Social Security

Memorandum

Date: April 18, 2002

To: Kim Hildred, Majority Staff Director
House Ways and Means Subcommittee on Social Security

From: Stephen C. Goss, Chief Actuary

Subject: Preliminary Estimate of OASDI Financial Effect of Proposed Legislation to Modify Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 -- INFORMATION

The Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16, was enacted on June 7, 2001. This Act modified the Internal Revenue Code of 1986, providing for reduced personal income tax rates that are scheduled to reach a reduction of about 10 percent for the tax year 2010. Title IX of this Act will "sunset" these provisions, resulting in a return to tax rates as if these provisions had not been enacted, starting with tax year 2011. As indicated in the 2002 OASDI Trustees Report, this act has an indirect effect on the revenue received by the OASDI program (and the Medicare HI program) because it reduces tax liability on OASDI benefits for tax years through 2010. This effect was reflected in the estimates shown in the 2002 Trustees Reports. The reduction of revenue to the OASDI program that will result from this Act is very roughly estimated on the order of about $10 billion. This reduction had a negligible effect on the long-range OASDI actuarial balance, as indicated in the 2002 Trustees Report.

Today, Mr. Thomas, Chairman of the House Ways and Means Committee, is proposing an amendment to the Fairness for Foster Care Families Act of 2001 (H.R. 586) that would modify the provisions enacted with Public Law 107-16. Section 101 of this amendment would repeal Title IX of Public Law 107-16, thereby making the reductions in personal income tax rates effective for tax year 2010 permanent. This provision alone would significantly reduce revenue to the OASDI program starting with 2011. On a preliminary basis, the effect of this section is estimated to reduce the long-range OASDI actuarial balance by about 0.07 percent of effective taxable payroll.

However, section 102 of the proposed amendment to H.R. 586 specifies that "The amounts transferred to any trust fund under the Social Security Act shall be determined as if the Economic Growth and Tax Relief Reconciliation Act of 2001 had not been enacted." Our understanding of the intent of this section is that it would result in a transfer of revenue to the OASI, DI, and HI Trust Funds based on calculations by the Secretary of the Treasury of the estimated additional amount of tax liability that would apply for OASDI benefits for tax years 2002 and later if personal income tax rates (and brackets) were used without regard to the changes in Public Law 107-16 and this amendment. (Thus, this provision would not require the calculation to include an estimate of the possible behavioral effects that these changes have on the level of income.) As a result, for years 2011 and later, the revenue transferred to the Trust Funds based on section 102 of the amendment would essentially offset, or replace, the reductions due to section 101.

The net effect of this amendment to H.R. 586 on the OASDI long-range actuarial balance would be negligible (i.e., less than 0.005 percent of taxable payroll). For tax years 2002 through 2010, this amendment would result in an increase in revenue to the OASI and DI Trust Funds. We will be in contact with the Office of Tax Analysis of the Department of the Treasury for their assistance in developing an estimate of the additional revenue that would be provided to the OASDI program based on this amendment under the intermediate assumptions of the 2002 Trustees Report.

Stephen C. Goss