Executive Summary

Payroll taxes are not small potatoes. Today, 40 percent of all workers with income tax returns pay more in payroll taxes than in income taxes. That figure jumps to over 90 percent when the employer's share (also a part of employee compensation) is added. Payroll taxes are also the second largest source of federal tax dollars.

"Under current law, payroll taxes withheld from workers' paychecks are counted as taxable wages—a tax on a tax."

Under current law, payroll taxes withheld from workers' paychecks are counted as taxable wages—a tax on a tax. A proposal by Senator John Ashcroft (R-MO) would eliminate this double taxation by allowing workers an income tax deduction for their share of Social Security payroll taxes. The 1.45 percent Medicare portion would not be deductible. This deduction would be available to taxpayers whether they itemize or take the standard deduction.

According to our calculations, allowing this deduction would lower the marginal tax rate on labor by 8 percent. Take-home pay would rise, and workers would supply more labor. After five years, there would be 917,000 more jobs than otherwise, and annual GDP would be $66.9 billion higher than otherwise, or 0.7 percent.

This deduction also would also reduce revenues from individual income taxes by about 6.3 percent a year. But based on our estimates, the additional growth stimulated by the tax deduction would offset one-third of the static revenue loss.

A static distributional analysis would show that 76 percent of this revenue loss would go to taxpayers earning under $100,000. Because these taxpayers pay 50 percent of federal income taxes, the package is progressive. But of greater concern should be, what happens to people's incomes after tax?

Because they pay little or no income tax, and therefore get to keep more of their gains from growth, the lowest income taxpayers (those in the bottom fifth of the income distribution) would experience the largest percentage increase in aftertax income, 3.4 percent. Taxpayers in the middle would get roughly a 1.5 percent increase, while those in the top fifth would get 1.7 percent.

"By making the payroll tax deductible, income taxes would be calculated on the basis of working families' real net incomes."

Because major tax reform remains on the policy agenda, tax proposals should be assessed within this context. The Ashcroft proposal would be a step in the right direction. In fact, the Kemp Commission states that by "making the payroll tax deductible, income taxes would be calculated on the basis of working families' real net incomes."

Allowing this deduction would offer some relief, particularly for those with lower and middle incomes. It also would provide a modest boost to the economy and move in the same direction as broader-based tax reform, unlike the "targeted" tax proposals such as child credits and tuition credits currently under consideration.

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A TAX DEDUCTION FOR PAYROLL TAXES: An Analysis of the Ashcroft Proposal

Payroll taxes are the second most important source of federal revenue and the biggest tax burden for most American workers. As the debate over Social Security's future rages on, payroll taxes will be at the center. Are they too high? Should they be raised to help "save" Social Security? Or should they be cut so that workers can save for their own retirement?

The report of the Advisory Council on Social Security recommends increasing payroll taxes. Council members split into three camps. Two groups included raising payroll taxes as part of their solutions for dealing with Social Security's financial problems. While the third also saw the need for more revenue, it preferred a broad-based consumption tax over higher payroll taxes.[1]

"Payroll taxes are the second most important source of federal revenue and the biggest tax burden for most American workers."

Senator John Ashcroft (R-MO) believes that the combined burden of payroll taxes and federal income taxes is too high for many working Americans. He is offering a bill that would give workers an income tax deduction for the payroll taxes they pay. This policy report examines the consequences of his proposal. The first two sections examine the importance of payroll taxes for the federal government and for workers. The next section analyzes the economic, revenue, and distributional effects of the Ashcroft proposal, while the last section looks at the bill's implications for tax reform.

Payroll Taxes and Federal Revenues

Payroll taxes are the second largest source of federal tax dollars, surpassed only by the individual income tax. In 1995, the federal income tax accounted for 43.6 percent of all federal revenue followed by payroll taxes with a 35.8 percent share. [See Table 1 (page 2) for the composition of federal tax receipts since 1945.]

There are several types of payroll taxes. Most well known, and largest, are those earmarked for Social Security and Medicare. In 1995, the $447 billion collected in Social Security and Medicare taxes accounted for one-third of all federal revenue. Other payroll taxes that finance programs like unemployment insurance benefits and railroad retirement accounted for only 2.8 percent of federal revenues.

Payroll taxes were not always so prominent. In 1945, the main sources of federal revenue were individual and corporate income taxes (76.1 percent) followed by excise taxes (13.9 percent). Payroll taxes made up only 7.6 percent of revenues. [See Figure 1 (page 3) and Table 1.]

In 1937, the Social Security payroll tax rate was 2 percent of the first $3,000 of wages. The next increase did not come until 1950 when the tax rate was raised to 3 percent. But expansion of Social Security retirement and survivor benefits and the addition of new benefits, such as disability and Medicare, have resulted in a steady series of increases in both the tax rate and taxable wage base. [See Figure 2 (page 3) and Table 2, (page 4) for Social Security and Medicare tax rates and wage bases since 1937.]

Today, 12.4 percent of wages up to the $65,400 wage cap go to support the Old-Age Survivors Insurance and Disability Insurance programs (OASDI). Another 2.9 percent of wages go to pay for the Hospital Insurance (HI) program, also known as Medicare Part A. The wage base for the Medicare tax was the same as that for Social Security until 1991, when it more than doubled. Since 1994, all wages have been subject to the 2.9 percent HI tax.

Table 1
Composition Of Federal Receipts, 1945-1995

Source: Executive Office of the President, *Budget of the United States Government: Historical Tables, Fiscal Year 1996*, Washington, DC: U.S. Government Printing Office, 1996, Tables 2-1, 2-3 & 2-4.

[1] Old-Age Survivors Insurance, Disability Insurance and Hospital Insurance.

[2] Includes railroad retirement and unemployment compensation.

[3] Includes estate taxes, custom duties and Federal reserve deposits.

Composition Of Federal Receipts, 1945-1995
(in $millions)

FY	Individual Income	Corporate Income	OASDHI[1]	Other Social Insurance[2]	Excise	Other[3]	Total
1945	18,372	15,988	1,307	2,144	6,265	1,083	45,159
1950	15,755	10,449	2,098	2,240	7,550	1,351	39,443
1955	28,747	17,861	5,381	2,481	9,131	1,850	65,451
1960	40,715	21,494	10,641	4,042	11,676	3,923	92,492
1965	48,792	25,461	16,723	5,519	14,570	5,753	116,817
1970	90,412	32,829	38,214	6,148	15,705	9,499	192,807
1975	122,386	40,621	73,709	10,825	16,551	14,998	279,090
1980	244,069	64,600	136,426	21,377	24,329	26,311	517,112
1985	334,531	61,331	231,041	34,122	35,992	37,040	734,057
1990	466,884	93,507	350,212	29,835	35,345	55,538	1,031,321
1995	590,244	157,004	447,103	37,370	57,484	66,008	1,355,213
As a Percent of GDP							
1945	8.7%	7.5%	0.6%	1.0%	3.0%	0.5%	21.3%
1950	5.9%	3.9%	0.8%	0.8%	2.8%	0.5%	14.8%
1955	7.5%	4.6%	1.4%	0.6%	2.4%	0.5%	17.0%
1960	8.1%	4.3%	2.1%	0.8%	2.3%	0.8%	18.3%
1965	7.3%	3.8%	2.5%	0.8%	2.2%	0.9%	17.4%
1970	9.2%	3.3%	3.9%	0.6%	1.6%	1.0%	19.6%
1975	8.1%	2.7%	4.9%	0.7%	1.1%	1.0%	18.5%
1980	9.2%	2.4%	5.2%	0.8%	0.9%	1.0%	19.6%
1985	8.4%	1.5%	5.8%	0.9%	0.9%	0.9%	18.5%
1990	8.5%	1.7%	6.4%	0.5%	0.6%	1.0%	18.8%
1995	8.4%	2.2%	6.4%	0.5%	0.8%	0.9%	19.3%
As a Percent of Total Receipts							
1945	40.7%	35.4%	2.9%	4.7%	13.9%	2.4%	
1950	39.9%	26.5%	5.3%	5.7%	19.1%	3.4%	
1955	43.9%	27.3%	8.2%	3.8%	14.0%	2.8%	
1960	44.0%	23.2%	11.5%	4.4%	12.6%	4.2%	
1965	41.8%	21.8%	14.3%	4.7%	12.5%	4.9%	
1970	46.9%	17.0%	19.8%	3.2%	8.1%	4.9%	100.0%
1975	43.9%	14.6%	26.4%	3.9%	5.9%	5.4%	
1980	47.2%	12.5%	26.4%	4.1%	4.7%	5.1%	
1985	45.6%	8.4%	31.5%	4.6%	4.9%	5.0%	
1990	45.3%	9.1%	34.0%	2.9%	3.4%	5.4%	
1995	43.6%	11.6%	33.0%	2.8%	4.2%	4.9%	

Payroll taxes also have become a larger share of the economy. While the federal tax bite has stayed around 18 to 20 percent of GDP, payroll taxes have dramatically increased from 1.6 percent of GDP at the end of World War II to 6.4 percent today. Because there are no more tax increases scheduled at this time, this share should remain about the same from here on out. But, if future payroll taxes were to be increased in an attempt to deal with the burgeoning financial crises looming for Social Security and Medicare, they would take an even greater bite out of the economy. [See Figure 3 and Table 1.]

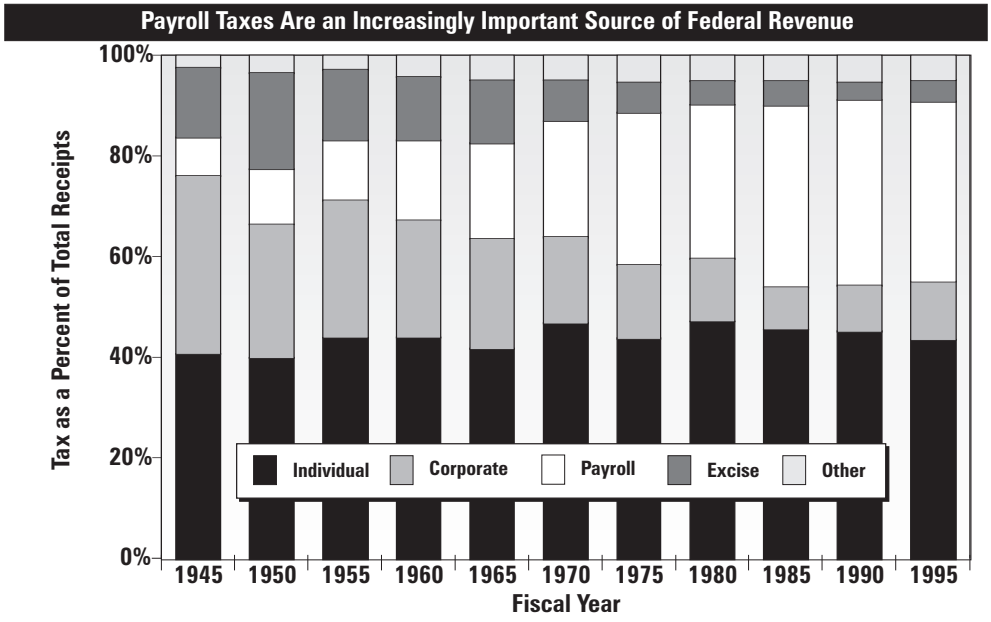


Figure 1
Payroll Taxes Are an Increasingly Important Source of Federal Revenue

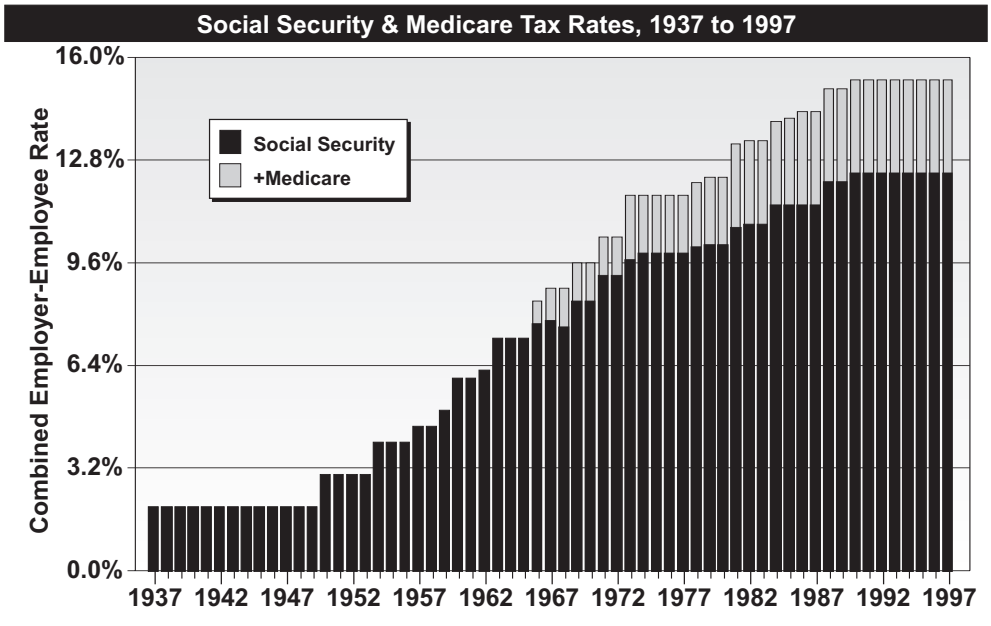


Figure 2
Social Security & Medicare Tax Rates, 1937 to 1997

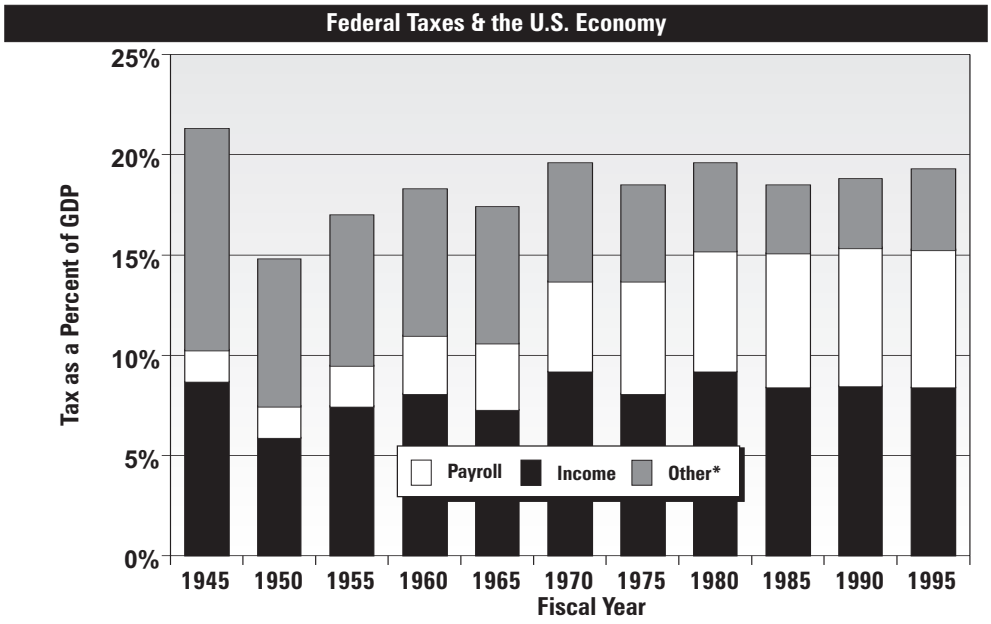


Figure 3
Federal Taxes & the U.S. Economy

*Includes corporate income, excise and estate taxes.

Table 2
Social Security & Medicare Payroll Taxes, 1937-1997

[1] The Hospital Insurance wage base differs from the OASDI base beginning in 1991 when it was set at $125,000. The HI base rose to $130,200 in 1992 and $135,000 in 1993. The limit was removed in 1994.

[2] Old-Age Survivors Insurance and Disability Insurance.

[3] Hospital Insurance or Medicare Part A.

Social Security & Medicare Payroll Taxes, 1937-1997				
Year	Wage Base[1]	Combined Employer-Employee Tax Rates		
		OASDI[2]	HI[3]	OASDHI
1937-49	$3,000	2.00%	—	2.00%
1950-53	$3,000	3.00%	—	3.00%
1954	$3,600	4.00%	—	4.00%
1955-56	$4,200	4.00%	—	4.00%
1957-58	$4,200	4.50%	—	4.50%
1959	$4,800	5.00%	—	5.00%
1960-61	$4,800	6.00%	—	6.00%
1962	$4,800	6.25%	—	6.25%
1963-65	$4,800	7.25%	—	7.25%
1966	$6,600	7.70%	0.70%	8.40%
1967	$6,600	7.80%	1.00%	8.80%
1968	$7,800	7.60%	1.20%	8.80%
1969-70	$7,800	8.40%	1.20%	9.60%
1971	$7,800	9.20%	1.20%	10.40%
1972	$9,000	9.20%	1.20%	10.40%
1973	$10,800	9.70%	2.00%	11.70%
1974	$13,200	9.90%	1.80%	11.70%
1975	$14,100	9.90%	1.80%	11.70%
1976	$15,300	9.90%	1.80%	11.70%
1977	$16,500	9.90%	1.80%	11.70%
1978	$17,700	10.10%	2.00%	12.10%
1979	$22,900	10.16%	2.10%	12.26%
1980	$25,900	10.16%	2.10%	12.26%
1981	$29,700	10.70%	2.60%	13.30%
1982	$32,400	10.80%	2.60%	13.40%
1983	$35,700	10.80%	2.60%	13.40%
1984	$37,800	11.40%	2.60%	14.00%
1985	$39,600	11.40%	2.70%	14.10%
1986	$42,000	11.40%	2.90%	14.30%
1987	$43,800	11.40%	2.90%	14.30%
1988	$45,000	12.12%	2.90%	15.02%
1989	$48,000	12.12%	2.90%	15.02%
1990	$51,300	12.40%	2.90%	15.30%
1991	$53,400	12.40%	2.90%	15.30%
1992	$55,550	12.40%	2.90%	15.30%
1993	$57,600	12.40%	2.90%	15.30%
1994	$60,600	12.40%	2.90%	15.30%
1995	$61,200	12.40%	2.90%	15.30%
1996	$62,700	12.40%	2.90%	15.30%
1997	$65,400	12.40%	2.90%	15.30%

Payroll Tax Burden on American Workers

Today payroll taxes are a greater burden for most workers than are income taxes. Changes legislated during the 1980s lowered federal income taxes for all income levels. Marginal rates were substantially reduced, with the top rate dropping from 50 percent to 28 percent. The personal exemption was doubled from $1,000 in 1980 to $2,000 by 1989, and the standard deduction was increased by over 50 percent for most taxpayers. These amounts, along with the tax brackets, have been indexed for inflation since 1985.

But rising payroll tax rates have more than erased whatever income tax relief the 1980s brought. Moreover, payroll taxes hit the first dollar of wages, while income taxes kick in after exemptions and deductions. As a result, *most workers pay more in Social Security and Medicare payroll taxes than they do in income taxes.*

Using information on income tax returns filed by working Americans, we have estimated the average income and payroll taxes that the average worker paid by income and type of return in 1996. Payroll taxes are shown for two situations. One uses only what is deducted from the employee's wages directly (7.65 percent). The other, which most economists believe is correct, uses the combined employee and employer tax rate of 15.3 percent. The results shown in Table 3 (pages 6 & 7) and Figure 4 are summarized as follows:

- Considering only the employee's share, almost 30 percent of workers filing joint returns pay more in Social Security and Medicare payroll taxes than in income taxes. Including the employer's share increases this proportion to almost 90 percent.
- Considering only the employee's share, over half of workers filing single returns pay more in payroll taxes than income taxes. Including the employer's part of the payroll tax bumps that figure up to over 90 percent.
- Overall, 40 percent of all workers with income tax returns pay more in payroll taxes than income taxes considering only the 7.65 percent paid by employees. That jumps to over 90 percent when the employer's share is added.

"Rising payroll tax rates have more than erased whatever income tax relief the 1980s brought."

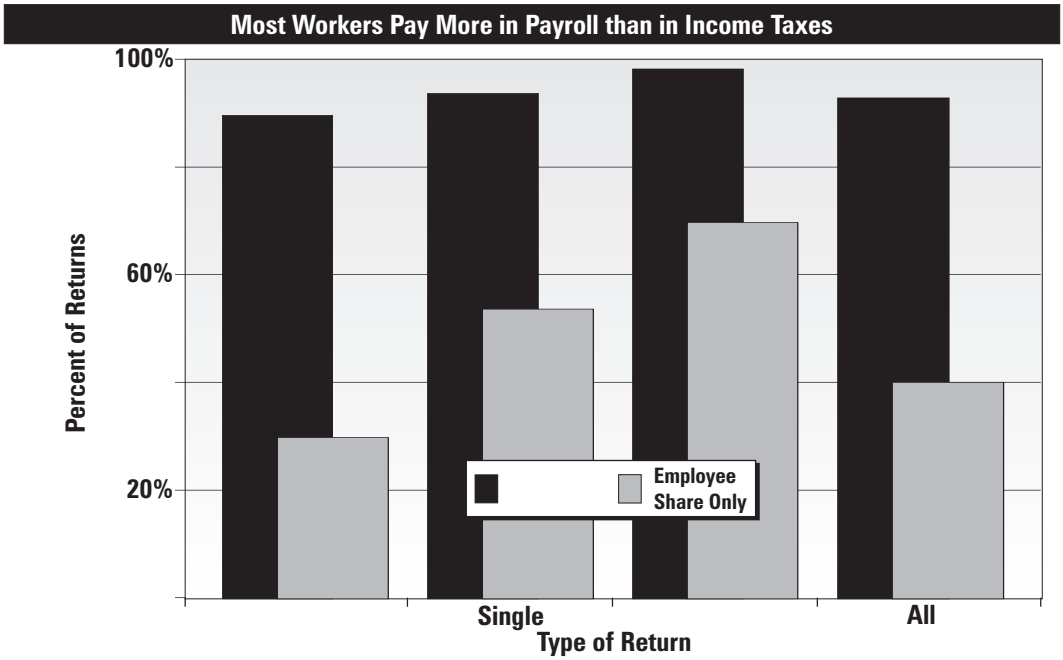


Figure 4
Most Workers Pay More in Payroll than Income Taxes

* Assumes that half of joint returns reporting wages are two-earner families with one spouse earning two-thirds of the wage amount.

** Head of household and joint filing separately.

An Income Tax Deduction for Payroll Taxes

Under current law, payroll taxes paid by the employee are subject to the income tax while those attributed to the employer are not. Suppose a worker earns $30,000 in wages. The $2,295 in Social Security and Medicare payroll taxes (0.765 x $30,000) nominally paid by his employer does *not* show up on the worker's W-2 and, therefore, is not included as part of the worker's taxable wages. But because the $2,295 in payroll taxes attributed to the employee come out of the $30,000 reported as wages, the worker must pay income tax on them as well.

The Ashcroft Proposal

Many consider the fact that workers must pay income taxes on their payroll taxes a tax on a tax. A proposal by Senator Ashcroft would eliminate this double taxation by allowing workers an income tax deduction for the payroll taxes they pay. Specifically, workers would take an above-the-line deduction for their share of payroll taxes that finance Social Security, which amounts to 6.2 percent of wages below the wage base. The 1.45 percent designated as the employee portion of the Medicare tax would not be deductible. "Above-the-line" means that the

Table 3
Average Income & Payroll Taxes Per Worker By Income & Type Of Return, 1996

Source: Fiscal Associates Tax Model

[1] Employee pays a 6.2% tax for OASI and DI on wages up to $65,400 and a 1.45% tax for HI with no limit on wages.

[2] Employer pays the same tax as the employee.

[3] Based on special SOI tabulations, assumes that half of joint returns reporting wages are two-earner families with one spouse earning two-thirds of the wage amount. See Barry Windheim and Charles Crossed, "Salaries and Wages Reported on Income Tax Returns by Marital Status, 1983," Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1987-88..

Average Income & Payroll Taxes Per Worker By Income & Type Of Return, 1996					
Adjusted Gross Income	Workers (in thousands)	Cumulative Taxpayer Distribution	Income Taxes	Payroll Taxes	
				Employee Only[1]	Employee & Employer[2]
Joint Returns[3]					
Total, joint returns	68,166		$6,154	$2,326	$4,653
Under $10,000	3,467	5.1%	$0	$390	$780
$10,000 under $15,000	3,585	10.3%	$0	$609	$1,219
$15,000 under $20,000	3,416	15.4%	$314	$855	$1,710
$20,000 under $25,000	3,899	21.1%	$809	$1,094	$2,188
$25,000 under $30,000	3,945	26.9%	$1,270	$1,336	$2,673
$30,000 under $40,000	10,040	41.6%	$1,994	$1,721	$3,441
$40,000 under $50,000	9,057	54.9%	$2,886	$2,159	$4,318
$50,000 under $75,000	19,209	83.1%	$4,567	$2,957	$5,914
$75,000 under $100,000	5,864	91.7%	$8,492	$4,030	$8,059
$100,000 under $200,000	4,350	98.0%	$19,580	$4,455	$8,909
$200,000 or more	1,333	100.0%	$106,086	$4,463	$8,925
Single Returns					
Total, single returns	43,213		$2,764	$1,366	$2,732
Under $10,000	17,412	40.3%	$77	$348	$695
$10,000 under $15,000	5,298	52.6%	$868	$904	$1,808
$15,000 under $20,000	4,569	63.1%	$1,604	$1,276	$2,552
$20,000 under $25,000	3,830	72.0%	$2,352	$1,637	$3,275
$25,000 under $30,000	2,821	78.5%	$3,034	$2,001	$4,002
$30,000 under $40,000	4,491	88.9%	$4,311	$2,519	$5,039
$40,000 under $50,000	2,164	93.9%	$6,409	$3,178	$6,357
$50,000 under $75,000	1,777	98.0%	$10,343	$4,349	$8,699
$75,000 under $100,000	441	99.1%	$15,901	$5,308	$10,616
$100,000 under $200,000	305	99.8%	$35,440	$5,355	$10,710
$200,000 or more	104	100.0%	$184,415	$5,355	$10,710

deduction would be available to taxpayers whether they itemize or take the standard deduction.

This income tax deduction would be the same as roughly a 1.5 percentage point reduction in the payroll tax rate.[2] However, the same amount of payroll tax revenue would continue to flow into the Social Security trust funds because the tax cut would come out of general revenues.

Economic Effects

We used our general equilibrium, neoclassical model of the U.S. economy to assess the economic effects of the proposed income tax deduction for Social Security payroll taxes. The model incorporates taxes through their effects on the returns to labor and capital. An increase in take-home pay caused by a tax cut will increase the amount of labor workers are willing to supply. Similarly, an increase in the aftertax return to capital will result in more saving and investment. Increases in the amount of capital and labor available to the economy will increase output, income and growth.[3]

Simulating economic effects requires a baseline forecast about how the economy would perform without any change in policy. The baseline we use is similar to those used by the Congressional Budget Office and the Office of Management and Budget. Over the next fourteen years, our baseline projects the U.S. economy

Average Income & Payroll Taxes Per Worker By Income & Type Of Return, 1996					
Adjusted Gross Income	Workers (in thousands)	Cumulative Taxpayer Distribution	Income Taxes	Payroll Taxes	
				Employee Only[1]	Employee & Employer[2]
Other Returns[4]					
Total, other returns	14,795		$2,425	$1,541	$3,082
Under $10,000	3,779	25.5%	$0	$449	$898
$10,000 under $15,000	2,822	44.6%	$95	$915	$1,830
$15,000 under $20,000	2,212	59.6%	$840	$1,276	$2,553
$20,000 under $25,000	1,474	69.5%	$1,620	$1,626	$3,252
$25,000 under $30,000	1,101	77.0%	$2,346	$2,005	$4,010
$30,000 under $40,000	1,719	88.6%	$3,333	$2,538	$5,075
$40,000 under $50,000	749	93.7%	$5,052	$3,261	$6,521
$50,000 under $75,000	653	98.1%	$7,565	$4,225	$8,449
$75,000 under $100,000	120	98.9%	$16,715	$5,355	$10,710
$100,000 under $200,000	118	99.7%	$32,609	$5,355	$10,710
$200,000 or more	46	100.0%	$183,216	$5,355	$10,710
All Returns					
Total, all returns	126,174		$4,556	$1,905	$3,811
Under $10,000	24,659	19.5%	$54	$369	$738
$10,000 under $15,000	11,706	28.8%	$416	$816	$1,633
$15,000 under $20,000	10,198	36.9%	$1,006	$1,135	$2,270
$20,000 under $25,000	9,203	44.2%	$1,581	$1,405	$2,811
$25,000 under $30,000	7,867	50.4%	$2,054	$1,668	$3,336
$30,000 under $40,000	16,250	63.3%	$2,776	$2,028	$4,056
$40,000 under $50,000	11,971	72.8%	$3,659	$2,412	$4,825
$50,000 under $75,000	21,638	89.9%	$5,131	$3,110	$6,219
$75,000 under $100,000	6,425	95.0%	$9,154	$4,142	$8,284
$100,000 under $200,000	4,774	98.8%	$20,915	$4,535	$9,069
$200,000 or more	1,483	100.0%	$113,987	$4,553	$9,106

Table 3 (Continued)
Average Income & Payroll Taxes Per Worker By Income & Type Of Return, 1996

Source: Fiscal Associates Tax Model

[1] Employee pays a 6.2% tax for OASI and DI on wages up to $65,400 and a 1.45% tax for HI with no limit on wages.

[2] Employer pays the same tax as the employee.

[3] Based on special SOI tabulations, assumes that half of joint returns reporting wages are two-earner families with one spouse earning two-thirds of the wage amount. See Barry Windheim and Charles Crossed, "Salaries and Wages Reported on Income Tax Returns by Marital Status, 1983," Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1987-88.

[4] Head of household and joint filing separately.

growing at 2.5 percent a year after inflation. [See Appendix Table A-1, page 14 & 15 for baseline values of key economic variables.]

Allowing workers to deduct their portion of the Social Security payroll tax would lower the marginal tax rate on wages. Today the economy-wide marginal tax rate on labor income is about 42 percent. In other words, on average, federal, state and local income and payroll taxes take 42 cents out of the next dollar earned from working. Federal income taxes account for 24 cents of that 42 cents, payroll taxes account for about 17 cents, and state and local income taxes make up the rest.[4] The income tax deduction for payroll taxes would lower the marginal tax rate on labor by 8 percent.

"By 2002, annual GDP would be $66.9 billion higher than otherwise, or 0.7 percent."

In response to the lower tax on labor and resulting increase in take-home pay, workers would supply more labor.[5] After five years, these labor effects would lead to the creation of 917,000 more jobs than otherwise. For the economy as a whole, hourly take-home pay would average 18 cents higher, or an increase of 1.7 percent. [See Table 4, page 8 & 9 for changes from the baseline in key economic variables.]

The additional labor would lead to more output and investment. By 2002, annual GDP would be $66.9 billion higher than otherwise, or 0.7 percent. The stock of U.S. capital would be $173.9 billion larger, or 0.6 percent.

Table 4

Change From Baseline In Key Economic Variables

Income Tax Deduction for Social Security Taxes

Estimates from the Fiscal Associates Model.

[1] Change represents nominal and real dollars because simulation holds prices constant.

[2] Includes revaluation of assets.

[3] Net aftertax income to capital divided by the stock of U.S. capital.

[4] Return to an investor on a new investment in corporate capital less taxes, inflation and depreciation.

[5] Hours worked divided by 1,960 hours, or 49, 40-hour weeks a year.

[6] Change in the total stock of capital plus the change in net foreign investment.

[7] Personal consumption plus the change in private domestic wealth. More comprehensive measure of income than Commerce's because it includes asset revaluation and the foreign sector.

[8] Real private savings divided by real disposable private income.

[9] On National Income and Product Account basis.

[10] Federal, state and local governments.

Change From Baseline In Key Economic Variables
Income Tax Deduction for Social Security Taxes
(Amounts in $billions)

Year	OUTPUT:			CAPITAL FORMATION:			
	GDP[1]		Growth Rate	Gross Investment		Private Domestic Investment	
	Difference	%Change	Difference	Difference	%Change	Difference	%Change
1998	10.7	0.1%	0.1%	-19.3	-1.4%	37.5	2.7%
1999	30.4	0.4%	0.2%	-22.3	-1.6%	28.5	1.9%
2000	51.0	0.6%	0.2%	-15.0	-1.0%	31.5	2.0%
2001	63.2	0.7%	0.1%	-9.9	-0.7%	25.7	1.6%
2002	66.9	0.7%	0.0%	-12.5	-0.8%	25.1	1.5%
2003	63.9	0.6%	-0.1%	-12.7	-0.8%	7.7	0.4%
2004	64.2	0.6%	0.0%	-18.0	-1.0%	15.8	0.9%
2005	68.3	0.6%	0.0%	-20.4	-1.1%	18.1	0.9%
2006	77.7	0.6%	0.0%	-18.7	-1.0%	20.9	1.0%
2007	83.9	0.6%	0.0%	-20.3	-1.0%	20.5	1.0%
2008	89.9	0.7%	0.0%	-20.4	-1.0%	18.6	0.8%
2009	90.6	0.6%	0.0%	-24.3	-1.1%	15.2	0.7%
2010	94.5	0.6%	0.0%	-25.4	-1.1%	14.1	0.6%

Year	CAPITAL FORMATION (continued):					
	Stock of Capital[2]		Avg Aftertax Return to Capital[3]		Real Aftertax Return to New Corporate Capital[4]	
	Difference	%Change	Difference	%Change	Difference	%Change
1998	37.1	0.2%	0.08%	1.7%	0.01%	0.3%
1999	71.4	0.3%	0.10%	2.3%	0.07%	1.5%
2000	109.9	0.4%	0.11%	2.5%	0.08%	1.7%
2001	141.4	0.5%	0.08%	1.7%	0.04%	1.0%
2002	173.9	0.6%	0.09%	2.0%	0.02%	0.5%
2003	182.6	0.6%	0.05%	1.1%	0.01%	0.2%
2004	194.3	0.6%	0.06%	1.3%	0.01%	0.3%
2005	211.5	0.7%	0.05%	1.0%	0.02%	0.4%
2006	229.3	0.7%	0.06%	1.2%	0.02%	0.5%
2007	249.4	0.7%	0.06%	1.2%	0.01%	0.2%
2008	265.0	0.7%	0.05%	1.0%	0.01%	0.2%
2009	276.8	0.7%	0.04%	0.8%	0.00%	0.0%
2010	282.7	0.7%	0.03%	0.7%	0.00%	0.1%

Year	EMPLOYMENT & EARNINGS:					
	Full-time Jobs[5] (thousands)		Average Real Wage Rate		Avg Aftertax Wage Rate	
	Difference	%Change	Difference	%Change	Difference	%Change
1998	125	0.1%	$0.00	0.0%	$0.21	2.1%
1999	372	0.3%	$0.00	0.0%	$0.29	2.8%
2000	676	0.6%	-$0.01	-0.1%	$0.28	2.8%
2001	887	0.7%	-$0.02	-0.1%	$0.24	2.3%
2002	917	0.7%	-$0.02	-0.1%	$0.18	1.7%
2003	833	0.6%	-$0.02	-0.1%	$0.18	1.7%
2004	759	0.6%	-$0.01	-0.1%	$0.21	2.0%
2005	754	0.6%	-$0.01	0.0%	$0.23	2.2%
2006	819	0.6%	$0.00	0.0%	$0.27	2.5%
2007	883	0.6%	-$0.01	0.0%	$0.23	2.1%
2008	917	0.7%	-$0.01	0.0%	$0.23	2.1%
2009	901	0.6%	-$0.01	0.0%	$0.21	1.9%
2010	889	0.6%	-$0.01	0.0%	$0.25	2.2%

Table 4 (Continued)

Change From Baseline In Key Economic Variables

Income Tax Deduction for Social Security Taxes

Change From Baseline In Key Economic Variables Income Tax Deduction for Social Security Taxes (Amounts in $billions)						
CONSUMPTION, SAVING & WEALTH:						
Year	**Personal Consumption**		**Change in Private Domestic Wealth[6]**		**Private Domestic Income[7]**	
	Difference	**%Change**	**Difference**	**%Change**	**Difference**	**%Change**
1998	30.0	0.5%	-19.7	-2.0%	10.3	0.2%
1999	50.2	0.9%	-16.6	-1.6%	33.6	0.5%
2000	61.1	1.0%	-7.9	-0.7%	53.2	0.7%
2001	66.2	1.0%	-4.1	-0.4%	62.0	0.8%
2002	70.6	1.0%	-5.1	-0.4%	65.5	0.8%
2003	66.0	0.9%	-11.7	-1.0%	54.3	0.7%
2004	70.4	0.9%	-22.0	-1.7%	48.3	0.5%
2005	75.1	0.9%	-21.2	-1.6%	53.9	0.6%
2006	80.8	1.0%	-21.9	-1.6%	58.9	0.6%
2007	86.3	1.0%	-20.7	-1.4%	65.6	0.6%
2008	90.2	1.0%	-23.4	-1.5%	66.8	0.6%
2009	92.6	0.9%	-27.8	-1.8%	64.9	0.6%
2010	95.2	0.9%	-33.6	-2.0%	61.7	0.5%
CONSUMPTION, SAVING & WEALTH (continued):						
Year	**Real Disposable Private Income**		**Real Private Savings**		**Private Savings Rate[8]**	
	Difference	**%Change**	**Difference**	**%Change**	**Difference**	**%Change**
1998	42.1	0.9%	11.1	2.6%	0.2%	1.7%
1999	53.3	1.1%	14.9	3.4%	0.2%	2.3%
2000	62.0	1.3%	17.0	3.8%	0.2%	2.5%
2001	59.5	1.2%	13.8	3.0%	0.2%	1.7%
2002	63.5	1.2%	15.5	3.2%	0.2%	2.0%
2003	52.1	1.0%	10.4	2.1%	0.1%	1.1%
2004	58.8	1.1%	12.4	2.4%	0.1%	1.3%
2005	58.3	1.1%	11.2	2.1%	0.1%	1.0%
2006	63.0	1.1%	13.1	2.4%	0.1%	1.2%
2007	65.0	1.1%	13.4	2.3%	0.1%	1.2%
2008	64.7	1.1%	12.3	2.1%	0.1%	1.0%
2009	63.7	1.0%	11.5	1.9%	0.1%	0.8%
2010	63.4	1.0%	10.9	1.7%	0.1%	0.7%
GOVERNMENT ACCOUNTS:						
Year	**Federal Receipts[9]**		**Federal Surplus or Deficit (-)[9]**		**Government Surplus or Deficit (-)[9,10]**	
	Difference	**%Change**	**Difference**	**%Change**	**Difference**	**%Change**
1998	-42.5	-2.5%	-42.5	22.4%	-41.4	25.6%
1999	-39.8	-2.2%	-41.8	20.5%	-38.3	21.9%
2000	-36.2	-1.9%	-40.2	18.2%	-34.0	17.7%
2001	-33.0	-1.7%	-39.0	14.3%	-30.8	12.7%
2002	-34.4	-1.7%	-42.3	14.3%	-32.9	12.5%
2003	-31.9	-1.5%	-41.7	13.2%	-30.3	10.6%
2004	-41.5	-1.8%	-53.3	15.7%	-42.4	13.8%
2005	-43.4	-1.8%	-57.8	15.8%	-45.4	13.7%
2006	-43.8	-1.7%	-61.1	15.4%	-46.5	12.9%
2007	-45.3	-1.7%	-65.5	15.3%	-48.9	12.5%
2008	-47.0	-1.7%	-70.4	15.2%	-51.6	12.1%
2009	-50.4	-1.7%	-77.2	15.3%	-56.5	12.1%
2010	-53.1	-1.7%	-83.6	15.3%	-60.4	11.9%

Revenue Effects

An income tax deduction for payroll taxes would reduce revenues from the individual income tax by about 6.3 percent a year.[6] We estimate that the *static* revenue loss would amount to $246.3 billion between calendar years 1998 and 2002. The Joint Committee on Taxation has come up with a similar estimate.[7] [See Table 5 for static and dynamic revenue effects.]

Official scorekeepers like the JCT do not provide *dynamic* revenue estimates. That is, their estimates do not account for the likely economic effects of tax changes. However, if a tax cut leads to an improved economy, the added growth will offset some revenue loss from the cut.

Based on our estimates of the economic effects, the additional growth stimulated by the tax cut on labor would offset one-third of the static revenue loss between 1998 and 2002. [See Table 5.]

Table 5
Static & Dynamic Federal Revenue Effects
Income Tax Deduction for Social Security Taxes

Estimates from the Fiscal Associates Tax Model.

Static & Dynamic Federal Revenue Effects Income Tax Deduction for Social Security Taxes (Amounts in $billions)			
Year	**Static**	**Dynamic**	**% Offset**
1998	-45.1	-35.6	21.1%
1999	-47.7	-34.4	27.9%
2000	-49.5	-32.7	34.0%
2001	-50.9	-31.2	38.7%
2002	-53.2	-32.3	39.3%
2003	-56.1	-35.3	37.2%
2004	-59.0	-31.8	46.1%
2005	-61.8	-41.0	33.7%
2006	-64.6	-43.0	33.5%
2007	-67.5	-43.5	35.6%
2008	-70.9	-45.2	36.3%
2009	-74.6	-46.9	37.1%
2010	-78.2	-50.3	35.7%
1998-2002	-246.3	-166.1	32.6%
2003-2010	-532.6	-336.8	36.8%

Distributional Effects

Just as static revenue estimates ignore economic effects, so do standard distributional estimates. Such a distributional analysis would show that 76 percent of the tax cut from an income tax deduction for payroll taxes would go to taxpayers earning under $100,000. Because these same taxpayers pay 50 percent of federal income taxes, the tax cut package is progressive. [See Table 6 for distributional effects by income class.]

Of greater concern should be the extent to which people are better off after the tax cut, something that static analysis does not measure correctly. That is, what happens to people's incomes after tax? Income resulting from added growth would be more evenly distributed because much of it accrues to workers through greater job opportunities and higher wages. And lower and middle income taxpayers rely more heavily on income from labor than income from capital.

Distribution Of Static & Dynamic Changes, 2002 Income Tax Deduction for Social Security Taxes					
Adjusted Gross Income	**Baseline Returns**	**Baseline AGI**	**Baseline Tax**	**Static Change in Tax**	**Change in Aftertax Income**
All Returns	100.0%	100.0%	100.0%	100.0%	100.0%
No adjusted gross income	0.8%	-1.5%	0.0%	0.0%	0.1%
$1 under $5,000	10.3%	0.6%	0.0%	0.0%	0.3%
$5,000 under $10,000	9.4%	1.5%	0.1%	0.6%	1.0%
$10,000 under $15,000	8.8%	2.4%	0.5%	1.0%	1.6%
$15,000 under $20,000	7.0%	2.7%	1.0%	2.1%	2.4%
$20,000 under $25,000	6.1%	3.0%	1.6%	2.6%	2.8%
$25,000 under $30,000	4.6%	2.8%	1.7%	2.5%	2.7%
$30,000 under $40,000	13.1%	10.2%	6.5%	9.1%	9.7%
$40,000 under $50,000	8.6%	8.6%	6.2%	9.7%	9.4%
$50,000 under $75,000	19.2%	27.1%	20.6%	28.1%	28.3%
$75,000 under $100,000	6.4%	12.8%	12.2%	20.8%	17.7%
$100,000 under $200,000	4.2%	12.9%	16.2%	16.2%	14.7%
$200,000 under $500,000	1.1%	7.5%	12.9%	5.7%	5.8%
$500,000 under $1,000,000	0.2%	3.3%	6.8%	1.2%	1.7%
$1,000,000 or more	0.1%	6.1%	13.7%	0.6%	1.8%
CUMULATIVE DISTRIBUTION					
No adjusted gross income	0.8%	-1.5%	0.0%	0.0%	0.1%
$1 under $5,000	11.1%	-0.9%	0.0%	0.0%	0.4%
$5,000 under $10,000	20.4%	0.6%	0.1%	0.6%	1.4%
$10,000 under $15,000	29.2%	3.0%	0.6%	1.6%	3.0%
$15,000 under $20,000	36.2%	5.7%	1.6%	3.7%	5.4%
$20,000 under $25,000	42.3%	8.8%	3.2%	6.2%	8.2%
$25,000 under $30,000	46.9%	11.6%	4.8%	8.7%	10.9%
$30,000 under $40,000	60.0%	21.7%	11.4%	17.8%	20.6%
$40,000 under $50,000	68.7%	30.4%	17.5%	27.5%	30.0%
$50,000 under $75,000	87.9%	57.4%	38.1%	55.6%	58.3%
$75,000 under $100,000	94.3%	70.2%	50.4%	76.4%	75.9%
$100,000 under $200,000	98.5%	83.2%	66.6%	92.6%	90.7%
$200,000 under $500,000	99.7%	90.6%	79.4%	98.2%	96.5%
$500,000 under $1,000,000	99.9%	93.9%	86.3%	99.4%	98.2%
$1,000,000 or more	100.0%	100.0%	100.0%	100.0%	100.0%

Table 6
Distribution Of Static & Dynamic Changes, 2002
Income Tax Deduction for Social Security Taxes

Estimates from the Fiscal Associates Tax Model.

See Appendix Table A-2 for supporting data.

On average, taxpayers in the middle of the income distribution would experience roughly a 1.5 percent increase in aftertax income from the payroll tax deduction. Those in the top fifth would see their aftertax incomes increase by 1.7 percent. Taxpayers in the bottom fifth would experience the largest increase in aftertax income, 3.4 percent, because they pay little or no income tax and, therefore, get to keep more of their gains from growth. [See Table 7 and Figure 5 for changes in aftertax income by quintile.]

Table 7
Static & Dynamic Changes In Aftertax Income By Quintile, 2002
Income Tax Deduction for Social Security Taxes

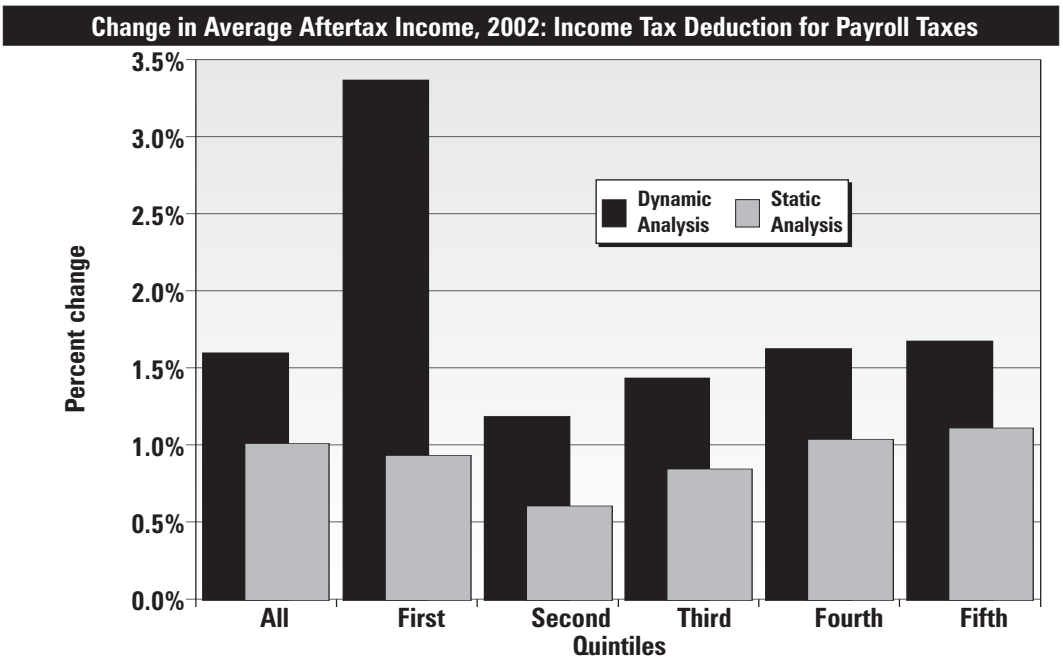
Estimates from the Fiscal Associates Tax Model.

[1] Adjusted Gross Income in quintile divided by number of returns.

Static & Dynamic Changes In Aftertax Income By Quintile, 2002 Income Tax Deduction for Social Security Taxes			
Average Aftertax Income[1]			
Quintiles	Baseline	Static	Dynamic
All	$39,444	$39,843	$40,074
First	$1,261	$1,273	$1,303
Second	$15,402	$15,495	$15,585
Third	$29,608	$29,858	$30,033
Fourth	$50,573	$51,097	$51,394
Fifth	$100,377	$101,492	$102,056

Increase in Aftertax Income				
Quintiles	Dollar Amounts		In Percent	
	Static	Dynamic	Static	Dynamic
All	$399	$630	1.0%	1.6%
First	$12	$42	0.9%	3.4%
Second	$93	$183	0.6%	1.2%
Third	$250	$425	0.8%	1.4%
Fourth	$524	$821	1.0%	1.6%
Fifth	$1,115	$1,679	1.1%	1.7%

Figure 5
Change in Average Aftertax Income, 2002
Income Tax Deduction for Payroll Taxes



Implications for Tax Reform

Because major tax reform remains on the policy agenda, at least for the longer run, tax proposals should be assessed within this context. All the major tax reform efforts underway aim for lowering marginal tax rates on work, saving, and investing.

The Ashcroft proposal would be a step in this direction. In fact, the Kemp Commission, which was charged with studying how to revamp the current tax system, recommended full deductibility of payroll taxes. Its report states that "making the payroll tax deductible, income taxes would be calculated on the basis of working families' real net incomes."[8]

An income tax deduction for payroll taxes also is a better way to provide relief to lower and middle income Americans than other proposals currently under consideration espousing that same objective. Tax credits for children or college tuition would have few positive economic effects and could be harmful if phased out at certain income levels, thereby raising marginal tax rates. Such targeted tax cuts, which single out some activities for special tax breaks, move away from, not toward, true tax reform.

Conclusions

Payroll taxes are for most Americans more burdensome than income taxes. Allowing workers to deduct the payroll taxes that they pay directly from their wages would offer some relief, particularly for those with lower and middle incomes. A payroll tax deduction also would provide a modest boost to the economy and, unlike the child or tuition tax credits, move in the same direction as broader-based tax reform.

Endnotes

1 The Advisory Council on Social Security, *Report of the 1994-1996 Advisory Council on Social Security*, Washington, DC, January 1997, Vol. 1.

2 For the economy as a whole, the weighted average marginal tax on wages from the federal income tax is 24 percent. The income tax deduction, therefore, is the same as a one percentage point reduction in the payroll tax rate (0.24 x 6.2% = 1.5%).

3 For more on the model see Gary and Aldona Robbins, *Accounting for Growth: Incorporating Dynamic Analysis into Revenue Estimation*, Lewisville, TX: Institute for Policy Innovation, Policy Report No. 138, July 1996.

4 In 1997, we estimate the economy-wide marginal tax rate on labor to be 41.8 percent. The components are 24 percent for the federal individual income tax, 12.8 percent for federal social insurance taxes, 4.6 percent for state and local income taxes and 1.6 for state and local social insurance taxes. The total is a little less than the sum of the components because state and local income taxes are deductible from federal income taxes.

5 Our model assumes a labor supply elasticity of 0.2. That is, a 10 percent increase in the aftertax wage rate will lead to a 2 percent increase in labor supply. For more explanation see Gary and Aldona Robbins, *Accounting for Growth: Incorporating Dynamic Analysis into Revenue Estimation*, Institute for Policy Innovation, TaxAction Analysis, Policy Report No. 138, July 1996.

6 The fiscal year 1998 budget estimates income tax revenues to be about $3.9 trillion betwee 1998 and 2002.

7 The Joint Committee on Taxation puts the revenue loss at $228.6 billion between fiscal years 1998 and 2002.

8 The National Commission on Economic Growth and Tax Reform, *Unleashing America's Potential: A Pro-growth, Pro-family Tax System for the 21st Century*, Washington, DC, January 1996, p. 17.

Appendix

Table A-1
Baseline Economic Assumptions

Estimates from Fiscal Associates Model.

[1] Includes revaluation of assets.

[2] Net aftertax income to capital divided by the stock of U.S. capital.

[3] Return to an investor on a new investment in corporate capital less taxes, inflation and depreciation.

[4] Hours worked divided by 1,960 hours, or 49, 40-hour weeks a year.

[5] Change in the total stock of capital plus the change in net foreign investment.

[6] Personal consumption plus the change in private domestic wealth. More comprehensive measure of income than Commerce's because it includes asset revaluation and the foreign sector.

[7] Real private savings divided by real disposable private income.

[8] On National Income and Product Account basis.

[9] Federal, state and local governments.

Baseline Economic Assumptions
(amounts in $billions)

OUTPUT

Year	GDP	Real GDP	Growth Rate
1997	7,852.2	5,917.7	2.6%
1998	8,257.8	6,066.2	2.5%
1999	8,684.5	6,218.6	2.5%
2000	9,132.7	6,374.4	2.5%
2001	9,604.1	6,534.3	2.5%
2002	10,100.1	6,698.2	2.5%
2003	10,621.9	6,866.5	2.5%
2004	11,170.0	7,038.5	2.5%
2005	11,746.5	7,214.9	2.5%
2006	12,353.1	7,395.9	2.5%
2007	12,990.2	7,581.0	2.5%
2008	13,660.5	7,770.9	2.5%
2009	14,365.6	7,965.7	2.5%
2010	15,107.5	8,165.6	2.5%

CAPITAL FORMATION

Year	Gross Investment	Gross Private Domestic Investment	Stock of Capital[1]	Return to Aftertax Capital[2]	Real Aftertax Return to New Corporate Capital[3]
1997	1,269.0	1,342.7	22,223.1	4.49%	4.49%
1998	1,341.6	1,410.3	23,279.5	4.49%	4.49%
1999	1,408.9	1,475.0	24,377.6	4.49%	4.49%
2000	1,478.0	1,543.2	25,520.6	4.50%	4.50%
2001	1,523.6	1,588.9	26,688.5	4.55%	4.55%
2002	1,597.3	1,663.6	27,908.5	4.58%	4.58%
2003	1,677.5	1,745.4	29,186.1	4.61%	4.61%
2004	1,761.2	1,831.1	30,523.6	4.64%	4.64%
2005	1,848.4	1,920.7	31,923.7	4.66%	4.66%
2006	1,937.3	2,012.3	33,386.9	4.69%	4.69%
2007	2,031.7	2,109.8	34,917.5	4.72%	4.72%
2008	2,128.2	2,209.4	36,516.4	4.75%	4.75%
2009	2,228.7	2,313.4	38,186.4	4.78%	4.78%
2010	2,335.2	2,423.5	39,932.1	4.82%	4.82%

EMPLOYMENT & EARNINGS

Year	Full-time Jobs (thousands)[4]	Average Real Wage Rate	Average Real Aftertax Wage Rate
1997	101,326	$16.42	$9.55
1998	102,929	$16.58	$10.06
1999	104,561	$16.75	$10.12
2000	106,223	$16.91	$10.24
2001	107,914	$17.08	$10.45
2002	109,636	$17.25	$10.52
2003	111,389	$17.43	$10.59
2004	113,173	$17.60	$10.73
2005	114,991	$17.77	$10.81
2006	116,842	$17.95	$10.89
2007	118,726	$18.12	$10.98
2008	120,646	$18.30	$11.08
2009	122,601	$18.48	$11.16
2010	124,592	$18.66	$11.26

Table A-1 (Continued)
Baseline Economic Assumptions

Baseline Economic Assumptions						
CONSUMPTION, SAVING & WEALTH						
Year	**Personal Consumption**	**Change in Private Domestic Wealth[5]**	**Private Domestic Income[6]**	**Real Disposable Private Income**	**Real Private Savings**	**Private Savings Rate[7]**
1997	5,207.1	947.0	6,154.0	4,454.6	412.1	9.3%
1998	5,478.8	987.6	6,466.4	4,568.3	421.5	9.2%
1999	5,770.6	1,032.0	6,802.6	4,689.1	432.6	9.2%
2000	6,080.5	1,077.9	7,158.4	4,816.8	445.7	9.3%
2001	6,434.2	1,102.6	7,536.8	4,969.8	465.0	9.4%
2002	6,780.8	1,153.7	7,934.5	5,108.5	481.7	9.4%
2003	7,143.2	1,209.7	8,352.9	5,249.1	498.7	9.5%
2004	7,524.8	1,267.7	8,792.4	5,393.3	515.9	9.6%
2005	7,927.4	1,327.7	9,255.1	5,541.8	533.8	9.6%
2006	8,354.3	1,388.2	9,742.4	5,696.2	552.6	9.7%
2007	8,802.0	1,452.6	10,254.5	5,853.4	571.7	9.8%
2008	9,276.3	1,517.6	10,794.0	6,016.7	591.9	9.8%
2009	9,776.8	1,585.3	11,362.2	6,185.1	612.9	9.9%
2010	10,303.1	1,657.4	11,960.5	6,357.6	634.7	10.0%
GOVERNMENT ACCOUNTS						
Year	**Federal Receipts[8]**		**Federal Surplus or Deficit (-)[8]**		**Government Surplus or Deficit (-)[8,9]**	
1997	1,625.6		-190.2		-157.5	
1998	1,713.1		-189.3		-161.7	
1999	1,806.6		-203.4		-175.0	
2000	1,900.6		-221.4		-192.2	
2001	1,974.7		-271.9		-241.8	
2002	2,077.5		-294.9		-263.9	
2003	2,188.4		-316.5		-284.5	
2004	2,305.0		-339.9		-307.0	
2005	2,427.4		-365.8		-331.9	
2006	2,554.0		-396.6		-361.7	
2007	2,688.9		-427.8		-391.8	
2008	2,828.7		-464.3		-427.2	
2009	2,975.7		-504.0		-465.8	
2010	3,131.8		-545.2		-505.9	

Table A-2
Distributional Effects Of The Income Tax Deduction For Social Security Taxes, 2002

Estimates from the Fiscal Associates Tax Model.

Distributional Effects Of The Income Tax Deduction For Social Security Taxes, 2002 (Amounts in $millions)							
	Number of Returns	Baseline AGI	Baseline Tax	Static Change in Tax	Change in AGI	Change in Tax	Change in Aftertax Income
All Returns	133,450	6,148,301	884,488	-53,212	38,336	-45,742	84,078
No adjusted gross income	1,077	-90,248	0	0	77	0	77
$1 under $5,000	13,680	35,169	0	0	219	0	219
$5,000 under $10,000	12,494	93,509	602	-328	595	-283	877
$10,000 under $15,000	11,767	148,404	4,266	-521	935	-446	1,381
$15,000 under $20,000	9,324	165,124	9,232	-1,093	1,032	-956	1,987
$20,000 under $25,000	8,131	186,396	13,864	-1,366	1,163	-1,206	2,368
$25,000 under $30,000	6,165	172,782	14,687	-1,314	1,076	-1,169	2,245
$30,000 under $40,000	17,448	624,906	57,861	-4,843	3,865	-4,331	8,196
$40,000 under $50,000	11,530	530,564	54,630	-5,153	3,274	-4,628	7,902
$50,000 under $75,000	25,679	1,663,123	182,183	-14,969	10,259	-13,498	23,757
$75,000 under $100,000	8,591	787,449	108,061	-11,063	4,866	-9,980	14,846
$100,000 under $200,000	5,609	796,011	143,338	-8,607	4,960	-7,435	12,395
$200,000 under $500,000	1,526	460,024	113,885	-3,023	2,866	-2,032	4,899
$500,000 under $1,000,000	289	201,146	60,447	-631	1,200	-198	1,398
$1,000,000 or more	138	373,945	121,432	-301	1,951	419	1,532

About the Authors

Gary Robbins is President of Fiscal Associates, an Arlington, VA economic consulting firm, and John M. Olin Senior Research Fellow of IPI. Mr. Robbins has developed a general equilibrium model of the U.S. economy that specifically incorporates the effects of taxes and government spending. He was Chief of the Applied Econometrics Staff at the U.S. Treasury Department from 1982 to 1985. He served as assistant to the Under Secretary for Tax and Economic Affairs from 1981 to 1982, and as Assistant to the Director of the Office of Tax Analysis from 1975 to 1981. Recent publications include IPI Policy Report #138: *Accounting for Growth: Incorporating Dynamic Analysis into Revenue Estimation,* and IPI Policy Report #140: *Tax Cuts: Who Wins? Who Loses.* Mr. Robbins' articles and analysis frequently appear in the financial press. He received his master's degree in Economics from Southern Methodist University.

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