the inclusion of unearned income: ($116.92 × [A70]) *$11,901,014.39.* [A71]
Number of persons with self-employment earnings less than $2646.51 and with agi between $2000-3000: (243,678.0671 × .64651) *157,540.3072.* [A72]
Number of persons with self-employment earnings less than $2202.58 and with agi between $2000-3000: (179,798.8408 × .20258) *36,423.64919.* [A73]
Number of persons filing single returns and subject to the phase-out: (([A72] − [A73]) × .43924) *53,199.28086.* [A74]
Revenue collected from phase-out tax on persons subject to the tax because of the inclusion of unearned income: ($68.81 × [A74]) *$3,660,642.52.* [A75]
Revenue gain due to phase-out: ([A71] + [A75]) *$15,561,656.90.* [A76]
As a percentage of self-employment tax revenues: ([A76] ÷ $726,145,224.40) *2.1430%.* [A77]
Revenue gain for SSA self-employment tax base: ([A77] × 20.475 (10^8)) *$43,878,953.46.* [A78]

7. Revenues from wage and salary phase-out and self-employment phase-out:

([A67] + [A78]) *$215,798,174.00.* [A79]
As a percentage of total tax revenues: ([A79] ÷ 201.903 (10^8)) *1.0688%.* [A80]
([A55] + [A79]) *$1,082,348,866.* [A81]

8. Revised cost of phase-out [*Sources:* Tables 1.9 and 1.12]

Wage and salary tax base phase-out cost

Number of joint returns subject to revised low-income exemption phase-out: $(((3862235 \times .49702^2) + (4097525 \times .25732^2)) \times .56076)$ *687152.723.* [B1]

Number of individual returns subject to revised low-income exemption phase-out: $(((1913780 \times \frac{14651}{50000} \times .64651) + (2221483 \times \frac{29742}{50000} \times .44393)) \times .43924)$ *503982.6058.* [B2]

Cost of phase-out for joint returns: ([B1] × \$97.31): *\$66,866,831.48.* [B3]

Cost of phase-out for individual returns: ([B2] × \$57.27): *\$28,863,083.83.* [B4]

Total cost for wage and salary tax base: ([B3] + [B4]) *\$95,729,915.31.* [B5]

As a percentage of wage and salary tax revenues: ([B5] ÷ \$17447470460) *.5487%.* [B6]

Total cost on SSA wage and salary tax base: ([B6] × 181.428 (10^8)) *\$99,545,014.94.* [B7]

Self-employment tax base phase-out cost

Number of joint returns subject to revised low-income exemption phase-out: $(((104393 \times .49702^2) + (125664 \times .25732^2)) \times .56076)$ *19126.82239.* [B8]

Number of individual returns subject to revised low-income exemption phase-out: $(((20744 \times \frac{14651}{50000} \times .64651) + (28399 \times \frac{29742}{50000} \times .44393)) \times .43924)$ *5020.073383.* [B9]

Cost of phase-out for joint returns: ([B8] × \$97.31) *\$1,861,231.09.* [B10]

Cost of phase-out for individual returns: ([B9] × \$57.27) *\$287,499.60.* [B11]

Total cost for self-employment tax base: ([B10] + [B11]) *\$2,148,730.69.* [B12]

As a percentage of self-employment tax revenues: ([B12] ÷ 726145224.4) *.2959%.* [B13]

Total cost on SSA self-employment tax revenues: ([B13] × 20.475 (10^8)) *\$6,058,741.28.* [B14]

Total cost over entire SSA tax base: ([B7] + [B14]) *\$105,603,756.10.* [B15]

As a percentage of total original tax revenues: ([B15] ÷ 201.903 (10^8)) *.5230%.* [B16]