AMERICANS FOR TAX REFORM

TAX INCREASE ALERT

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Raising the Social Security Tax Ceiling Is a Tax Increase

With Social Security becoming a major issue for 2005, people are calling for several different tax increases to shore up the system. The most often discussed proposal has been one to increase the maximum amount of income on which the Social Security payroll tax would be levied. President Bush did not endorse proposal. It would be fairly inconsistent with his stated opposition to raise taxes.

Currently the 12.4 percent tax on Social Security is levied on wages up to $87,900. Some proposals would lift to maximum wage to be taxed to at least $160,000 and possibly as high as $200,000. If this proposal sounds familiar, you are right. It is very similar to a proposal Democratic presidential candidate John Kerry had floated during his failed campaign for president. **The only difference is that Kerry only wanted to tax up to $120,000 of taxable wages while some people are proposing a much larger tax increase than the liberal Senator from Massachusetts.**

How will this proposal affect a family with $110,000 of income? According to economist Martin Feldstein, a family making $110,000 would face a tax increase of more than $2,700 per year.[1] This is essentially a 20 percent increase of this family's tax bill. Moreover, this tax increase will wipe out most, if not all, of the President Bush's tax cuts delivered over the past four years.

How much tax revenue will flow to the government? According to Feldstein, the government will collect $19 billion of static revenue if the ceiling was placed at $120,000 as Kerry proposed. This is miniscule compared to amount Sen. Graham says would be needed to finance the transition to personal retirement accounts. More importantly, drastically raising the marginal tax rate will reduce the incentives to work, save, and invest, which reduces the amount of revenue collected. Feldstein estimates the revenue collected will be just $16 billion while shrinking personal income tax collections, state tax collections, and Medicare tax collections. As a result, the tax increase will yield just a net $5 billion in revenues.

How will this proposal impact the economy? Feldstein further estimates the total deadweight loss would be roughly $9 billion if the ceiling was lifted to $120,000. Added together with the net revenue effect, the total cost is $14 billion. This equates to taxpayers paying $3 for every $1 of tax revenue collected.

Feldstein concluded, **"It's hard to think of a worse tax policy than one that raises very little revenue but causes a very large distortionary deadweight loss."** Americans for Tax Reform feels the same way and urge members of Congress to reject these unneeded, economic growth destroying tax increases.

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[1] Martin Feldstein, The $110,000 Question, *Wall Street Journal*, September 1, 2004.