DEPARTMENT OF HEALTH & HUMAN SERVICES

A fax message from:

Melissa T. Skolfield
Deputy Assistant Secretary for Public Affairs
Phone: (202) 690-6853 Fax: (202) 690-5673

To: Bruce Reed / Kathy Mays

Fax: 456-7431 Phone:

Date: 2-25-94 Total number of pages sent: 3

Comments:

Bruce & Carol made comments to the welfare finance talking points last nite & this morning. But, I'm faxing them to you again.

Any ?'s - I'm at 690-6889.

Ange Amores

200 Independence Avenue, S.W., Bldg. HHH, Room 647-D, Washington, D.C. 20201

TALKING POINTS 2/25/94
WELFARE FINANCING

(Contact: Melissa Skolfield, HHS)

The Administration is committed to the introduction of a welfare reform plan which will be deficit neutral. That means that new investments in child care, jobs, education and training programs for AFDC recipients will be paid for by other changes that will save or raise money.

We are committed to the letter and the spirit of the 1990 budget law, which requires paying for any new spending increases with offsetting taxes or program reductions.

All discussions are very preliminary, and no decisions have been made. The welfare reform working group appointed by the President has not yet reached any final decisions, although they are working very hard to fulfill the President's pledge to introduce legislation this spring. The Department of Health and Human Services, the Office of Management and Budget, and the Treasury Department are working cooperatively to develop a list of possible financing options.

To pay for the investments in the plan, staff at HHS, OMB and Treasury are exploring a number of entitlement reforms as well as measures that would raise revenue. Because discussions are in a very preliminary phase, there are 40 or more options currently on the table. None of them have been presented to the President; none of them can be ruled in or out at this stage.

The bulk of the financing, however, would come from entitlement reforms. (If asked: Social Security, Medicare and Medicaid are not being considered for cuts. That leaves Supplemental Security Income, AFDC, food stamps, the Earned Income Tax Credit, and some smaller entitlement programs. We have ruled out taxing benefits for the poor.)

Additional savings will come from within the plan itself. For example, money saved by streamlining program administration will be used for job training. And stepped up child support enforcement will mean fewer women go on welfare in the first place.

It is not true that financing is limiting the development of the plan or the way it is phased in. The welfare reform working group is expected to recommend a gradual phase-in of the plan, but that decision is based on capacity issues and discussions with local welfare administrators.

FINANCING
WR - ~~IDEA (HA)~~
→ WITHHOLD ENTITLEMENT
BENEFITS FROM $100,000+ GRAND

NETWORK
A National Catholic Social Justice Lobby
806 Rhode Island Avenue NE ■ Washington DC 20018 ■ (202) 526-4070 ■ FAX (202) 832-4635

October 4, 1993

Bruce Reed
Deputy Assistant to the President for Domestic Policy
White House Old Executive Office Building
Room 216
Washington, DC 20501

Dear Bruce:

I am a member of the steering committee for the National Neighborhood Coalition. You spoke at one of our monthly forums. Last Thursday one of my colleagues, British Robinson, was present when you spoke at the National Alliance to End Homelessness. One of the questions posed at Thrusday's meeting had to do with laying on the table all housing-related federal costs, including tax expenditures which predominately benefit the wealthy and low-income housing outlays.

Enclosed are two articles written by NETWORK's economist, Amata Miller, IHM, that I hope you'll take time to read. Although changes of the kind suggested in the articles are not yet politically feasible, it is only when the questions are raised that policy-makers will choose to act.

NETWORK believes strongly that the moral fabric of a nation is determined by how well it provides for the poor in its midst. Further, we believe that special priority needs to be given to the poor and vulnerable since those with the greatest needs and burdens have first claim on our common efforts. We are heartened by the Administration's rhetoric which indicates sensitivity to our concerns.

Bruce, I look forward more opportunities to work with you in the future.

Sincerely,

Richelle Friedman

Richelle Friedman, PBVM
NETWORK Lobbyist

Recycled Paper

By Amata Miller, IHM

Tax Expenditures

Silent Spending

In the annual budget politicking, one multi-billion dollar category—tax expenditures—escapes mention. Recent studies have aptly called tax expenditures "silent spending," "missing money," "phantom corporate welfare," and "entitlements conveyed through the tax code."

Originally enacted to advance some social purpose, tax expenditures affect the overall allocation of resources, the equity of the distribution of public goods and services, the progressivity of the tax system, and the size of the budget deficit. NETWORK believes that concerned citizens should help shatter the silence about this form of expenditure and hold their legislators accountable for it.

What Are Tax Expenditures?

The federal government defines tax expenditures as "revenue losses due to preferential provisions of the Federal tax laws." In effect, they are subsidies provided through the tax system rather than as direct payments from the Treasury. Like direct expenditures they provide benefits and give incentives for or against various activities.

Tax expenditures come in three basic forms:

1. Tax **deductions** allow corporations and individuals to subtract certain expenses from their taxable income. Examples are the deductions for charitable contributions and for interest paid on home mortgages.
2. Tax **exclusions** are income or transactions that are not subject to taxation at all. Interest earned on investments in state and local bonds is not taxable. The income received by charitable and religious organizations is not taxable nor are employer contributions for medical insurance premiums and medical care.
3. Tax **credits** are issued by governments for certain expenditures and activities. Credits are more valuable than deductions or exclusions because they reduce the amount of taxes due, rather than the amount of taxable income. For example, in the 1970's a tax credit was given for investments to increase energy efficiency. Spending $100 for this purpose reduced a homeowner's tax bill by $100. An incentive in the form of a deduction or exclusion would have given a homeowner in the 15% bracket a tax cut of $15, and in the 28% bracket one of $28 for a $100 investment.

Progressives have special interest in the Earned Income Tax Credit (EITC) enacted in 1975 to augment the income of low income working people in families with dependent children. The EITC is a "refundable" tax credit on earned income below a certain maximum ($22,370 in 1992). For those with income too low to owe any federal income tax (i.e. less than $15,000) the credit is fully refundable, i.e. families receive a check from the government for the amount of the credit (as much as $2,211). Intended as a work incentive, the credit increases as earnings rise—up to the income limit.

Reasons for Concern

The use of tax policy to accomplish social purposes began in 1918. In that time of budget stringency, Congress increased veterans' benefits simply by exempting them from taxation. Since then tax expenditures have mushroomed, and citizen concern is warranted.

Tax expenditures are absent from annual budget debates.

Once enacted, tax expenditures are "entitlement" programs. They confer benefits on eligible persons and groups without any budget ceiling. But unlike other entitlement programs—Medicare, food stamps, Medicaid—tax expenditures are "off budget" (i.e. not listed as line items in the budget). This distorts the debates over trade-offs. With the "missing money" of tax expenditures absent from the discussion, direct expenditure programs are cut and taxes are raised without full consideration of options available.

Federal housing policy in the 1980's is an example of how such constricted options are harmful to low-income persons. In 1983 direct expenditures for housing-related programs primarily for the poor were $10 billion. Tax expenditures for housing, primarily benefiting middle-and upper-income taxpayers were $40.6 billion. This means that there were $4.06 of tax expenditures for every $1.00 of direct expenditures. Over the 1980's direct housing programs were cut drastically but tax expenditures remained largely unscathed. Thus, by 1991 tax expenditures had risen to $81 billion, approximately $4.55 for every $1.00 in direct expenditures on housing programs.

Tax expenditure programs worsen inequality.

Some of the largest tax expenditures are a form of "welfare for the well off."

Neil Howe and Phillip Longman in a call for comprehensive entitlement reform in *The Atlantic Monthly* in April,

1992 exposed this aspect of several tax expenditures totalling $170 billion.

- The child-care credit ($3 billion in 1991) gave almost no benefit to those with incomes under $10,000, but $1.2 billion to those with incomes over $50,000.
- The exclusion of employer-paid health care from both income and payroll taxation deprived the Treasury of $60 billion in 1991. Yet it gave no benefit to the 37 million uninsured or the 32 million who pay for their insurance out of their own pockets. And among households covered by employer-paid health-care plans the average benefit to those in highest income brackets was many times that for those in lowest income brackets.
- Benefits from the mortgage interest deduction averaged $3,469 for taxpayers with incomes over $100,000, and $516 for those in the $20,000-$30,000 bracket, but nothing to 36 million Americans in poverty. Households with income over $50,000 received 81 percent of the benefits of this tax expenditure which cost the Treasury $37 billion in 1991 ($45 billion in FY93).
- The exclusion of most Social Security income and the insurance value of Medicare benefits cost the Treasury $34 billion in 1991. Howe and Longman observe that this does nothing for the 40 percent of senior citizens who are too poor to pay taxes, but it subsidizes the 37 percent of senior citizens who regularly vacation abroad. All other industrial nations treat all or most of social insurance benefits as taxable income and use other programs to meet special needs.

Tax expenditures have contributed to the shift of the tax burden from corporations to individuals.

In the 1950's corporations paid 39 percent and individuals 61 percent of total income taxes. Three decades later the corporate share had dropped to 17 percent and that of individuals had risen to 83 percent.

According to tax economist Randy Albeda, this shift has occurred on both federal and state levels.* Her research revealed that tax expenditures, unlike direct outlays, tend to subsidize corporations and commercial activities rather than providing for human needs. The 1986 tax reform reversed the trend somewhat, but pressure to restore some of the corporate loopholes is building.

The largest tax expenditure listed in the FY93 report of the federal government is the exclusion of employer contributions to and earnings on pension plans ($51 billion). In addition, the accelerated depreciation allowance ($27 billion) allows the write off of buildings, equipment, and machinery at a faster rate than actual depreciation.

Corporations are lobbying now to add the value of "intangibles," such as customer lists and brand names, to the assets eligible for this write off. Jane Gravelle of the Congressional Research Service estimates that this would cost $2 billion or more per year in lost revenue. Unions representing food company workers argue that it would hasten mergers and destroy jobs.

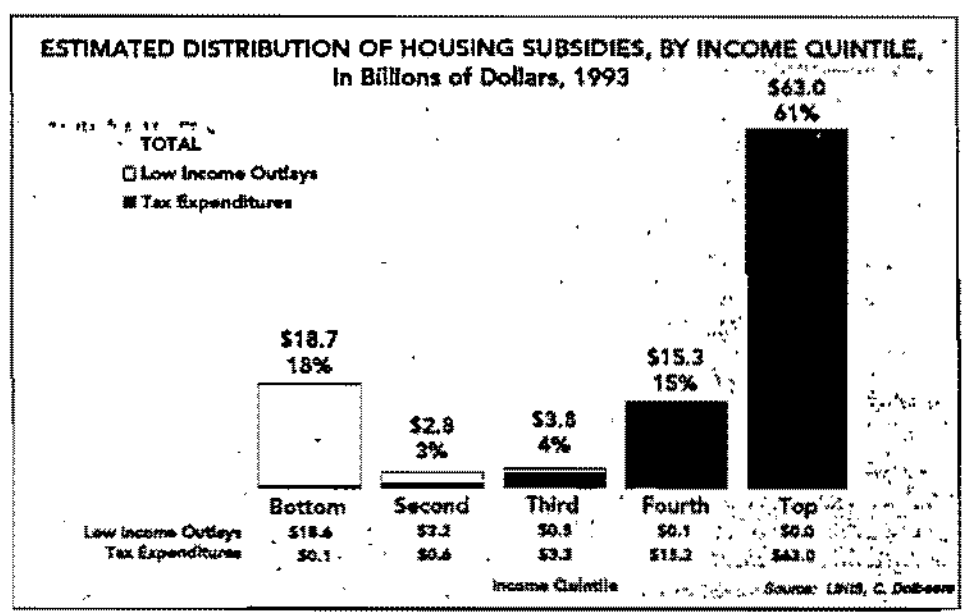
The tax expenditure process is undemocratic.

Proponents of tax expenditures such as the write off of "intangibles" tend to be well organized and financed special interest groups. Because once they are enacted tax expenditures virtually disappear from public view, and because there is no government agency on which to focus dissatisfaction, opposition is almost non-existent or unorganized. For example, because of widespread ignorance about the inequitable distribution of the deduction for mortgage interest, real estate interests can defeat any effort to cap it. A better informed populace would probably support a cap which preserved the deduction for the average homeowner's primary dwelling.

These concerns highlight the importance of shattering the silence about tax expenditures (on the state and local as well as federal level) to expose their inequities and effects on allocation of resources, on the tax system and on the hard choices made in tight budgets. Randy Albeda and Cynthia Mann issue the call cogently: "Our challenge is to force the politicians to tell us how and when and whom they're going to tax [or give tax forgiveness to]. Because even if we don't talk tax [expenditures], we can be sure that *Fortune* magazine, the big business lobbies, and the backroom negotiators will be talking tax behind our backs, and lawmakers will be listening." ☐

Amata Miller, IHM, is NETWORK's Economist and Education Coordinator.

Sources: Randy Albeda and Cynthia Mann, "Can We Talk Taxes?" Dollars & Sense (October, 1988); Warren Gregory and John Morberg, Silent Spending: Tax Expenditures and the Competition for Public Dollars, *Michigan House of Representatives, House Fiscal Agency (May, 1990); Neil Howe and Phillip Longman, "The Next New Deal,"* The Atlantic Monthly *(April, 1992); Daniel O. Huff and David A. Johnson, "Phantom Welfare: Public Relief for Corporate America."* Social Work *(May, 1993); Carole Sonnenfeld,* Missing Money: A Common Cause Study of Federal Tax Expenditures, *1985.*



by Amata Miller, IHM

Entitlements: Time to Ask the Hard Questions

"Call them entitlements, and they're the voracious bobgoblins of federal spending. Call them programs to help the old, the hungry, the sick, the blind, those who have fought for our country, and they've got the public's broad support as essential underpinnings of a civilized society."

In these words John Rother public policy director for the American Association of Retired Persons (AARP), cogently characterizes the public's ambiguity–and ignorance–about the group of federal programs called "entitlements." This politically charged situation spawns misinformation, myth-making, manipulation, and misallocation of scarce resources.

Clarifying the Term

Entitlements are programs (e.g. Social Security, food stamps, Medicare, unemployment compensation, veterans pensions) which award benefits according to a fixed formula to persons meeting eligibility requirements set by Congress. Once enacted into law, entitlement programs become in budget language "mandatory spending" and are not subject to annual appropriations. As such, they are uncontrollable items in the budget, since any one who qualifies receives the benefit, regardless of the total cost.

Federal entitlements come in two forms: tax expenditures--the reduction of taxes due (see July/August 1993 NETWORK Connection); and direct outlays, what the public usually thinks about when it hears the term "entitlements."

Areas of Concern

From a budgetary perspective, direct entitlement spending, projected to total $770 billion in 1993, is now more than half of the total federal budget, and growing uncontrollably. Advocating cutting entitlements as a broad category gives cover to politicians whose constituents would balk at reductions in specific benefit programs.

Given 1990s economic and political realities, those working for social justice have to be concerned about the magnitude of entitlement spending (and tax expenditures too!). But ours must be an informed concern, probing specific problem areas needing reform.

1. Why are costs rising?

Three programs account for two-thirds of total entitlement spending: Social Security, Medicare and Medicaid. Of these only Medicare, national health insurance for the elderly, and Medicaid, state-federal health program for the poor, are actually running rampant. Since 1980 spending on these two programs has risen from 8 percent of the federal budget to 12 percent. Without comprehensive health care reform these costs will more than double by 1998.

Social Security benefits rise at the rate of inflation and 1980s payroll tax increases have more than paid for the increasing benefit payments. Spending on other entitlement programs such as food stamps and AFDC has for many years failed to keep up with inflation and the increase in numbers of eligible persons.

Even if we completely abolished food stamps, AFDC, farm price supports, child nutrition programs and veterans' pensions, entitlement spending would still be a greater proportion of the federal budget by 1998 than it is now, unless the costs of the two health care programs are brought under control.

2. Who are we really subsidizing?

Only one of every eight dollars of federal entitlement outlays goes to those living in poverty. As much as 80 percent of total benefit dollars are in programs requiring no evidence of financial need.

And the benefits are skewed towards the well-off. Neil Howe and Phillip Longman in a detailed analysis revealed some startling facts.

- In 1991 U.S. households with incomes over $100,000 (the richest 5 percent) received an average of $5,960 in federal cash and in-kind benefits, while those with incomes under $10,000 received an average of $5,560.
- From 1980-91 in inflation-adjusted dollars, the average federal benefit received by households with incomes under $10,000 declined by 10 percent. Meanwhile, the benefits (mostly Social Security, Medicare, and federal pensions) to those with incomes over $200,000 fully doubled.
- Medicare spent $19 billion in 1991 subsidizing the health care of households earning $50,000 or more (the richest third of all households).
- Military and civil service employees

with incomes over $100,000 received $9.2 billion from the Treasury in 1991.

- Social Security, instituted in 1935 as a protection against destitution, distributed more than 20 percent of its benefits in 1991 to households with incomes above $50,000.
- $50,000 each, on average, went in direct federal farm subsidies to the 30,000 farmers with largest gross receipts. Almost two thirds of the total payments go to the richest 25 of the farms.

Their conclusion: what we have is a "welfare state for the affluent."

3. Do the original reasons for them still hold?

Many of the entitlement programs began during the New Deal, and have their own constituency which resists change in them even though the original realities which gave birth to the programs no longer hold. No program illustrates this better than Social Security.

Today more than 60 percent of all benefit spending goes to the 12 percent of the population who are elderly. When Social Security was enacted in the 1930's seniors were the poorest age group; by 1969 one in four elderly persons still lived in poverty. Now, largely because Social Security benefits are indexed against inflation, and Medicare provides health insurance for all those over 65, only 12 percent of the elderly (3.7 million persons) are poor.

But now 21 percent of our children under the age of 18 live in poverty; up from 14 percent in 1969. And there is no entitlement program to put a floor under their support and no national health insurance program to guarantee their access to health care. Another aspect of the Social Security program is rooted in an obsolete assumption. Based on past family patterns, the benefits of a deceased father are awarded to non-elderly households in which widowed mothers are raising children. However, in 1990 the 13 million children being raised by not-widowed single mothers had no federal benefit program to assist them.

It is time to examine the major entitlement programs in light of current needs, of shifting national priorities, and of the inequities in benefit distribution.

Proposals for Change

As legislators seek to reduce federal deficits, proposals for a cap on entitlements are regularly introduced. This is a bad idea.

1) Capping entitlements simply postpones the difficult program-by-program cutbacks required to live within any cap.
2) An across-the-board cut axing all entitlement programs would harm both slow- and fast-growing ones--ultimately doing most harm to the poorest and most vulnerable.
3) To set a cap, some forecast of total cost is needed. But the factors that determine entitlement spending--economic downturns, inflation, and changes in eligible populations--are largely unpredictable.

A much better approach would be to begin discussing a reform proposal like that of Neil Howe and Phillip Longman, who call for improving the equity of entitlements and freeing up resources to meet other needs by applying one simple principle: "one's benefits should be proportional to one's need--whatever the form of the subsidy."

Structuring a reform according to this principle would mean that:

1) it should not reduce the income of any household to anywhere near the poverty line;
2) it should adjust benefits according to a graduated scale, not completely eliminating the benefits of any currently eligible household;
3) it should take into account the "quasi-contractual" nature of some of the programs. For example, federal employee pensions are really part of deferred compensation, since the employees accepted wages lower than in the private sector in view of better pension benefits. But Social Security benefits are not linked to what a person paid into the system; no records of contributions are even kept by the Social Security Administration. The benefits are related to a person's wage history. And today's retirees are receiving benefits worth two to ten times what they would have earned had they invested all their lifetime social security taxes (theirs and their employers') in Treasury bonds.

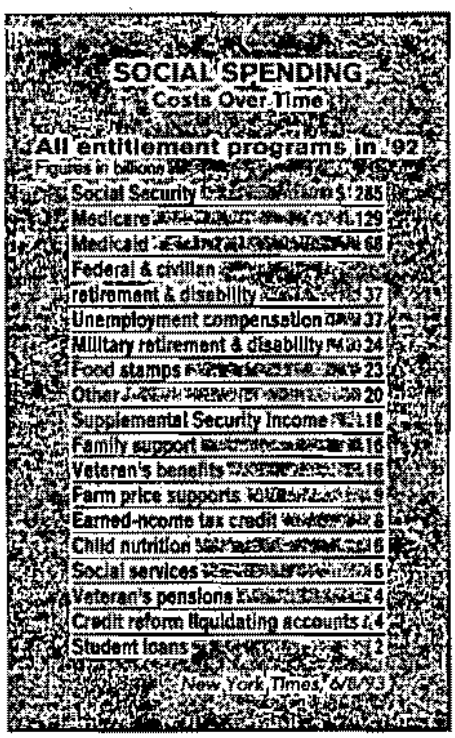
These three principles could be embodied in a "benefit-withholding liability" feature in the tax system. Following the above criteria, a percentage of benefits for higher-income households would be withheld (e.g. 7.5 percent of any benefits that cause total household income to exceed $30,000). Benefits received would be listed on tax returns and the withholding would be processed by the IRS along with income taxes.

This would require only one congressional action (not a review of each program), create no new bureaucracy, and could be done relatively quickly while the debate over program reforms proceeds.

It is clearly time to begin a thorough and informed discussion about entitlements. We can no longer avoid asking ourselves why we are unable to find the money to feed, house and educate our poor children while we continue to subsidize the well-off. ❑

Amata Miller, IHM, is NETWORK's Economist and Education Coordinator.

Sources: Neil Howe and Phillip Longman, "The Next New Deal," Atlantic Monthly, April, 1992; Viveca Novak, "Entitlements Waltz," National Journal, 10/17/92; David Rosenbaum, "Answer: Cut Entitlements. Question: But How?" New York Times, 6/8/93.



WR-
Financing

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

PHONE: (202)690-7858 FAX: (202)690-7383

Date: _____

From: David T. Ellwood/Geri

Division: _____

City & State: _____

Office Number: _____

Fax Number: _____

To: Bruce Reed

Division: _____

City & State: _____

Office Number: 456-6515

Fax Number: 456-7431

Number of Pages + cover 9

REMARKS: _____

MEMORANDUM

To: The Secretary

From: David T. Ellwood

Re: Entitlements

Enclosed are a few materials on overall entitlement levels and growth. A few basic facts:

o Of the projected growth in entitlements between 1985 and 1998, 70% is from health costs.

o In 1993 AFDC, Food Stamsps and SSI accounted for less than 9% of entitlements and less than 5% of the total budget.

o Social Security remains the largest entitlement by far , accounting for over 40% of all entitlements and over 20% of Federal expenditures.

Bruce + Rob
FYI
D.T.E

FEDERAL OUTLAYS BY CATEGORIES FOR SELECTED YEARS

[By fiscal year]

	estimated 1960	1970	1980	1985	1990	estimated 1993	projected 1998
	In nominal dollars (billions)						
Defense discretionary	47.0	81.9	134.6	253.1	300.1	294.0	a
International discretionary	4.0	4.0	12.8	17.4	19.1	21.0	a
Domestic discretionary	16.0	42.5	131.9	163.4	189.0	246.0	a
Subtotal, discretionary	67.0	128.4	279.3	433.9	508.2	547.0	556.0
Social Security	11.0	29.6	117.1	186.4	246.5	302.0	391.0
Medicare	0	6.8	34.0	69.7	107.4	143.0	239.0
Medicaid	0	2.7	14.0	22.7	41.1	76.0	139.0
AFDC, SSI, Food Stamps	3.0	4.7	22.2	30.4	39.7	63.0	79.0
Other entitlements and mandatories	12.0	21.1	101.5	123.1	126.3	165.0	179.0
Subtotal, mandatory	26.0	64.9	288.8	432.3	561.0	749.0	1,027.0
Net Interest	7.0	14.4	52.5	129.5	184.2	198.0	253.0
Deposit Insurance	-0.3	-0.5	-0.4	-2.2	58.1	-26.0	-10.0
Offsetting receipts	-7.0	-11.5	-29.2	-47.1	-58.8	-67.0	-85.0
Total	$92.2	$195.6	$590.9	$946.4	$1,252.7	$1,416.0	$1,747.0

a: not available.

Note. Net Discretionary Outlays equals Discretionary Outlays minus Offsetting Receipts (the breakdown of Offsetting Receipts which should have been netted against Mandatory Outlays was not available). Agriculture price supports have been included in Domestic Discretionary Outlays. Outlays have been adjusted for inflation using the CPI-U.

Source: Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-1998, January 26, 1993 and The Economic and Budget Outlook: An Update, September, 1993

FEDERAL OUTLAYS BY CATEGORIES FOR SELECTED YEARS

[By fiscal year]

	estimated 1960	1970	1980	1985	1990	estimated 1993	projected 1998
	In constant 1992 dollars (billions)						
Defense discretionary	208.7	278.2	229.5	341.8	322.1	284.9	a
International discretionary	17.8	13.6	21.8	23.5	20.5	20.3	a
Domestic discretionary	71.0	144.4	224.9	220.6	202.9	238.4	a
Subtotal, discretionary	297.5	436.2	476.1	585.9	545.5	530.0	463.8
Social Security	48.8	100.6	199.6	251.7	264.6	292.6	326.2
Medicare	0	23.1	58.0	94.1	115.3	138.6	199.4
Medicaid	0	9.2	23.9	30.7	44.1	73.6	116.0
AFDC, SSI, Food Stamps	13.3	16.0	37.8	41.1	42.6	61.0	65.9
Other entitlements and mandatories	53.3	71.7	173.0	166.2	135.6	159.9	149.3
Subtotal, mandatory	115.4	220.5	492.3	583.8	602.2	725.8	856.8
Net Interest	31.1	48.9	89.5	174.9	197.7	191.9	211.1
Deposit Insurance	-1.3	-1.7	-0.7	-3.0	62.4	-25.2	-8.3
Offsetting receipts	-31.1	-39.1	-49.8	-63.6	-63.1	-64.9	-70.9
Total	$409.5	$664.5	$1,007.3	$1,278.0	$1,344.7	$1,372.1	$1,457.4

a: not available.

Note. Net Discretionary Outlays equals Discretionary Outlays minus Offsetting Receipts (the breakdown of Offsetting Receipts which should have been netted against Mandatory Outlays was not available). Agriculture price supports have been included in Domestic Discretionary Outlays. Outlays have been adjusted for inflation using the CPI-U.

Source: Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-1998, January 26, 1993 and The Economic and Budget Outlook: An Update, September, 1993

FEDERAL OUTLAYS BY CATEGORIES FOR SELECTED YEARS

[By fiscal year]

	estimated 1960	1970	1980	1985	1990	estimated 1993	projected 1998
	As a percentage of Total Federal Outlays						
Defense discretionary	51.0%	41.9%	22.8%	26.7%	24.0%	20.8%	a
International discretionary	4.3%	2.0%	2.2%	1.8%	1.5%	1.5%	a
Domestic discretionary	17.3%	21.7%	22.3%	17.3%	15.1%	17.4%	a
Subtotal, discretionary	72.6%	65.6%	47.3%	45.8%	40.6%	38.6%	31.8%
Social Security	11.9%	15.1%	19.8%	19.7%	19.7%	21.3%	22.4%
Medicare	0	3.5%	5.8%	7.4%	8.6%	10.1%	13.7%
Medicaid	0	1.4%	2.4%	2.4%	3.3%	5.4%	8.0%
AFDC, SSI, Food Stamps	3.3%	2.4%	3.8%	3.2%	3.2%	4.4%	4.5%
Other entitlements and mandatories	13.0%	10.8%	17.2%	13.0%	10.1%	11.7%	10.2%
Subtotal, mandatory	28.2%	33.2%	48.9%	45.7%	44.8%	52.9%	58.8%
Net Interest	7.6%	7.4%	8.9%	13.7%	14.7%	14.0%	14.5%
Deposit Insurance	-0.3%	-0.3%	-0.1%	-0.2%	4.6%	-1.8%	-0.6%
Offsetting receipts	-7.6%	-5.9%	-4.9%	-5.0%	-4.7%	-4.7%	-4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

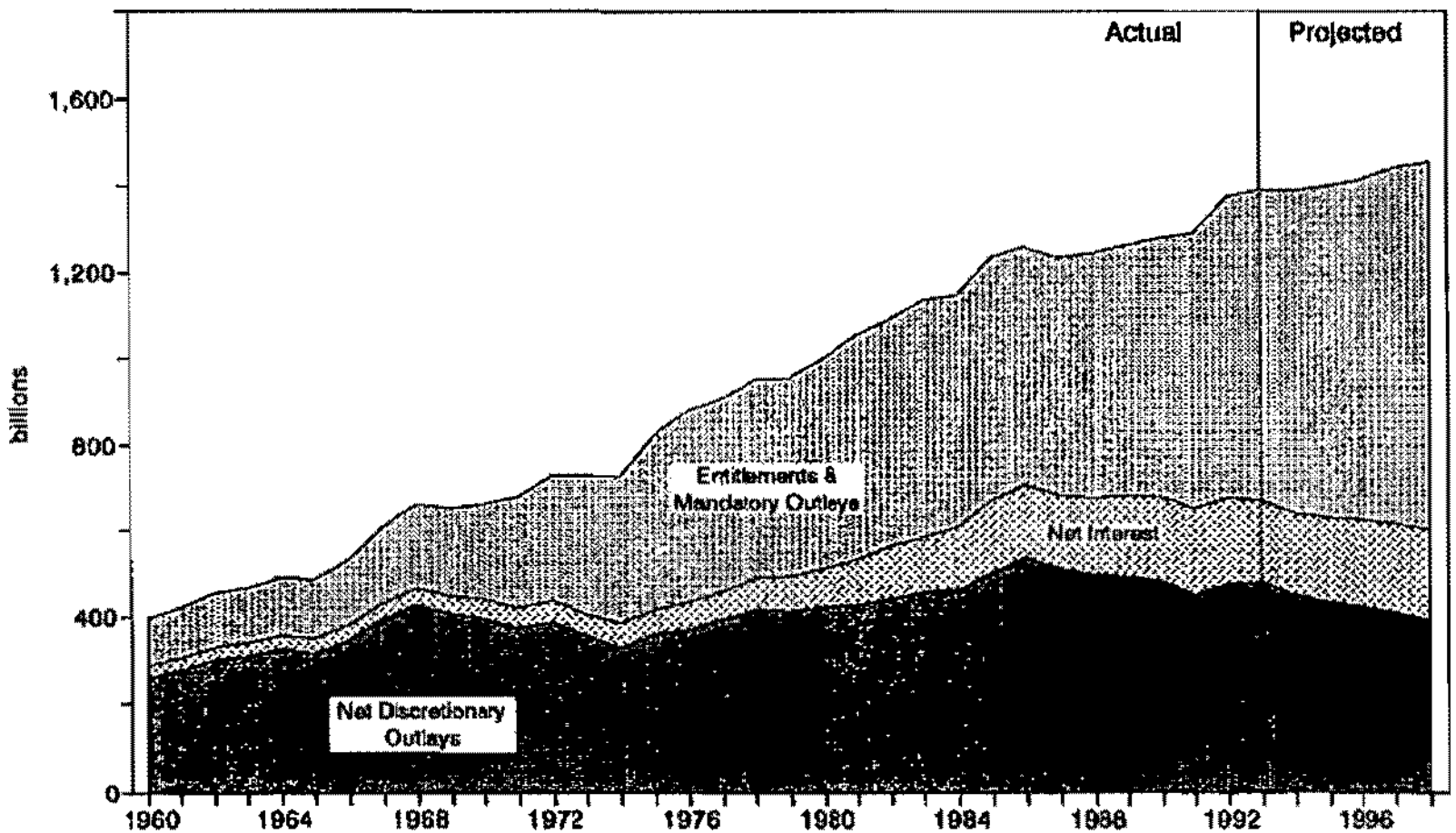
a: not available.

Note. Net Discretionary Outlays equals Discretionary Outlays minus Offsetting Receipts (the breakdown of Offsetting Receipts which should have been netted against Mandatory Outlays was not available). Agriculture price supports have been included in Domestic Discretionary Outlays. Outlays have been adjusted for inflation using the CPI-U.

Source: Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-1998, January 26, 1993 and The Economic and Budget Outlook: An Update, September, 1993

FEDERAL GOVERNMENT OUTLAYS

By category in constant 1992 dollars

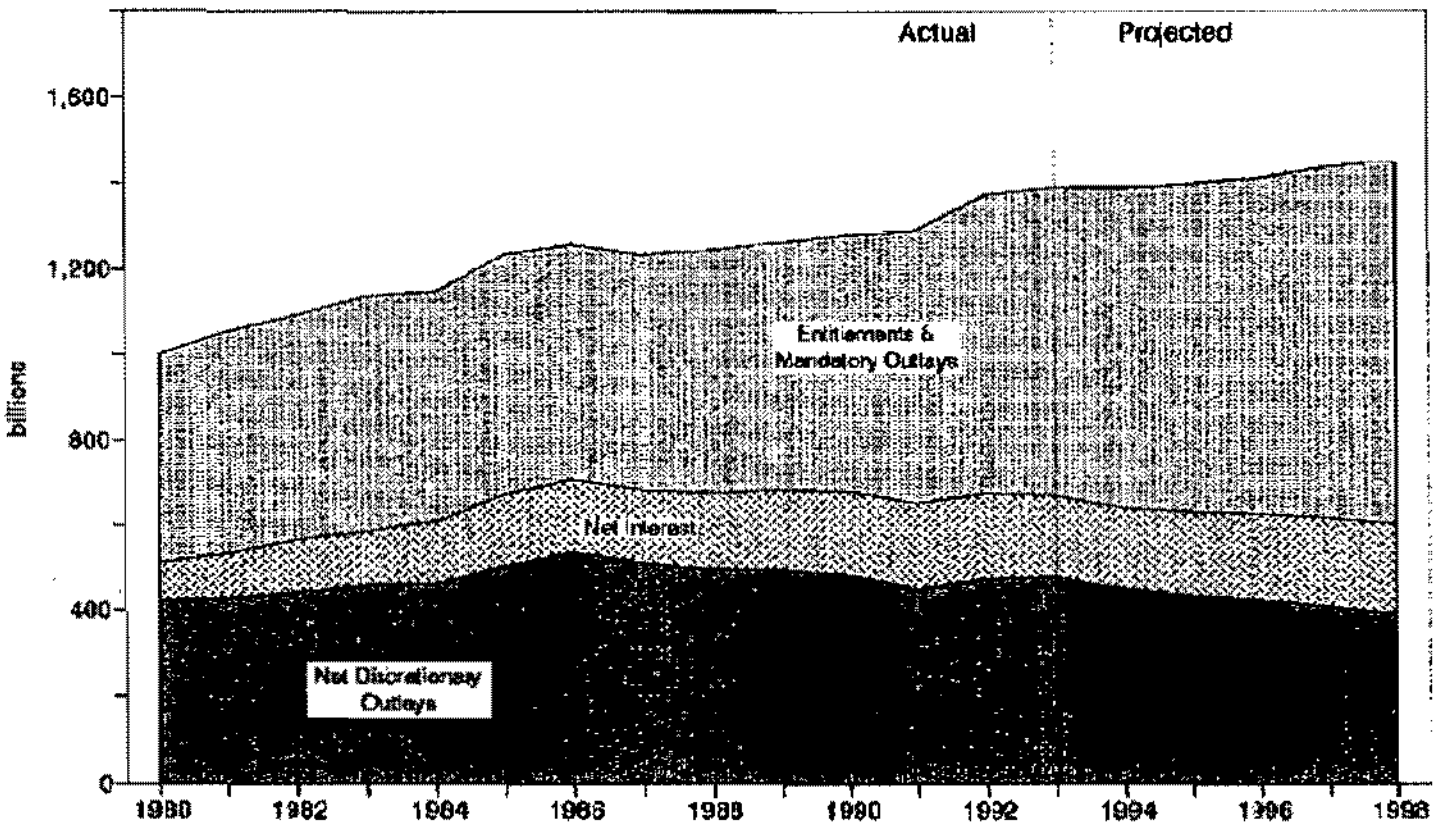


Note: Excludes deposit insurance; agriculture price supports are included in Net Discretionary Outlays.

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 26, 1993 and *The Economic and Budget Outlook: An Update*, September, 1993.

FEDERAL GOVERNMENT OUTLAYS

By category in constant 1992 dollars

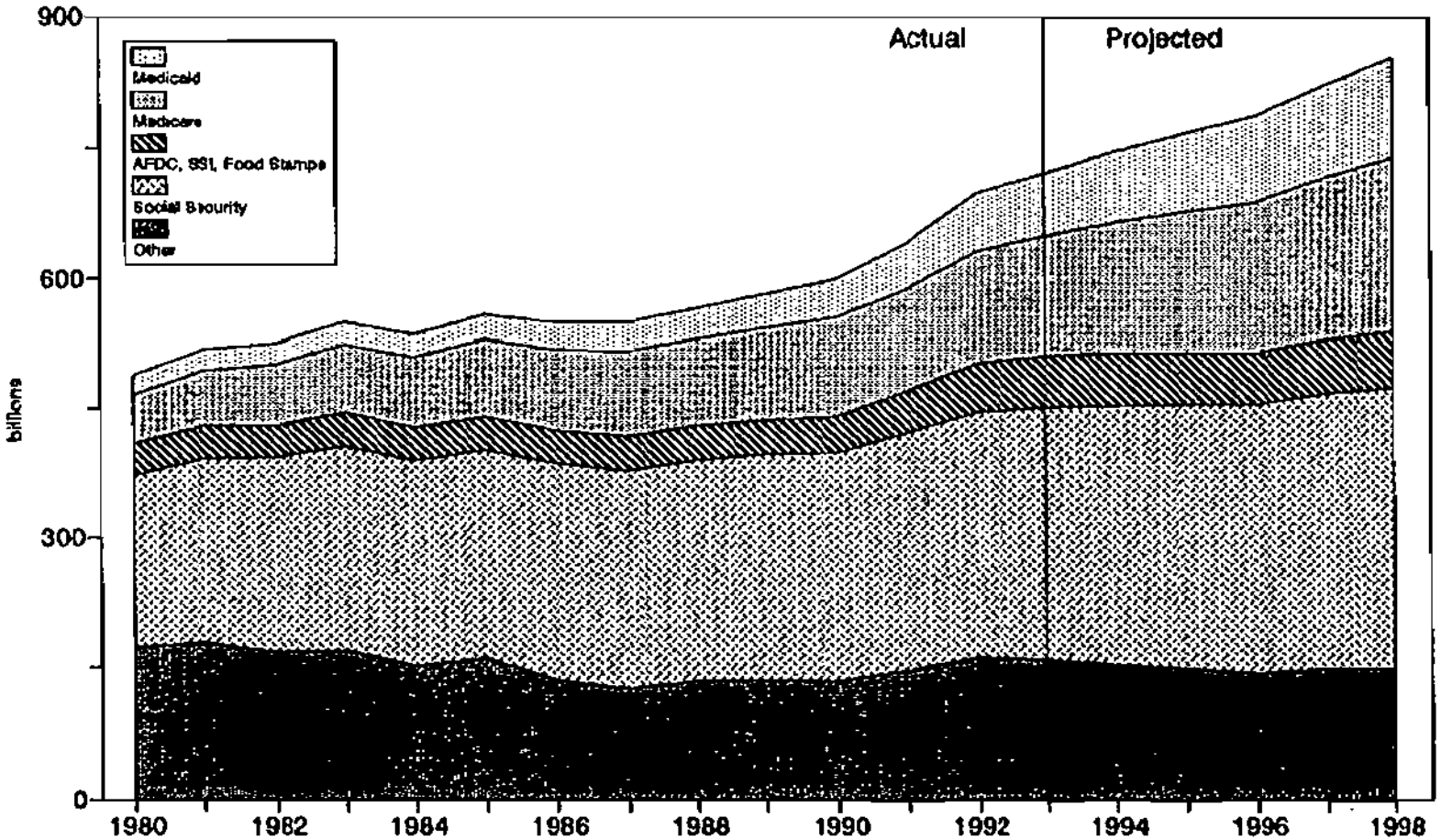


Note: Excludes deposit insurance; agriculture price supports are included in Net Discretionary Outlays.

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 26, 1993 and *The Economic and Budget Outlook: An Update*, September, 1993.

ENTITLEMENT & MANDATORY OUTLAYS, FY 1980-1998

By category in constant 1992 dollars

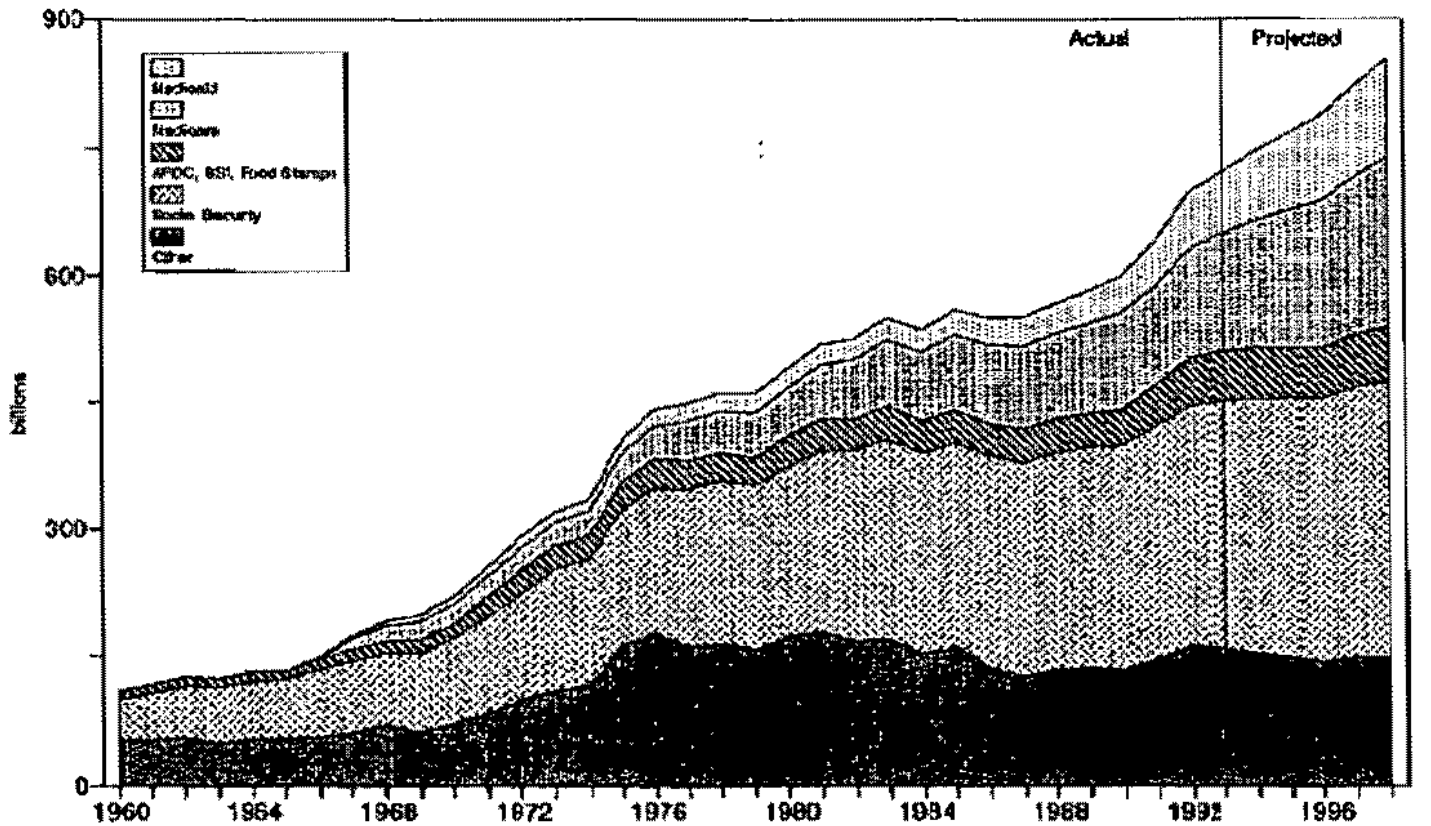


Note: Figures exclude agriculture price supports and deposit insurance.

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 26, 1993 and *The Economic and Budget Outlook: An Update*, September, 1993.

ENTITLEMENT & MANDATORY OUTLAYS, FY 1960-1998

By category in constant 1992 dollars



Note: Figures exclude agriculture price supports and deposit insurance.

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 26, 1993 and *The Economic and Budget Outlook: An Update*, September, 1993.

WALTER WILLIAMS

Welfare kings and queens

Everybody knows about those welfare queens for whom we toil under the congressional threat of fines, imprisonment or, if we resist too vehemently, death. If you don't believe there's coercion, just deduct your per capita share of queen-support money from your 1040 tax form. You may be surprised to know that welfarism knows no sex and, for that matter, no income class. We have welfare kings who put welfare queens to shame.

The National Wool Act of 1954 updated an earlier World War II subsidy program for wool and mohair. Wool used to be considered a strategic material since soldiers needed woolen clothing. With the end of the war and the introduction of synthetic fibers, wool and mohair fell off the military's list of strategic materials. But no big thing. Congress instructs the U.S. Department of Agriculture to continue making welfare payments, now at $180 million a year, to sheep and angora ranchers. In 1992, the Agriculture Department's office in Rocksprings, Texas, issued $5.2 million in checks to sheep and mohair ranchers. According to Sharon LaFraniere, staff writer for The Washington Post's National Weekly Edition (April 12, 1993), Rocksprings' top 10 recipients collected between $90,000 and $340,000 apiece. Two percent of the program's "welfarers" receive 54 percent of the handouts.

Instead of eliminating this rich man's welfare, President Clinton's budget proposes only capping these payments at $50,000 per rancher. But sheep and mohair ranchers, just like the welfare queens who use multiple names and addresses to get fatter checks, know the way around caps. The ranchers, as they've done in the past, simply divide their ranch among family members, making each eligible for the handout. In this time of "concern" about budget deficits, why doesn't Mr. Clinton just propose eliminating this costly, useless program? It turns out that Rep. E "Kika" de la Garza and Charles W. Stenholm are powerful Democrats from Texas, a state that receives 86 percent of mohair payments and 26 percent of wool payments. If Mr. Clinton alienates these men, he won't be able to count on their votes for tax increases, support for government-sponsored pornographic art or homosexuals in the military.

It'd be unfair to give the impression that only ranchers are fleecing us. Led by Archer-Daniel-Midland's multimillionaire CEO Wayne Andreas, the ethanol industry has received $7 billion in federal handouts since 1980. Sen. Robert Dole, a Kansas Republican, is the chief procurer for this handout. You say, "Clinton can't count on Dole for support, how come he doesn't ice the ethanol industry welfare?" That question shows how little you understand the inner workings of Washington. Mr. Clinton, Democrats and other Washington insiders, can count on Wayne Andreas for political contributions, junkets and, if you're friendly enough, cheap condos.

Then there's a bank you've never heard of that Congress created for other welfare kings — the Export-Import Bank. Former Office of Management and Budget Director David Stockman called it "food stamps for the rich." Congress created it to funnel our earnings into big businesses to the tune of $4 billion a year. In the past decade, 70 percent of Export-Import loans have gone to fewer than 20 corporations, including Boeing, Westinghouse and General Motors. Just so you don't think college students are the only government-loan deadbeats, in 1990, the Export-Import Bank stood ready to lose $5 billion. That's 40 percent of its outstanding loans and loan guarantees.

In this time of debt and deficit emergency, you ought to write or call the president and your congressman and ask why these wasteful programs exist. I guarantee that the letter coming back will be a lie or it won't be the truth.

Walter Williams, an economics professor at George Mason University, is a nationally syndicated columnist.

PAUL GREENBERG

Deja vu all over again

A tip for the White House press corps: You could save yourselves a little trouble by entering this opening paragraph into your laptops, since it has become the standard beginning of stories out of Washington in the Age of Clinton:

"WASHINGTON — The Clinton administration has altered major facets of its proposal . . . in response to political pressures."

Then fill in the blank with the topic of the day.

I can't say it's an original technique. The wording is borrowed intact from a story in the New York Times last month about the energy tax. The subject may have been the energy tax, but the reporter — Steven Greenhouse — could just as well have been writing about the administration's approach to taxing and spending. Or health care. Or homosexuals in the military. Or political asylum. Or foreign and domestic policy in general.

If there's anything this administration is, it's flexible. If it has a single principle, appointee or policy that it will stick with when pressure mounts, no one has yet discovered it.

Naturally, the reporter will want to try some variations on that opening to give the reader a little variety. For example, here is the opening of a front-page story by Michael Wines of the New York Times just the other day:

"WASHINGTON, June 9 — Barely a day after giving up his demand for a $71.5 billion tax on the heat content of energy sources, President Clinton seemed close today to retreating from his fallback position as well. . . ."

To add a little suspense, why not quote a couple of administration sources taking diametrically opposite positions on any issue? A couple of successive paragraphs from an Associated Press story about the energy tax would not be out of place in many another story:

> *It's not the economy. It's political viability.*

"Democratic sources said the administration had generally signed off on broad outlines of the new package.

"President Clinton, however, said in an ABC interview: 'I've never agreed to any specific proposal.'"

There's always somebody in every outfit who never gets the word.

Actually, anybody accustomed to clintonspeak can translate that: The President is withdrawing his Btu Tax in general — it's only the specific terms of the retreat that haven't been worked out yet.

This is all new to some folks. For example, the Democratic members of Congress who stuck their necks out and agreed to go along with the administration's Btu Tax. After all, they had been told how important, how integral, how crucial and indispensable a part of the Clinton program the tax was — and doubtless how much in benefits their support could mean for their districts.

Not all the lawmakers seemed to be taking the administration's caving in very well. To quote the AP story:

"At the same time, Clinton came under sharp criticism from some House members for the way in which he abandoned the original tax emphasizing the heat content of fuels. 'There is resentment with the administration not allowing the House to make that decision,' Rep. Billy Tauzin (D-La.) said. Tauzin said many House Democrats went along with the unpopular tax only because Clinton promised them it was an integral part of his package. Now many are 'filled with nothing but anger' and feel Clinton has pulled the rug out from under them, he said."

They don't understand. This may be the first time they've seen Bill Clinton step out boldly, then fade away while explaining how decisive he's been. The Clinton two-step is still a novelty in Washington. Few if any in Congress may have spent the last couple of decades in Arkansas, where the Clinton administration was always launching some ambitious new initiative, often a good one, preparatory to backing off.

That's how one Arkansas industry after another got exempted from sales taxes while an administration oh-so-dedicated to fairness was raising the sales tax on ordinary customers 50 percent. It's how the state never got a civil rights or fair-housing law during the Clinton Years. Or an environmental commission that represented the public rather than various interests.

Yes, there was a lot of churning in all those areas — just not much change. As governor, Bill Clinton might start almost any well-intentioned program, then go off and leave it to twist in the wind — like some of his recent presidential appointees.

When he was governor, Mr. Clinton would propose some comprehensive tax reform, but when various interests objected, he could exempt every one of them. Or maybe deposit the whole idea with a study commission for a couple of years and then walk away, as he did with a state civil rights law.

Now the same pattern repeats itself on the national level.

For anybody from Arkansas, it's deja vu all over again. What starts out as a brave new initiative somehow turns into a mainly paper reform. Then election year arrives, and it's cited as one of the 100 Great Achievements of the last Clinton administration.

Just wait. No matter what kind of energy bill is passed, Bill Clinton will OK it and declare victory. Once the special interests have had their way, what began as a broadly based tax may emerge as a regressive one that could fall heaviest on those least able to pay. And the administration will take credit for another Great Reform.

The solemn pundits who try to puzzle out the essence of the Clinton administration need wonder no more. What, they ask, unites this New Class of experts, politicos, spin chiropractors and hangers-on? What is the organizing principle and one indispensable object of Clintonism?

No, it's not the economy, stupid. It's political viability.

Paul Greenberg is editorial page editor of the Arkansas Democrat Gazette in Little Rock and a nationally syndicated columnist.

WR — Financing

WR- Financing

THE INTEGRATED TAX-TRANSFER CONCEPT

Vision:

Welfare reform is difficult to achieve. On the one hand, we want to "end welfare as we know it," particularly continuing dependency on public assistance. On the other, we want children to be free from economic want, to have access to a sense of economic security. Finally, we want our public resources to be spent wisely, specifically, that our limited resources be targeted on those for whom the benefits were intended. It is very difficult to minimize welfare dependency and child poverty while targeting scarce public resources carefully all at the same time.

Real wage opportunities for young heads of households have dropped substantially over the past two decades. One recent study estimates that by 1988 nearly 15 percent of children under six lived in families that could not have escaped poverty even if the adults in their family were working and earning at their full capacity levels. This is because the family heads' earnings capacities were low due to poor education and other human capital traits. Such market failures must be addressed.

Public assistance transfers must also be clearly defined. Are they truly entitlements that are provided to those who meet the categorical and income criteria? Or are they best thought of as temporary assistance to help a disadvantaged family over hard times, that is, a form of public loan that ought to be repaid if possible.

In order to address these questions, we can, first, alter the tax rules so that the revenue system can be used to recapture some or all public benefits received by non-poor families. Second, we can alter the rules governing how earnings affect the level of benefits provided so that AFDC benefits can assist low-income working families escape poverty.

By making these changes, dissatisfaction with the current system could be muted. The proportion of families who derive all of their economic support from welfare would drop substantially. The ability of low-income working families with children to escape poverty would be enhanced. Public benefits would be better targeted on the truly disadvantaged.

Basic Concept:

The Integrated Tax-Transfer (ITT) proposal is designed to achieve four objectives: 1) reduce poverty among children in working families who otherwise would be eligible for AFDC benefits; 2) enhance the economic rationality of work over exclusive dependence on welfare; 3) more efficiently target benefits on the poor and near-poor; and 4) minimize the degree to which fraudulent and inappropriate expenditures are made in the current system. The ITT proposal attempts to achieve these objectives through two major initiatives:

a. A recapture component that uses the tax system to recoup a portion of benefits that have been paid to recipients who turn out not to be poor when income is considered over the entire year, or who abuse the system by reporting differently to the transfer system as compared to the tax system.

b. A supplement or fill-the-gap component that uses the transfer system to ensure that AFDC recipients who work or receive child support can have incomes that exceed the poverty guideline or some specified fraction thereof before benefits are phased out.

These two components are designed to work in tandem. Above a threshold, the tax system will be used to improve the target efficiency of income support programs; the revenue system will be used to recapture those public benefits going to the non-poor. Below an established threshold, earnings will not reduce transfer payments.

Proposals:

The basic proposals are outlined below. Specific parameters have been added to the proposals for purposes of clarity. However, at this point the conceptual framework is more important; the actual parameters can be established at a later time.

A. Recapture Component.

Because benefit eligibility is determined on a monthly basis, some families may receive benefits for certain months of the year, even though they have moderate total annual income. The recapture component will recover a portion of the benefit payments made to families with annual income that exceeds a threshold.

Partial recapture would begin when:

> Income (AGI and perhaps EITC) + Benefits (AFDC, Food Stamps, SSI, GA and/or housing) exceeds a certain threshold

Above the income threshold, benefits would be recaptured. A recapture rate of 15 to 33 percent may be reasonable. Further, at some point, for example when total income exceeds 200 percent of the poverty guideline, benefits could be recaptured fully; that is, the benefits paid to families above a threshold could be considered an interim loan, which government would reclaim in whole or in part at the end of the year. This implies that the maximum amount recaptured may or may not be limited.

The recapture scheme should greatly reduce fraud and abuse. Under the current system, individuals and families can benefit from claiming a different family status under the tax and transfer systems. A father (or grandparent, boyfriend) with earnings can claim head of household status and use his children to receive the EITC; a mother can claim the same children without using the earnings that formed the basis for EITC receipt and receive welfare

benefits. Coordinating the two systems would require the unit to report to the tax system as they did to the transfer system. As a deterrent to abuse, families which receive a bonus from working under the tax system should know that the tax and transfer systems can communicate with each other.

It is also envisioned that one could not claim the EITC or child exemptions for any child for which the taxpayer owes child support. The recapture system might also apply to past due child support. Finally, all refunds would automatically be matched against child support arrearages and garnished.

B. Supplement Component

Some states have chosen to set their AFDC benefits very low. Politically, we cannot do anything to raise the need standard or benefit level in particular states. However, if individuals work or receive child support, this additional income should be used to supplement benefits in low-benefit states (through a fill-the-gap policy), instead of reducing benefits as under current law.

Need and Payment Standards:

States would continue to establish need standards and payment standards as under current law.

Earnings Disregards:

A fill-the-gap policy would be mandated, with the minimum earnings disregard policy as follows:

- A flat $100 per month disregard applied against earnings or child support received;
- A child care disregard;
- Plus a minimum disregard of 20 percent of child support and remaining earnings.

In addition, the earnings disregard provisions would not be applicable until the combination of AFDC, Food Stamps, earnings, and child support exceeded 75 percent of the poverty guideline for a family of three. That is, AFDC benefits could not be reduced until total income from those sources reaches that proportion of the poverty threshold.

In effect, the Federal Government would establish a new break-even point. For recipients with earnings, states must ensure that AFDC benefits do not phase out completely until AFDC, food stamps, earnings, and child support are equal to the poverty guideline for a family of three. This implies that some low-benefit states must disregard a higher percentage of earnings and child support than 20 percent.

Issues for Discussion

1. General Approach

There are two fundamentally different approaches to the integrated tax-transfer concept:

- o Count means-tested benefits as taxable income, i.e. include in AGI. Other parameters (threshold and recapture rates) would not be altered.

- o Use a separate worksheet on the tax form to calculate the amount of public benefits to be recovered during the annual reconciliation. Rules that were different from tax provisions would be developed to apply to public benefits.

2. How might the recapture component work?

There are alternative ways of doing this but we start with the following considerations. There are four generic issues that can be discussed independent of the specific options presented below.

a. **The Threshold.** A threshold will be established and families with incomes above that threshold would have public assistance benefits recaptured. There are two potential thresholds:

The first is the income level at which a family is liable for a positive tax liability, i.e. the tax threshold. This would place the threshold a little above the poverty threshold at present. The virtue of this approach is that it appears more fully integrated with the tax code and a dollar of earnings is treated identically to a dollar of public assistance. The disadvantage is that it is not directly tied to the poverty line and is not uniform across family sizes. Also, several public assistance programs have eligibility levels above the tax thresholds which would add to the marginal tax rate.

The second standard or threshold would be set at a percentage of the poverty line (e.g. 125 to 140 percent of the poverty threshold). The primary disadvantage of this threshold is that it requires a separate worksheet to administer. However, it does make sense that the threshold set for the recapture proposal be set above the income levels at which benefits normally phase out.

b. **The Definition of Income** to be applied against the threshold: The income that would be applied to the threshold would be AGI plus some combination of the following public assistance benefits: EITC, AFDC, Food Stamps, General Assistance, SSI and housing.

c. **The Recapture Rate.** The two primary issues here are implications for marginal tax rates and whether the taxpayer has the income to repay the amount identified for recapture. In most cases, the amount recaptured would not exceed the amount of the Earned Income Tax Credit and thus repayment for families receiving the EITC is probably not a problem. In addition, where earnings are part-year, income tax withholding is usually larger than is required at the end of the year. This is because withholding tables assume those part year earnings are earned steadily throughout the year.

d. **Maximum Amount Recaptured.** The maximum amount recaptured would be the recapture rate times the amount of income above the threshold subject to the constraint that it not exceed the amount of public assistance benefits. This could include AFDC, SSI, food stamps, GA, and/or housing but probably not the EITC. It might also be a substantially smaller list of benefits and include only AFDC and/or food stamps, and it might only be a fraction (a different percentage than the recapture rate--say 50 percent) of the amount of those public assistance benefits received.

3. Administrative Issues

Under the Integrated Tax-Transfer concept, at the end of each year the welfare office would complete a 1099-type form for each person who had received benefits at any point during the year. Information provided on the form would include the recipient's Social Security number, the amount of total benefits received during the year, perhaps the number of months in which benefits were received, and total annual earnings. This information would be reported to the IRS electronically and would be distributed to each recipient with instructions about how to file their tax return.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Line	Other Adult in filing unit for: AFDC	Other Adult in filing unit for: In-Kind	Tax Filing Status: Other Adult	Tax Filing Status: Mother	Mother & Children: AFDC + Food Stamps	Mother & Children: Housing Subsidy	Other Adult: Earnings	Other Adult: EITC	Other Adult: Disposable Income	Combined: Disposable Income	Reduction in Combined Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	-	-	S	dnf	9,420	0	5,000	286	4,403	13,823	0	0	0	0	0	0
2	-	-	HH	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	195	0	0	0
3	-	-	J	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	205	0	0	0
4	-	X	S	dnf	9,180	0	5,000	286	4,403	13,583	0	0	0	0	0	0
5	-	X	HH	dnf	9,180	0	5,000	2,000	6,118	15,298	0	0	155	0	0	0
6	-	X	J	J	9,180	0	5,000	2,000	6,118	15,298	0	0	145	0	0	0
7	X	X	J	J	7,608	0	5,000	2,000	6,118	13,726	0	0	0	0	0	0
8	-	-	S	dnf	9,420	0	10,000	0	7,643	17,063	0	0	0	0	0	0
9	-	-	HH	dnf	9,420	0	10,000	3,272	11,507	20,927	1,747	567	1,570	945	1,269	451
10	-	-	J	dnf	9,420	0	10,000	3,272	11,507	20,927	1,753	573	1,773	955	1,077	259
11	-	X	S	dnf	7,980	0	10,000	0	7,643	15,623	0	0	0	0	0	0
12	-	X	HH	dnf	7,980	0	10,000	3,272	11,507	19,487	1,400	423	1,330	705	1,029	211
13	-	X	J	J	7,980	0	10,000	3,272	11,507	19,487	1,334	357	1,413	595	717	0
14	X	X	J	J	2,940	0	10,000	3,272	11,507	14,447	270	0	153	0	0	0
15	-	-	S	dnf	9,420	0	15,000	0	11,454	20,874	0	0	0	0	0	0
16	-	-	HH	dnf	9,420	0	15,000	2,362	14,783	24,203	2,265	942	1,570	1,570	2,292	1,701
17	-	-	J	dnf	9,420	0	15,000	2,362	15,158	24,578	2,646	1,323	2,355	2,205	2,100	1,509
18	-	X	S	dnf	6,924	0	15,000	0	11,454	18,378	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	0	15,000	2,362	14,783	21,707	1,665	692	1,154	1,154	1,876	1,285
20	-	X	J	J	6,924	0	15,000	2,362	15,158	22,082	1,921	949	1,731	1,581	1,476	885
21	X	X	J	J	1,740	0	15,000	2,362	15,158	16,898	415	171	435	285	180	0

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits–the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

		Current Law					Reduction in Disposable Income					
Line	Number of Months Worked	Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	0	0	6,924	2,496	0	9,420	0	0	0	0	0	0
2	6	5,000	3,462	2,238	0	11,818	0	0	50	0	0	0
3	8	5,000	2,884	2,504	0	11,506	0	0	0	0	0	0
4	10	5,000	3,124	2,436	0	11,676	0	0	15	0	0	0
5	12	5,000	3,360	2,364	0	11,842	0	0	56	0	0	0
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,248	0	16,217	1,180	332	1,178	553	877	59
8	8	10,000	2,308	1,352	0	15,167	802	174	915	290	614	0
9	10	10,000	1,154	1,666	0	14,327	499	48	705	80	404	0
10	12	10,000	0	1,980	0	13,487	274	0	495	0	194	0
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,248	0	19,493	1,699	707	1,178	1,178	1,899	1,309
13	8	15,000	2,308	832	0	17,923	1,132	471	785	785	1,507	916
14	10	15,000	1,154	416	0	16,353	566	236	393	393	1,114	524
15	12	15,000	0	780	0	15,563	281	117	195	195	780	326
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,248	0	22,308	1,699	707	1,178	1,178	2,886	2,559
18	8	20,000	2,308	832	0	20,738	1,132	471	785	785	2,493	2,166
19	10	20,000	1,154	416	0	19,168	566	236	393	393	1,570	1,570
20	12	20,000	0	0	0	17,598	0	0	0	0	0	0
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Line	Other Adult in filing unit for: AFDC	Other Adult in filing unit for: In-Kind	Tax Filing Status: Other Adult	Tax Filing Status: Mother	Mother & Children: AFDC + Food Stamps	Mother & Children: Housing Subsidy	Other Adult: Earnings	Other Adult: EITC	Other Adult: Disposable Income	Combined: Disposable Income	Reduction in Combined Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	-	-	S	dnf	9,048	7,894	5,000	286	4,403	21,345	666	666	1,111	1,111	617	617
2	-	-	HH	dnf	9,048	7,894	5,000	2,000	6,118	23,060	569	569	1,449	949	955	455
3	-	-	J	dnf	9,048	7,894	5,000	2,000	6,118	23,060	951	951	2,086	1,586	1,390	890
4	-	X	S	dnf	8,808	6,394	5,000	286	4,403	19,605	405	405	676	676	182	182
5	-	X	HH	dnf	8,808	6,394	5,000	2,000	6,118	21,320	395	395	1,159	659	665	165
6	-	X	J	J	8,808	6,394	5,000	2,000	6,118	21,320	690	690	1,651	1,151	955	455
7	X	X	J	J	7,236	7,068	5,000	2,000	6,118	20,422	556	556	1,426	926	730	230
8	-	-	S	dnf	9,048	7,894	10,000	0	7,643	24,585	666	666	1,111	1,111	617	617
9	-	-	HH	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,555	1,319	2,824	2,199	2,523	1,705
10	-	-	J	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,937	1,701	3,653	2,836	2,956	2,140
11	-	X	S	dnf	7,608	4,894	10,000	0	7,643	20,145	0	0	1	1	0	0
12	-	X	HH	dnf	7,608	4,894	10,000	3,272	11,507	24,009	2,488	875	2,084	1,459	1,783	965
13	-	X	J	J	7,608	4,894	10,000	3,272	11,507	24,009	2,648	1,035	2,543	1,726	1,848	1,030
14	X	X	J	J	2,568	6,972	10,000	3,272	11,507	21,047	1,787	591	1,803	985	1,107	289
15	-	-	S	dnf	9,048	7,894	15,000	0	11,454	28,396	666	666	1,111	1,111	617	617
16	-	-	HH	dnf	9,048	7,894	15,000	2,362	14,783	31,725	4,056	1,694	2,824	2,824	3,545	2,955
17	-	-	J	dnf	9,048	7,894	15,000	2,362	15,158	32,100	4,813	2,451	4,236	4,086	3,980	3,390
18	-	X	S	dnf	6,924	3,394	15,000	0	11,454	21,772	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	3,394	15,000	2,362	14,783	25,101	2,481	1,032	1,720	1,720	2,441	1,851
20	-	X	J	J	6,924	3,394	15,000	2,362	15,158	25,476	2,907	1,458	2,580	2,430	2,324	1,734
21	X	X	J	J	1,368	5,472	15,000	2,362	15,158	21,998	1,896	936	1,710	1,560	1,455	864

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits--the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

		Current Law					Reduction in Disposable Income					
Line	Number of Months Worked	Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	0	0	6,924	2,124	7,894	16,942	666	666	1,111	1,111	617	617
2	6	5,000	3,462	1,866	7,433	18,879	1,009	789	1,815	1,315	1,322	822
3	8	5,000	2,884	2,132	7,606	18,740	959	768	1,781	1,281	1,287	787
4	10	5,000	3,124	2,064	7,534	18,840	995	783	1,806	1,306	1,312	812
5	12	5,000	3,360	1,992	7,464	18,934	1,029	797	1,829	1,329	1,335	835
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,062	5,933	21,964	3,253	1,194	2,614	1,989	2,313	1,496
8	8	10,000	2,308	980	6,279	21,074	2,932	1,060	2,392	1,767	2,091	1,273
9	10	10,000	1,154	1,294	6,626	20,581	2,754	986	2,268	1,643	1,968	1,150
10	12	10,000	0	1,608	6,972	20,087	2,576	912	2,145	1,520	1,844	1,026
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,062	4,433	23,740	3,230	1,344	2,239	2,239	2,961	2,371
13	8	15,000	2,308	708	4,779	22,579	2,811	1,169	1,949	1,949	2,671	2,080
14	10	15,000	1,154	354	5,126	21,417	2,392	995	1,658	1,658	2,380	1,790
15	12	15,000	0	408	5,472	20,663	2,120	882	1,470	1,470	2,192	1,601
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,062	3,947	26,069	2,579	1,271	2,118	2,118	3,826	3,499
18	8	20,000	2,308	708	3,279	23,893	2,253	944	1,574	1,574	3,282	2,955
19	10	20,000	1,154	354	3,626	22,731	1,851	770	1,283	1,283	2,992	2,665
20	12	20,000	0	0	3,972	21,570	1,432	596	993	993	2,701	2,374
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

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DISPOSABLE INCOME, FAMILY OF ONE PERSON, JULY 1993

Col. A		
	EITC	X
	Chld Supp	-
	S S I	X
	Food Sta	X
	Housing S	-

States	Annual Earnings from 0 Hours Work per Week ($4.25/Hour)	1993 Poverty Threshold	1993 Tax Threshold	Taxable Income [Single] Bnfts taxd	Federal Income Tax	Annual Housing Subsidy [Off]	Annual S S I Jan-93 Single-LI	Annual Food Stamps FY'94	Disposable Income
California	0	6,816	6,950	490	74	0	7,440	0	7,367
	0	6,816	6,950	7,054	1,058	6,564	7,440	0	12,946

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DISPOSABLE INCOME, FAMILY OF TWO PERSONS, JULY 1993

Col. A		
	EITC	X
	Chld Supp	-
	S S I	X
	Food Sta	X
	Housing S	-

States	Annual Earnings from 0 Hours Work per Week ($4.25/Hour)	1993 Poverty Threshold	1993 Tax Threshold	Taxable Income [Jnt Flir], Bnfts taxd	Federal Income Tax	Annual Housing Subsidy [Off]	Annual S S I Jul-93 -2-Persons-	Annual Food Stamps FY'94	Disposable Income
California	0	9,192	12,300	1,380	207	0	13,680	0	13,473
	0	9,192	12,300	7,644	1,147	6,264	13,680	0	18,797

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TABLE 8, REVISED
NUMBER OF FAMILIES RECEIVING TRANSFER PAYMENTS AND AVERAGE BENEFIT, BY POVERTY LEVEL[a]

All dollar amounts are in 1994 dollars

	BASELINE PERCENT OF POVERTY (REDEFINED POVERTY MEASURE)						TOTAL	150%+ poverty	
	< 50%	50-94%	95-105%	106-149%	150-199%	200% +	All	Amounts	% of total
No. of families, unrel. indiv. (thou.)	3,132	7,900	2,787	13,223	13,518	63,986	104,667	77,504	74.0%
No. of children under 18 (thou.)	1,194	7,316	2,743	11,765	10,300	33,561	66,927	43,861	65.5%
Number of families receiving AFDC (thou.)	228	1,969	538	1,649	565	496	5,449	1,061	19.5%
Percent of families receiving AFDC	7.3%	24.9%	19.3%	12.5%	4.2%	0.8%	5.2%	1.4%	--
Average annual benefit	$2,707	$4,842	$3,800	$3,641	$3,263	$2,616	$3,919	$2,960	--
Total annual benefit (mill.)	$618	$9,532	$2,044	$6,005	$1,842	$1,298	$21,355 [b]	$3,140	14.7%
Number of families receiving SSI (thou.) [c]	20	1,297	276	1,206	683	700	4,183	1,383	33.0%
Percent of families receiving SSI	0.6%	16.4%	9.9%	9.1%	5.1%	1.1%	4.0%	1.8%	--
Average annual benefit	$3,152	$3,531	$4,336	$4,015	$4,738	$4,319	$4,058	$4,526	--
Total annual benefit (mill.)	$62	$4,580	$1,195	$4,843	$3,236	$3,021	$16,976 [b]	$6,258	36.9%
Number of families receiving Food Stamps (thou.)	1,053	3,654	1,223	4,247	1,356	657	12,252	2,013	16.4%
Percent of families receiving Food Stamps	33.6%	46.2%	43.9%	32.1%	10.0%	1.0%	11.7%	2.6%	--
Average annual benefit	$1,764	$2,313	$2,020	$1,409	$813	$440	$1,658	$691	--
Total annual benefit (mill.)	$1,857	$8,451	$2,470	$5,985	$1,103	$289	$20,314 [b]	$1,392	6.8%
Number of families receiving housing subsidy (thou.)	3	359	336	1,920	1,221	397	4,238	1,618	38.2%
Percent of families receiving housing subsidy	0.1%	4.5%	12.1%	14.5%	9.0%	0.6%	4.0%	2.1%	--
Average annual benefit	$384	$5,448	$5,192	$4,136	$3,919	$2,631	$4,127	$3,603	--
Total annual benefit (mill.)	$1	$1,958	$1,746	$7,945	$4,787	$1,044	$17,492 [b]	$5,831	33.3%
Number of families receiving EITC (thou.)	865	3,210	1,313	5,251	3,423	3,532	17,599	6,955	39.5%
Percent of families receiving EITC	27.6%	40.6%	47.1%	39.7%	25.3%	5.5%	16.8%	9.0%	--
Average annual EITC	$338	$915	$1,274	$1,486	$1,020	$681	$1,057	$849	--
Total annual EITC (mill.)	$292	$2,937	$1,673	$7,803	$3,491	$2,405	$18,602 [b]	$5,896	31.7%
Total transfer benefits: AFDC,SSI,FS,housing (mill.)	$2,539	$24,520	$7,455	$24,778	$10,968	$5,652	$76,138	$16,620	21.8%
Total transfer benefits plus EITC (mill.)	$2,831	$27,457	$9,128	$32,580	$14,459	$8,057	$94,740	$22,516	23.8%

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family. A family may include more than one tax unit.

Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.

Income for percent-of-poverty is cash after federal income tax and FICA tax plus the cash value of Food Stamps and housing subsidy.

Families with negative net income are not shown separately but are included in the totals.

Notes:

a. Transfer program simulations use 1991 program rules. The EITC calculation uses 1996 rules.

b. TRIM2 estimates may differ from actual program data.

c. SSI benefits to children under age 15, and benefits to the institutionalized, are not captured.

$5.6B of $76B goes to 200% of poverty ($20,000)

TABLE 1
AGGREGATE EFFECTS OF TAXING TRANSFER PAYMENTS:
EITC CALCULATED USING NEW AGI DEFINITION

All dollar amounts are in 1994 dollars.

	Baseline	Alternative IA2: Tax SSI, AFDC	Alternative IB2: Tax SSI, AFDC, FS, housing subs.
Number of families & unrelated indiv. (mill.)	104.7	104.7	104.7
Number of children under 18 (mill.)	66.9	66.9	66.9
Federal income tax liability			
Total tax liability ($bill.)	$438.5	$439.4	$441.6
Change from baseline ($bill.)		$0.9	$3.1
Percent change from baseline		0.2%	0.7%
Adjusted Gross Income			
Total AGI ($bill.)	$3,673.3	$3,711.7	$3,749.4
Change from baseline ($bill.)		$38.3	$76.1
Percent change from baseline		1.0%	2.1%
Federal income tax returns			
# of non-$0 tax returns (thou.) *	99,762	100,642	101,483
Change from baseline (thou.)		880	1,721
# of returns with positive tax (thou.) *	85,088	85,980	87,403
Change from baseline (thou.)		892	2,315
Poverty Counts, using after-tax income plus Food Stamps and housing subsidies			
Families (mill.)	12.4	12.4	12.5
Percent of families	11.8%	11.8%	12.0%
Children (mill.)	9.7	9.7	10.1
Percent of children	14.4%	14.5%	15.0%
Poverty Gap, using after-tax income plus Food Stamps and housing subsidies			
Size of gap ($bill.)	42.6	42.6	42.9
Percent change from baseline		0.1%	0.7%

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.

A family may include more than one tax unit.

Income for the poverty calculation is cash income, plus the value of Food Stamps and housing subsidy, after federal payroll and income tax.

The poverty gap is the amount of money necessary to bring all families and unrelated individuals up to the poverty threshold, where poverty is based on after-tax cash income plus the cash value of Food Stamps and housing subsidies.

Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.

Notes:

a. These baseline estimates differ slightly from those in the 10/14 memo due to slight technical differences; in particular, these figures use the weight of the family head, while tables in the 10/14 memo use the weight of the head of the tax unit.

TABLE 4

TAXING TRANSFER PAYMENTS: EFFECTS ON TAX LIABILITY BY PERCENT OF POVERTY,
POVERTY BASED ON AFTER-TAX CASH INCOME PLUS THE CASH VALUE OF FOOD STAMPS AND HOUSING SUBSIDIES
EITC CALCULATED USING NEW AGI DEFINITION

All dollar amounts are in 1994 dollars

	BASELINE PERCENT OF POVERTY (REDEFINED POVERTY MEASURE)						TOTAL
	< 50%	50-94%	95-105%	106-149%	150-199%	200% +	All
No. of families, unrel. indiv. (thou.)	3,132	7,900	2,787	13,223	13,518	63,986	104,667
No. of children under 18 (thou.)	1,194	7,316	2,743	11,765	10,300	33,561	66,927
Baseline							
Number of returns with positive tax (thou.)	73	466	547	4,428	8,816	70,755	85,088
Total tax liability (mill.)	($289)	($2,800)	($1,480)	($3,751)	$9,504	$437,311	$438,495
Average tax liability per family	($92)	($354)	($531)	($284)	$703	$6,834	$4,189
Tax liability as % of total family income	-5.8%	-5.3%	-5.6%	-2.1%	3.4%	12.5%	10.9%
Alternative IA2: Tax SSI and AFDC							
Number of returns with positive tax (thou.)	87	587	594	4,673	9,042	70,922	85,980
Percent change from baseline	19.7%	25.9%	8.5%	5.5%	2.6%	0.2%	1.0%
Total tax liability (mill.)	($294)	($2,786)	($1,458)	($3,529)	$9,728	$437,691	$439,354
Change from baseline (mill.)	($5)	$14	$22	$222	$224	$380	$859
Percent change from baseline	-1.7%	0.5%	1.5%	5.9%	2.4%	0.1%	0.2%
Average tax liability per family	($94)	($353)	($523)	($267)	$720	$6,840	$4,198
Change from baseline	($2)	$2	$8	$17	$17	$6	$9
Percent change from baseline	-1.7%	0.5%	1.5%	5.9%	2.4%	0.1%	0.2%
Tax liability as % of total family income	-5.9%	-5.3%	-5.5%	-2.0%	3.5%	12.5%	10.9%
Alternative IB2: Tax SSI, AFDC, Food Stamps, and housing subsidies							
Number of returns with positive tax (thou.)	90	725	705	5,406	9,390	71,083	87,403
Percent change from baseline	23.3%	55.5%	28.8%	22.1%	6.5%	0.5%	2.7%
Total tax liability (mill.)	($294)	($2,635)	($1,273)	($2,356)	$10,311	$437,840	$441,596
Change from baseline (mill.)	($5)	$165	$207	$1,395	$807	$529	$3,101
Percent change from baseline	-1.7%	5.9%	14.0%	37.2%	8.5%	0.1%	0.7%
Average tax liability per family	($94)	($334)	($457)	($178)	$763	$6,843	$4,219
Change from baseline	($2)	$21	$74	$105	$60	$8	$30
Percent change from baseline	-1.7%	5.9%	14.0%	37.2%	8.5%	0.1%	0.7%
Tax liability as % of total family income	-5.8%	-5.0%	-4.8%	-1.3%	3.7%	12.5%	10.9%

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.
A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
Income for percent-of-poverty is cash after federal income tax and FICA tax plus the cash value of Food Stamps and housing subsidy.
Families with negative net income are not shown separately but are included in the totals.
"Total family income" includes all cash income reported on the CPS, but with simulated AFDC and SSI in place of the reported amounts and with TRIM2-imputed capital gains income.

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TABLE 2
TAXING TRANSFER PAYMENTS: EFFECTS ON TAX LIABILITY BY FAMILY TYPE FOR ALL FAMILIES
EITC CALCULATED USING NEW AGI DEFINITION

All dollar amounts are in 1994 dollars

	FAMILIES WITH CHILDREN								FAMILIES WITH NO CHILDREN	TOTAL
	WORKERS						NO WORKERS			
	2 Parents, 2 Workers		2 Parents, 1 Worker		1 Parent, 1 Worker					
	PT or PY	FT and FY	PT or PY	FT and FY	PT or PY	FT and FY	2 Parents	1 Parent		All Families
Number of families, unrelated indiv. (mill.)	10,724	7,046	1,505	5,400	2,959	4,228	750	2,932	69,122	104,667
Number of children under 18 (mill.)	20,619	12,138	3,102	11,192	5,152	6,901	1,522	6,302	0	66,927
Baseline										
Number of returns with positive tax (thou.)	10,656	8,231	728	4,889	762	3,235	225	441	56,921	85,088
Total tax liability (mill.)	$56,190	$57,308	$820	$25,013	($2,050)	$6,386	$391	$859	$293,579	$438,495
Average tax liability per family	$5,240	$8,133	$545	$4,632	($693)	$1,510	$521	$293	$4,247	$4,189
Tax liability as % of total family income	10.1%	12.2%	2.0%	9.4%	-4.1%	4.7%	2.5%	2.4%	11.9%	10.9%
Alternative IA2: Tax SSI and AFDC										
Number of returns with positive tax (thou.)	10,716	8,273	751	4,944	802	3,281	255	568	56,390	85,980
Percent change from baseline	0.6%	0.5%	3.2%	1.1%	5.3%	1.4%	13.4%	28.6%	0.8%	1.0%
Total tax liability (mill.)	$56,317	$57,356	$913	$25,116	($1,957)	$6,441	$410	$895	$293,863	$439,354
Change from baseline (mill.)	$127	$48	$93	$103	$93	$55	$19	$36	$284	$859
Percent change from baseline	0.2%	0.1%	11.3%	0.4%	4.5%	0.9%	4.9%	4.2%	0.1%	0.2%
Average tax liability per family	$5,252	$8,140	$607	$4,651	($661)	$1,524	$546	$305	$4,251	$4,198
Change from baseline	$12	$7	$62	$19	$32	$14	$25	$12	$4	$9
Percent change from baseline	0.2%	0.1%	11.3%	0.4%	4.6%	0.9%	4.9%	4.2%	0.1%	0.2%
Tax liability as % of total family income	10.1%	12.2%	2.2%	9.4%	-3.9%	4.8%	2.6%	2.5%	11.9%	10.9%
Alternative IB2: Tax SSI, AFDC, Food Stamps, and housing subsidies										
Number of returns with positive tax (thou.)	10,777	8,275	785	4,984	920	3,314	292	1,032	57,023	87,403
Percent change from baseline	1.1%	0.5%	7.8%	1.9%	20.8%	2.5%	30.2%	133.8%	2.0%	2.7%
Total tax liability (mill.)	$56,682	$57,372	$1,152	$25,396	($1,504)	$6,704	$428	$1,071	$294,295	$441,596
Change from baseline (mill.)	$492	$64	$332	$383	$546	$318	$37	$212	$716	$3,101
Percent change from baseline	0.9%	0.1%	40.5%	1.5%	26.6%	5.0%	9.5%	24.7%	0.2%	0.7%
Average tax liability per family	$5,286	$8,142	$765	$4,703	($508)	$1,586	$570	$365	$4,258	$4,219
Change from baseline	$46	$9	$220	$71	$185	$76	$49	$72	$11	$30
Percent change from baseline	0.9%	0.1%	40.4%	1.5%	26.7%	5.0%	9.5%	24.6%	0.2%	0.7%
Tax liability as % of total family income	10.2%	12.2%	2.8%	9.5%	-3.0%	4.9%	2.8%	3.0%	11.9%	10.9%

Source: The Urban Institute's TRIM2 Model.

Definitions:

"Family" includes related subfamilies as part of the primary family. NOTE: A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
"PT or PY" means either the head or spouse of the broad family works part-time or part-year.
"FT and FY" means any head or spouse worker works full-time and full-year.
"NO WORKERS" means neither the head or spouse of the broad family has earnings; another family member may have earnings.
"Total family income" includes all cash income reported on the CPS, but with simulated AFDC and SSI in place of the reported amounts and with TRIM2-imputed capital gains income.

TABLE 6
TAXING TRANSFER PAYMENTS: WINNERS AND LOSERS BY PERCENT OF POVERTY,
POVERTY BASED ON AFTER-TAX CASH INCOME PLUS THE CASH VALUE OF FOOD STAMPS AND HOUSING SUBSIDIES
EITC CALCULATED USING THE NEW AGI DEFINITION

All dollar amounts are in 1994 dollars, family counts are in thousands

	BASELINE PERCENT OF POVERTY (REDEFINED POVERTY MEASURE)						TOTAL
	< 50%	50-94%	95-105%	106-149%	150-199%	200% +	All
Number of families, unrelated indiv. (thou.)	3,132	7,900	2,787	13,223	13,518	63,986	104,667
Alternative IA2: Tax SSI and AFDC							
Lost $500 +	0	14	10	143	136	282	586
Lost $250-499	0	14	17	181	185	329	726
Lost $50-249	13	83	63	280	216	213	868
Little or no change	3,104	7,769	2,697	12,603	12,975	63,145	102,411
Gained $50 +	15	21	0	17	6	17	76
Percent of families lost $250+	0.0%	0.3%	1.0%	2.4%	2.4%	1.0%	1.3%
Percent of families lost $50 +	0.4%	1.4%	3.2%	4.6%	4.0%	1.3%	2.1%
Average Loss $500 +	--	$621	$679	$861	$946	$843	$862
Alternative IB2: Tax SSI, AFDC, Food Stamps and housing subsidies							
Lost $500 +	0	103	176	1,047	578	375	2,281
Lost $250-499	3	85	91	914	321	404	1,817
Lost $50-249	15	339	167	937	578	484	2,519
Little or no change	3,099	7,352	2,354	10,314	12,035	62,706	97,977
Gained $50 +	15	21	0	12	6	17	72
Percent of families lost $250+	0.1%	2.4%	9.6%	14.8%	6.6%	1.2%	3.9%
Percent of families lost $50 +	0.6%	6.7%	15.5%	21.9%	10.9%	2.0%	6.3%
Average Loss $500 +	--	$907	$849	$874	$1,067	$861	$920

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.
A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
Income for percent-of-poverty is cash after federal income tax and FICA tax plus Food Stamps and housing subsidy.
Families with negative net income are not shown separately but are included in the totals.

THE URBAN INSTITUTE

MEMORANDUM

TO: Bill Prosser

FROM: Keith Watson and John Sabelhaus

SUBJECT: Taxing AFDC, SSI, and Food Stamps without taxing housing subsidies

DATE: January 19, 1994

As you requested, we have simulated the proposal to tax AFDC, SSI, and the cash value of Food Stamps, without taxing housing subsidies. We have simulated this proposal with two different specifications for the EITC. Under the first specification, the transfer payments being taxed are not considered part of AGI for the EITC calculation. Under the second, AFDC, SSI, and the cash value of Food Stamps are considered part of AGI for the EITC calculation; we will focus primarily on this specification in this memo.

We find that when transfers are considered part of AGI for the EITC calculation, total federal tax liability increases by 0.4% above the baseline to $440.5 billion. This is $1.1 billion less than total federal tax liability when housing subsidies are taxed in addition to AFDC, SSI, and Food Stamps (alternative IB2). However, the burden on families in poverty is also mitigated. When the EITC is calculated based on the old AGI concept, total federal tax liability increases by 0.2% above the baseline to $439.4 billion.

We refer to the simulation in which AFDC, SSI, and Food Stamps are taxed as Alternative C. Alternative C1 refers to the simulation in which AGI used for the EITC does not include transfer payments. Alternative C2 refers to the simulation in which AGI used for the EITC calculation does include transfer payments. Recall that in alternative A, AFDC and SSI are the only transfer payments which are taxed, and in alternative B AFDC, SSI, Food Stamps, and housing subsidies are taxed; these two alternatives will be used for comparison.

Simulation with EITC based on new AGI concept

The results from simulations IA2, IB2, and IC2, in which the EITC is calculated using the AGI measure which includes transfer income, are shown in Table A below. As expected, the

changes for alternative C are greater than the changes in alt. A but less than those in alt. B. Total tax liability increases by 0.4% above the baseline, compared to a 0.2% increase for alt. A and a 0.7% increase for alt. B.

The effects on families at less than 105% of poverty are closer to those in alt. B, however. Under alternative C, average tax liability for those families increases by 6.3% and the percent of poverty families losing $250 or more is 2.7%.

Additional detailed information on alternative C2 can be found in Tables 1,2,4,5, and 6 at the end of this memo.[1]

TAX AFDC - SSI AFDC FS HOUS SSI AFDC FS SSI

Table A
Comparison of Proposals to Tax Transfer Payments
with EITC Calculated Based on AGI which Includes Transfer Income

	Baseline	Alt. IA2	Alt. IB2	Alt. IC2
Total Federal Tax Liability (bill.)	$438.5	$439.4	$441.6	$440.5
Change from baseline		$0.9	$3.1	$2.0
% change from baseline		0.2%	0.7%	0.4%
Families in Poverty (mill.)	12.4	12.4	12.5	12.5
Poverty Gap (bill.)	$42.6	$42.6	$42.9	$42.8
Avg tax liability, families <105% poverty	($331)	($328)	($304)	($310)
% change from baseline		0.9%	8.2%	6.3%
% of all families losing $250+		1.3%	3.9%	2.7%
% families <105% poverty losing $250+		0.4%	3.3%	2.7%

Note: All poverty measures are based on cash income plus the cash value of Food Stamps and housing subsidies after federal tax and FICA.

Simulation with EITC based on old AGI concept

Under alternative C, with EITC calculated using the old AGI concept which does not include transfer income, the total federal income tax liability increases by 0.2% above the

[1] Table 3, which in previous memos has shown information for families receiving transfer payments, is not included in this memo but can be provided at your request.

baseline to $439.4 billion. The number of families in poverty does not change by a significant amount and the poverty gap increases by only 0.1%. The average tax refund for families at less than 105% of poverty is $328, a 0.9% increase in tax liability from the baseline. Of all families, 1.3% lose $250 or more, and 0.3% of families at less than 105% of poverty lose $250 or more.

Additional detail on this simulation is provided in the tables at the end of this memo.

A note on the value of housing subsidies in TRIM2

The simulation of alternative C involves the removal of the cash value of housing subsidies from the list of items considered as taxable income. Obviously, the change in any family's tax liability from alternative B to alternative C depends largely upon the size of the housing subsidy which that family receives. However, the cash value of the housing subsidy received by a family cannot be determined with certainty because for families in public housing it is an in-kind benefit.

Therefore TRIM relies on an imputation procedure in order to determine the cash value of the housing subsidy. The cash value of the subsidy is equal to the fair market rent for an apartment of the required size in the same state, minus the rent paid by the family. We believe that TRIM probably overestimates the value of the housing subsidy by overestimating the value of the apartment, assuming that public housing units are of lower quality than a similar apartment in the same state.

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TABLE 1
AGGREGATE EFFECTS OF TAXING
AFDC, SSI, AND FOOD STAMPS

All dollar amounts are in 1994 dollars.

	Baseline	Alternative IC1: EITC BASED ON OLD AGI	Alternative IC2: EITC BASED ON NEW AGI
Number of families & unrelated indiv. (mill.)	104.7	104.7	104.7
Number of children under 18 (mill.)	66.9	66.9	66.9
Federal income tax liability			
Total tax liability ($bill.)	$438.5	$439.4	$440.5
Change from baseline ($bill.)		$0.9	$2.0
Percent change from baseline		0.2%	0.4%
Adjusted Gross Income			
Total AGI ($bill.)	$3,673.3	$3,731.9	$3,731.9
Change from baseline ($bill.)		$58.6	$58.6
Percent change from baseline		1.6%	1.6%
Federal income tax returns			
# of non-$0 tax returns (thou.) [a]	99,762	100,868	100,758
Change from baseline (thou.)		1,106	996
# of returns with positive tax (thou.) [a]	85,088	86,213	86,307
Change from baseline (thou.)		1,126	1,220
Poverty Counts, using after-tax income plus Food Stamps and housing subsidies			
Families (mill.)	12.4	12.4	12.5
Percent of families	11.8%	11.8%	11.9%
Children (mill.)	9.7	9.7	9.9
Percent of children	14.4%	14.5%	14.8%
Poverty Gap, using after-tax income plus Food Stamps and housing subsidies			
Size of gap ($bill.)	42.6	42.6	42.8
Percent change from baseline		0.1%	0.5%

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.

A family may include more than one tax unit.

Income for the poverty calculation is cash income, plus the value of Food Stamps and housing subsidy, after federal payroll and income tax.

The poverty gap is the amount of money necessary to bring all families and unrelated individuals up to the poverty threshold, where poverty is based on after-tax cash income plus the cash value of Food Stamps and housing subsidies.

Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.

Notes:

a. These baseline estimates differ slightly from those in the 10/14 memo due to slight technical differences; in particular, these figures use the weight of the family head, while tables in the 10/14 memo use the weight of the head of the tax unit.

TABLE 4
TAXING AFDC, SSI, AND FOOD STAMPS
EFFECTS ON TAX LIABILITY BY PERCENT OF POVERTY

All dollar amounts are in 1994 dollars

	BASELINE PERCENT OF POVERTY (REDEFINED POVERTY MEASURE)						TOTAL
	< 50%	50-94%	95-105%	106-149%	150-199%	200% +	All
No. of families, unrel. indiv. (thou.)	3,132	7,900	2,787	13,223	13,518	63,985	104,667
No. of children under 18 (thou.)	1,194	7,316	2,743	11,765	10,300	33,561	66,927
Baseline							
Number of returns with positive tax (thou.)	73	466	547	4,428	8,816	70,755	85,088
Total tax liability (mill.)	($289)	($2,600)	($1,460)	($3,751)	$9,504	$437,311	$438,495
Average tax liability per family	($92)	($354)	($531)	($284)	$703	$6,834	$4,189
Tax liability as % of total family income	-5.8%	-5.3%	-5.6%	-2.1%	3.4%	12.5%	10.9%
Alternative IC1: EITC CALCULATED USING OLD AGI DEFINITION							
Number of returns with positive tax (thou.)	90	675	618	4,769	9,066	70,992	86,213
Percent change from baseline	23.3%	44.7%	13.0%	7.7%	2.8%	0.3%	1.3%
Total tax liability (mill.)	($294)	($2,772)	($1,460)	($3,471)	$9,733	$437,699	$439,437
Change from baseline (mill.)	($5)	$28	$20	$280	$229	$389	$942
Percent change from baseline	-1.7%	1.0%	1.4%	7.5%	2.4%	0.1%	0.2%
Average tax liability per family	($94)	($351)	($524)	($262)	$720	$6,841	$4,198
Change from baseline	($2)	$4	$7	$21	$17	$6	$9
Percent change from baseline	-1.7%	1.0%	1.4%	7.5%	2.4%	0.1%	0.2%
Tax liability as % of total family income	-5.8%	-5.2%	-5.5%	-1.9%	3.5%	12.5%	10.9%
Alternative IC2: EITC CALCULATED USING NEW AGI DEFINITION							
Number of returns with positive tax (thou.)	90	686	623	4,812	9,094	70,998	86,307
Percent change from baseline	23.3%	47.2%	13.8%	8.7%	3.2%	0.3%	1.4%
Total tax liability (mill.)	($294)	($2,660)	($1,323)	($2,889)	$9,887	$437,740	$440,463
Change from baseline (mill.)	($5)	$140	$157	$862	$383	$429	$1,968
Percent change from baseline	-1.7%	5.0%	10.6%	23.0%	4.0%	0.1%	0.4%
Average tax liability per family	($94)	($337)	($475)	($218)	$731	$6,841	$4,208
Change from baseline	($2)	$18	$56	$65	$28	$7	$19
Percent change from baseline	-1.7%	5.0%	10.6%	23.0%	4.0%	0.1%	0.4%
Tax liability as % of total family income	-5.8%	-5.0%	-5.0%	-1.6%	3.6%	12.5%	10.9%

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.
A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
Income for percent-of-poverty is cash after federal income tax and FICA tax plus the cash value of Food Stamps and housing subsidy.
Families with negative net income are not shown separately but are included in the totals.
"Total family income" includes all cash income reported on the CPS, but with simulated AFDC and SSI in place of the reported amounts and with TRIM2-imputed capital gains income.

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TABLE 2
TAXING AFDC, SSI, AND FOOD STAMPS
EFFECTS ON TAX LIABILITY BY FAMILY TYPE FOR ALL FAMILIES

All dollar amounts are in 1994 dollars

	FAMILIES WITH CHILDREN								FAMILIES WITH NO CHILDREN	TOTAL
	WORKERS						NO WORKERS			
	2 Parents, 2 Workers PT or PY	2 Parents, 2 Workers FT and FY	2 Parents, 1 Worker PT or PY	2 Parents, 1 Worker FT and FY	1 Parent, 1 Worker PT or PY	1 Parent, 1 Worker FT and FY	2 Parents	1 Parent		All Families
Number of families, unrelated indiv. (mill.)	10,724	7,046	1,505	5,400	2,959	4,228	750	2,932	69,122	104,667
Number of children under 18 (mill.)	20,619	12,138	3,102	11,192	5,152	6,901	1,522	6,302	0	66,927
Baseline										
Number of returns with positive tax (thou.)	10,656	8,231	728	4,889	762	3,235	225	441	55,921	85,088
Total tax liability (mill.)	$56,190	$57,308	$820	$25,013	($2,050)	$6,386	$391	$859	$293,579	$438,495
Average tax liability per family	$5,240	$6,193	$545	$4,632	($693)	$1,510	$521	$290	$4,247	$4,189
Tax liability as % of total family income	10.1%	12.2%	2.0%	9.4%	-4.1%	4.7%	2.5%	2.4%	11.9%	10.9%
Alternative IC1: EITC CALCULATED USING OLD AGI DEFINITION										
Number of returns with positive tax (thou.)	10,731	8,274	754	4,951	803	3,284	260	585	56,570	86,213
Percent change from baseline	0.7%	0.5%	3.5%	1.3%	5.4%	1.5%	15.0%	32.6%	1.2%	1.3%
Total tax liability (mill.)	$56,357	$57,357	$850	$25,115	($1,980)	$6,461	$408	$901	$293,928	439,437
Change from baseline (mill.)	$167	$49	$70	$102	$70	$75	$17	$42	$349	$942
Percent change from baseline	0.3%	0.1%	8.5%	0.4%	3.4%	1.2%	4.3%	4.9%	0.1%	0.2%
Average tax liability per family	$5,255	$6,140	$591	$4,651	($669)	$1,528	$544	$307	$4,252	$4,193
Change from baseline	$15	$7	$46	$19	$24	$18	$23	$14	$5	$9
Percent change from baseline	0.3%	0.1%	8.5%	0.4%	3.4%	1.2%	4.4%	4.9%	0.1%	0.2%
Tax liability as % of total family income	10.1%	12.2%	2.2%	9.4%	-3.9%	4.8%	2.6%	2.5%	11.9%	10.9%
Alternative IC2: EITC CALCULATED USING NEW AGI DEFINITION										
Number of returns with positive tax (thou.)	10,762	8,275	767	4,955	811	3,285	260	585	56,598	86,307
Percent change from baseline	1.0%	0.5%	5.3%	1.6%	6.4%	1.5%	16.0%	32.6%	1.2%	1.4%
Total tax liability (mill.)	56,613	57,371	1,097	25,320	(1,803)	$6,570	$414	$903	$293,979	440,463
Change from baseline (mill.)	$423	$63	$277	$307	$247	$184	$23	$44	$400	$1,968
Percent change from baseline	0.8%	0.1%	33.8%	1.2%	12.0%	2.9%	5.9%	5.1%	0.1%	0.4%
Average tax liability per family	$5,279	$5,142	$729	$4,689	($669)	$1,554	$552	$308	$4,253	$4,208
Change from baseline	$39	$9	$184	$57	$84	$44	$31	$15	$6	$19
Percent change from baseline	0.7%	0.1%	33.7%	1.2%	12.1%	2.9%	5.9%	5.1%	0.1%	0.5%
Tax liability as % of total family income	10.2%	12.2%	2.7%	9.5%	-3.6%	4.8%	2.7%	2.5%	11.9%	10.9%

Source: The Urban Institute's TRIM2 Model.

Definitions:

"Family" includes related subfamilies as part of the primary family. NOTE: A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
"PT or PY" means either the head or spouse of the head family works part-time or part-year.
"FT and FY" means any head or spouse worker works full-time and full-year.
"NO WORKERS" means neither the head or spouse of the head family has earnings; another family member may have earnings.
"Total family income" includes all cash income reported on the CPS, but with simulated AFDC and SSI in place of the reported amounts and with TRIM2-imputed capital gains income.

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TABLE 6
TAXING AFDC,SSI, AND FOOD STAMPS
WINNERS AND LOSERS BY PERCENT OF POVERTY

All dollar amounts are in 1994 dollars, family counts are in thousands

	BASELINE PERCENT OF POVERTY (REDEFINED POVERTY MEASURE)						TOTAL
	< 50%	50-94%	95-105%	106-149%	150-199%	200% +	All
Number of families, unrelated indiv. (thou.)	3,132	7,900	2,787	13,223	13,518	63,986	104,667
Alternative IC1: EITC CALCULATED USING OLD AGI DEFINITION							
Lost $500 +	0	16	4	68	132	265	487
Lost $250-499	3	11	12	278	204	350	858
Lost $50-249	13	158	108	959	502	404	2,145
Little or no change	3,101	7,694	2,663	11,901	12,673	62,950	101,101
Gained $50 +	15	21	0	17	6	17	76
Percent of families lost $250+	0.1%	0.3%	0.6%	2.6%	2.5%	1.0%	1.3%
Percent of families lost $50 +	0.5%	2.3%	4.5%	9.9%	6.2%	1.6%	3.3%
Average Loss $500 +	--	$749	$574	$778	$700	$797	$764
Alternative IC2: EITC CALCULATED USING NEW AGI DEFINITION							
Lost $500 +	0	81	145	645	245	294	1,412
Lost $250-499	3	79	60	666	252	359	1,418
Lost $50-249	15	294	136	764	510	395	2,114
Little or no change	3,099	7,426	2,447	11,132	12,504	62,920	99,646
Gained $50 +	15	21	0	17	6	17	76
Percent of families lost $250+	0.1%	2.0%	7.3%	9.9%	3.7%	1.0%	2.7%
Percent of families lost $50 +	0.6%	5.7%	12.2%	15.7%	7.5%	1.6%	4.7%
Average Loss $500 +	--	$951	$792	$792	$931	$855	$838

Source: The Urban Institute's TRIM2 Model

Definitions:

"Family" is defined to include related subfamilies as part of the primary family.
A family may include more than one tax unit.
Children are defined as persons under age 18 who are not the head or spouse of a primary family or an unrelated subfamily.
Income for percent-of-poverty is cash after federal income tax and FICA tax plus Food Stamps and housing subsidy.
Families with negative net income are not shown separately but are included in the totals.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

		Current Law					Reduction in Disposable Income					
Line	Number of Months Worked	Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	15% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	15% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	0	0	6,924	2,496	0	9,420	0	0	0	0	0	0
2	6	5,000	3,462	2,238	0	11,818	0	0	50	0	0	0
3	8	5,000	2,884	2,504	0	11,506	0	0	0	0	0	0
4	10	5,000	3,124	2,436	0	11,678	0	0	15	0	0	0
5	12	5,000	3,360	2,364	0	11,842	0	0	56	0	0	0
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,248	0	16,217	1,180	332	1,178	553	526	35
8	8	10,000	2,308	1,352	0	15,167	802	174	915	290	369	0
9	10	10,000	1,154	1,666	0	14,327	499	48	705	80	243	0
10	12	10,000	0	1,980	0	13,487	274	0	495	0	117	0
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,248	0	19,493	1,699	707	1,178	1,178	1,140	785
13	8	15,000	2,308	832	0	17,923	1,132	471	785	785	904	550
14	10	15,000	1,154	416	0	16,353	566	236	393	393	669	314
15	12	15,000	0	780	0	15,563	281	117	195	195	550	196
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,248	0	22,308	1,699	707	1,178	1,178	1,732	1,535
18	8	20,000	2,308	832	0	20,738	1,132	471	785	785	1,496	1,300
19	10	20,000	1,154	416	0	19,168	566	236	393	393	1,261	1,064
20	12	20,000	0	0	0	17,598	0	0	0	0	0	0
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

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DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Lines	Other Adult in filing unit for: AFDC	Other Adult in filing unit for: In-Kind	Tax Filing Status: Other Adult	Tax Filing Status: Mother	Mother & Children: AFDC + Food Stamps	Mother & Children: Housing Subsidy	Other Adult: Earnings	Other Adult: EITC	Other Adult: Disposable Income	Combined: Disposable Income	Reduction in Combined Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	15% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	15% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	-	-	S	dnf	9,420	0	5,000	286	4,403	13,823	0	0	0	0	0	0
2	-	-	HH	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	195	0	0	0
3	-	-	J	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	205	0	0	0
4	-	X	S	dnf	9,180	0	5,000	286	4,403	13,583	0	0	0	0	0	0
5	-	X	HH	dnf	9,180	0	5,000	2,000	6,118	15,298	0	0	155	0	0	0
6	-	X	J	J	9,180	0	5,000	2,000	6,118	15,298	0	0	145	0	0	0
7	X	X	J	J	7,608	0	5,000	2,000	6,118	13,726	0	0	0	0	0	0
8	-	-	S	dnf	9,420	0	10,000	0	7,643	17,063	0	0	0	0	0	0
9	-	-	HH	dnf	9,420	0	10,000	3,272	11,507	20,927	1,747	567	1,570	945	762	271
10	-	-	J	dnf	9,420	0	10,000	3,272	11,507	20,927	1,753	573	1,773	955	646	156
11	-	X	S	dnf	7,980	0	10,000	0	7,643	15,623	0	0	0	0	0	0
12	-	X	HH	dnf	7,980	0	10,000	3,272	11,507	19,487	1,400	423	1,330	705	618	127
13	-	X	J	J	7,980	0	10,000	3,272	11,507	19,487	1,334	357	1,413	595	430	0
14	X	X	J	J	2,940	0	10,000	3,272	11,507	14,447	270	0	153	0	0	0
15	-	-	S	dnf	9,420	0	15,000	0	11,454	20,874	0	0	0	0	0	0
16	-	-	HH	dnf	9,420	0	15,000	2,362	14,783	24,203	2,265	942	1,570	1,570	1,375	1,021
17	-	-	J	dnf	9,420	0	15,000	2,362	15,158	24,578	2,646	1,323	2,355	2,205	1,260	906
18	-	X	S	dnf	6,924	0	15,000	0	11,454	18,378	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	0	15,000	2,362	14,783	21,707	1,665	692	1,154	1,154	1,125	771
20	-	X	J	J	6,924	0	15,000	2,362	15,158	22,082	1,921	949	1,731	1,581	886	531
21	X	X	J	J	1,740	0	15,000	2,362	15,158	16,898	415	171	435	285	108	0

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits--the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

		Current Law					Reduction In Disposable Income					
Line	Number of Months Worked	Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	15% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThreshld	15% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	0	0	6,924	2,124	7,894	16,942	666	666	1,111	1,111	370	370
2	6	5,000	3,462	1,866	7,433	18,879	1,009	789	1,815	1,315	793	493
3	8	5,000	2,884	2,132	7,606	18,740	959	768	1,781	1,281	772	472
4	10	5,000	3,124	2,064	7,534	18,840	995	783	1,806	1,306	787	487
5	12	5,000	3,360	1,992	7,464	18,934	1,029	797	1,829	1,329	801	501
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,062	5,933	21,964	3,253	1,194	2,614	1,989	1,388	897
8	8	10,000	2,308	980	6,279	21,074	2,932	1,060	2,392	1,767	1,255	764
9	10	10,000	1,154	1,294	6,626	20,581	2,754	986	2,268	1,643	1,181	690
10	12	10,000	0	1,608	6,972	20,087	2,576	912	2,145	1,520	1,107	616
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,062	4,433	23,740	3,230	1,344	2,239	2,239	1,777	1,422
13	8	15,000	2,308	708	4,779	22,579	2,811	1,169	1,949	1,949	1,602	1,248
14	10	15,000	1,154	354	5,126	21,417	2,392	995	1,658	1,658	1,428	1,074
15	12	15,000	0	408	5,472	20,663	2,120	882	1,470	1,470	1,315	961
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,062	3,947	26,069	2,579	1,271	2,118	2,118	2,296	2,099
18	8	20,000	2,308	708	3,279	23,893	2,253	944	1,574	1,574	1,969	1,773
19	10	20,000	1,154	354	3,626	22,731	1,851	770	1,283	1,283	1,795	1,599
20	12	20,000	0	0	3,972	21,570	1,432	596	993	993	1,621	1,425
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $619 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Line	Other Adult In filing unit for: AFDC	In-Kind	Tax Filing Status: Other Adult	Mother	Mother & Children: AFDC + Food Stamps	Housing Subsidy	Other Adult: Earnings	EITC	Disposable Income	Combined: Disposable Income	Reduction in Combined Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThrshld	25% Claw Back of AGI + Total Benefits - TaxThrshld	15% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThrshld	15% Claw Back of AGI + Total Benefits - 1.25*PovThrshld
1	-	-	S	dnf	9,048	7,894	5,000	286	4,403	21,345	666	666	1,111	1,111	370	370
2	-	-	HH	dnf	9,048	7,894	5,000	2,000	6,118	23,060	569	569	1,449	949	573	273
3	-	-	J	dnf	9,048	7,894	5,000	2,000	6,118	23,060	951	951	2,086	1,586	834	534
4	-	X	S	dnf	8,808	6,394	5,000	286	4,403	19,605	405	405	676	676	109	109
5	-	X	HH	dnf	8,808	6,394	5,000	2,000	6,118	21,320	395	395	1,159	659	399	99
6	-	X	J	J	8,808	6,394	5,000	2,000	6,118	21,320	690	690	1,651	1,151	573	273
7	X	X	J	J	7,236	7,068	5,000	2,000	6,118	20,422	556	556	1,426	926	438	138
8	-	-	S	dnf	9,048	7,894	10,000	0	7,643	24,585	666	666	1,111	1,111	370	370
9	-	-	HH	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,555	1,319	2,824	2,199	1,514	1,023
10	-	-	J	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,937	1,701	3,653	2,836	1,775	1,284
11	-	X	S	dnf	7,608	4,894	10,000	0	7,643	20,145	0	0	1	1	0	0
12	-	X	HH	dnf	7,608	4,894	10,000	3,272	11,507	24,009	2,488	875	2,084	1,459	1,070	579
13	-	X	J	J	7,608	4,894	10,000	3,272	11,507	24,009	2,648	1,035	2,543	1,726	1,109	618
14	X	X	J	J	2,568	6,972	10,000	3,272	11,507	21,047	1,787	591	1,803	985	664	174
15	-	-	S	dnf	9,048	7,894	15,000	0	11,454	28,396	666	666	1,111	1,111	370	370
16	-	-	HH	dnf	9,048	7,894	15,000	2,362	14,783	31,725	4,056	1,694	2,824	2,824	2,127	1,773
17	-	-	J	dnf	9,048	7,894	15,000	2,362	15,158	32,100	4,813	2,451	4,236	4,086	2,388	2,034
18	-	X	S	dnf	6,924	3,394	15,000	0	11,454	21,772	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	3,394	15,000	2,362	14,783	25,101	2,481	1,032	1,720	1,720	1,465	1,111
20	-	X	J	J	6,924	3,394	15,000	2,362	15,158	25,476	2,907	1,458	2,580	2,430	1,395	1,040
21	X	X	J	J	1,368	5,472	15,000	2,362	15,158	21,998	1,896	936	1,710	1,560	873	519

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits--the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

MEMORANDUM

MATHEMATICA
Policy Research, Inc.

TO: Alana Landey and Bob Dalrymple

FROM: Harold Beebout **DATE:** 1/21/94

SUBJECT: Materials for First Presentation on Households Receiving Welfare Benefits
Contract No.: 53-3198-3-038-063

The materials for the first presentation profiling households receiving benefits from the AFDC and Food Stamp Programs is attached. The purpose of these materials is to clarify the implications of the diverse set of households receiving benefits for some of the policy changes being examined as part of the welfare reform deliberations.

We currently are planning to meet with you on Friday, January 21, to discuss this first set of materials and the focus for additional work.

cc: Carole Trippe
Bob Cohen
John DiCarlo

PROFILE OF HOUSEHOLDS RECEIVING WELFARE BENEFITS

INITIAL PRESENTATION

A. INTRODUCTION

This is the first in a series of presentations profiling households receiving AFDC and food stamps. These presentations are intended to indicate the diversity of the households being served by the current programs. Issues being examined include the nature of the larger households within which program assistance units are often embedded as well as the frequency with which the household's composition and receipt of benefits change during the year.

1. Perspective and Source of Data

This profile of households receiving welfare is based on data from the 1990 panel of the Survey of Income and Program Participation (SIPP). Snapshot views are based on December 1990. The end of the year was chosen to facilitate analyses of policies that might reconcile benefits received and taxes owed in some manner at the end of each year. Longitudinal views look back over the previous 11 months to determine how the situation of each household changed since January in terms of its receipt of AFDC and food stamps as well as the composition of the household. Welfare benefits are defined as AFDC and Food Stamp Program benefits.

2. The Household Versus the Program Unit View

The picture one obtains of the composition and resources of units receiving welfare benefits depends substantially on the comprehensiveness of the view of the economic and social unit. For example, the view can be limited to a narrowly defined program filing or assistance unit within a household or it can encompass the entire household. The filing unit for SSI is generally the individual. For federal income taxes it is the individual or the married couple. For AFDC, it is the nuclear family with some exceptions, and for the Food Stamp Program it is the set of persons within the dwelling unit that prepare food together with some exceptions. This presentation takes a

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relatively broad view of the unit of interest and uses the Census Bureau's household definition. An attempt is made to show how the program filing units fall within the broader household definition.

B. THE DECEMBER 1990 PROFILE

For the profile households are classified according to their December composition. The first five classifications all contain children age 18 and under. The first category consists of households containing only a married couple and their children. The second consists of a single parent and her/his own children. The third consists of a three generation family although other people may also be present. The fourth consists of two adults of opposite sex not married to each other and at least one own child. The fifth consists of households with children not meeting any of the previous definitions. The sixth category contains households without children.

1. Composition of Welfare Households

Examining households receiving AFDC or food stamps in December by type of household as shown in Table 1, we note several important patterns:

- About 70 percent of the households receiving welfare have children age 18 or younger.
- Of the households with children receiving welfare, fewer than half (46 %) are single parent families only.
- Of the households with children receiving welfare, 37 percent have various complex compositions including three generation families (13%), two adults of opposite sex not married to each other (5%), and other compositions (19%).

2. Type of Benefit and Coverage

Examining these same households receiving welfare in December, but focusing on whether they receive both AFDC and food stamps and whether all the individuals in the household are covered as shown in Table 2, we find:

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TABLE 1

HOUSEHOLDS WITH WELFARE BY COMPOSITION AND BY TYPE OF RECEIPT

	Households with Children Under 19						
December Welfare Receipt	Two Parent	Single Parent	Three Generation	Two Adults	Other Units	No Children LT 19	Total
All Receive AFDC & FS	180	1,552	16		70	8	1,825
All AFDC or FS	544	607	85	17	265	1,723	3,240
Only Some Receive	95	41	518	224	570	373	1,821
Total	818	2,199	620	241	904	2,104	6,886
Percent by Household Type	11.9	31.9	9.0	3.5	13.1	30.6	100.0

TABLE 2

PERCENT OF HOUSEHOLDS WITH WELFARE BY TYPE OF RECEIPT AND BY COMPOSITION

	Households with Children Under 19						
December Welfare Receipt	Two Parent	Single Parent	Three Generation	Two Adults	Other Units	No Children LT 19	Total
All Receive AFDC & FS	21.9	70.6	2.6	0.0	7.7	0.4	26.5
All AFDC or FS	66.4	27.6	13.8	7.1	29.3	81.9	47.1
Only Some Receive	11.6	1.9	83.6	92.9	63.0	17.7	26.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total	818	2,199	620	241	904	2,104	6,886

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- ***Across all household types, in only 27 percent of household receiving welfare did all members participate in both AFDC and food stamps.*** If the universe is limited to households with children, this proportion rises to 38 percent.

- ***Of the two parent families receiving welfare, two thirds receive food stamps covering all the members, and 22 percent receive benefits from both programs covering all the members.*** In 12 percent of the families the benefit does not cover all the members.

- ***Of the single parent families receiving welfare,*** most members (72%) are covered by both AFDC and food stamps.

- ***Of the three generation family households, in most households the benefits cover a subset of the members (84%).*** This is even more true for two unmarried adult households where the benefit covers a subset of members in 93 percent of the households.

C. COMPARISON OF DECEMBER RECEIPT TO THOSE RECEIVING DURING THE YEAR

Considerable insight into the dynamics of participation during the year can be obtained by comparing the number of households receiving in December with the number receiving continuously throughout the year, and with the number receiving during any month of the year. Examining these comparisons as presented in Table 3 leads to the following findings:

- ***Across all household types,*** two-thirds of the households receiving welfare in December received benefits all 12 months.

- ***Across all household types, 26 percent more households received welfare at some time during the year than received welfare in December.*** However, this percentage varies widely across household types.

- ***Single parent households*** tend to have relatively stable patterns of receipt over the year with 76 percent of the December recipients receiving benefits all year and those receiving benefits at any time being only 115 percent of the number of December recipients. Two unmarried adults also tend to be relatively stable.

- ***In contrast, simple two parent households*** have very unstable patterns with the number receiving benefits at any time being 165 percent of the number of December recipients.

If we look just at AFDC receipt, the patterns are very similar for most household types as shown in Table 4. However, three generation families have much less stable patterns of receipt as do the tiny group of households receiving AFDC with no children under age 19. Some of those with

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TABLE 3

RATIO OF HOUSEHOLDS RECEIVING WELFARE IN DECEMBER TO ALL YEAR AND ANY TIME

December Welfare Receipt	Households with Children Under 19					No Children LT 19	Total
	Two Parent	Single Parent	Three Generation	Two Adults	Other Units		
Received Welf. in Dec.	819	2,199	620	241	904	2,104	6,887
Received All Year	511	1,677	418	157	487	1,393	4,643
Received Any Time in Y.	1,348	2,522	737	258	1,109	2,690	8,663
Receive Welf. in Dec.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Received All Year	62.4%	76.3%	67.5%	65.3%	53.9%	66.2%	67.4%
Received Any Time in Y.	164.7%	114.7%	118.9%	107.4%	122.6%	127.8%	125.8%

TABLE 4

RATIO OF HOUSEHOLDS RECEIVING AFDC IN DECEMBER TO ALL YEAR AND ANY TIME BY COMPOSITION

	Households with Children Under 19						
December ~~Welfare~~ AFDC Receipt	Two Parent	Single Parent	Three Generation	Two Adults	Other Units	No Children LT 19	Total
Receive AFDC in Dec.	269	1,679	400	158	566	20	3,091
Received All Year	184	1,239	283	134	309	4	2,153
Received Any Time in Y.	455	1,889	528	166	650	87	3,775
Receive Welf. in Dec.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Received All Year	68.4%	73.8%	70.6%	85.2%	54.6%	19.5%	69.6%
Received Any Time in Y.	168.8%	112.5%	131.9%	105.5%	114.9%	448.2%	122.1%

children over 18 and in-school may have lost their eligibility. If we look just at receipt of food stamps, there is somewhat less stability over the year, but there is less difference among household types with the exception of two parent families as shown in Table 5. Two parent families again have much less stable patterns over the year than other household types.

D. HOUSEHOLD COMPOSITION CHANGE

Household composition change represents a serious challenge for the administration of policies which attempt to reconcile benefits received and taxes owed at the end of the year. For example, those qualifying for benefits or earning the bulk of the household's money may no longer be present in the household in December when accounts are reconciled.

This section examines the frequency with which new members enter households over the year. Given that we are looking back over the months prior to December, it is much easier to look back for those household members present at the end of the year. Therefore, this first examination is limited to the frequency of persons entering households during the year and omits those leaving. One approach to approximating the frequency of both entry and exit excluding births is to double the number entering not including births. It is only approximate since deaths will occur and entrances and exits may not be of equal magnitude. For example, as marriages break up mothers and their children may systematically enter welfare while the men do not rejoin welfare households in equal numbers.

Our examination of the number of households receiving welfare that change composition during the year shows that composition changes are common. The noteworthy findings from Table 6 are:

- ***Across all household types about 19 percent of welfare households experience persons entering during the year.*** About half of that change is the result of births and half from other entrants.

- ***If entrants, excluding births, equals exits, then 19 percent is also a rough approximation of the number of household composition changes not counting births.*** At the caseload levels observed in the SIPP, that would amount to roughly 1.3 million welfare households changing composition annually.

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TABLE 5

RATIO OF HOUSEHOLDS RECEIVING FS IN DECEMBER
TO ALL YEAR AND ANY TIME BY COMPOSITION

	Households with Children Under 19						
December ~~Welfare~~ FS Receipt	Two Parent	Single Parent	Three Generation	Two Adults	Other Units	No Children LT 19	Total
Receive FS in Dec.	810	2,144	526	210	770	2,098	6,558
Received All Year	472	1,572	346	115	427	1,384	4,316
Received Any Time in Y.	1,326	2,476	599	232	962	2,672	8,267
Receive Welf. in Dec.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Received All Year	58.3%	73.3%	65.8%	54.6%	55.5%	66.0%	65.8%
Received Any Time in Y.	163.6%	115.5%	113.8%	110.4%	124.9%	127.4%	126.1%

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TABLE 6

RATIO OF HOUSEHOLDS WITH NEW ENTRANTS
TO THOSE RECEIVING WELFARE IN DECEMBER

	Households with Children Under 19						
December Welfare Receipt	Two Parent	Single Parent	Three Generation	Two Adults	Other Units	No Children LT 19	Total
Receive Welfare in Dec.	819	2,199	620	241	904	2,104	6,887
Comp. Changed,New Baby	152	220	116	96	86	0	671
Comp. Changed Other	49	51	122	53	240	135	650
Comp. Changed-Entrants	202	271	238	149	326	135	1,322
Receive Welfare in Dec.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Comp. Changed,New Baby	18.6%	10.0%	18.7%	40.0%	9.5%	0.0%	9.7%
Comp. Changed Other	6.0%	2.3%	19.7%	21.8%	26.6%	6.4%	9.4%
Comp. Changed-Entrants	24.7%	12.3%	38.4%	61.9%	36.0%	6.4%	19.2%

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- *The frequency of composition changes* also varies greatly by household type with 27 percent of other household units having a person entering other than a birth.

E. COMBINED HOUSEHOLD COMPOSITION CHANGE AND PART-YEAR RECEIPT

Part-year receipt of welfare benefits was measured in a manner that is independent of the measure of individuals entering the household. Therefore, the two sources of change can be summed to estimate the total changes resulting from both part-year receipt of welfare benefits and changes in composition as a new person enters the household. The resulting estimates of the combined changes are:

- *Across all household types the most conservative estimate of the combined magnitude of change is that 35 percent of the number of households receiving welfare in December experience a change.* At 1990 caseload levels, this implies 2.4 million households receiving welfare during the year have changes in receipt or composition. This is the sum of 26 percent receiving in months other than December from Table 3 and the 9.4 percent of households receiving in December that had persons enter the household during the year other than new babies. Thus, it is conservative in that it does not count a new baby as a change in composition nor does it count the individuals that leave households. It also does not count a change in the amount of the benefit as a change.

- *A higher, but plausible estimate is 45 percent.* This is the sum of twice the entrants not counting babies being born plus the 26 percent receiving in months other than December.

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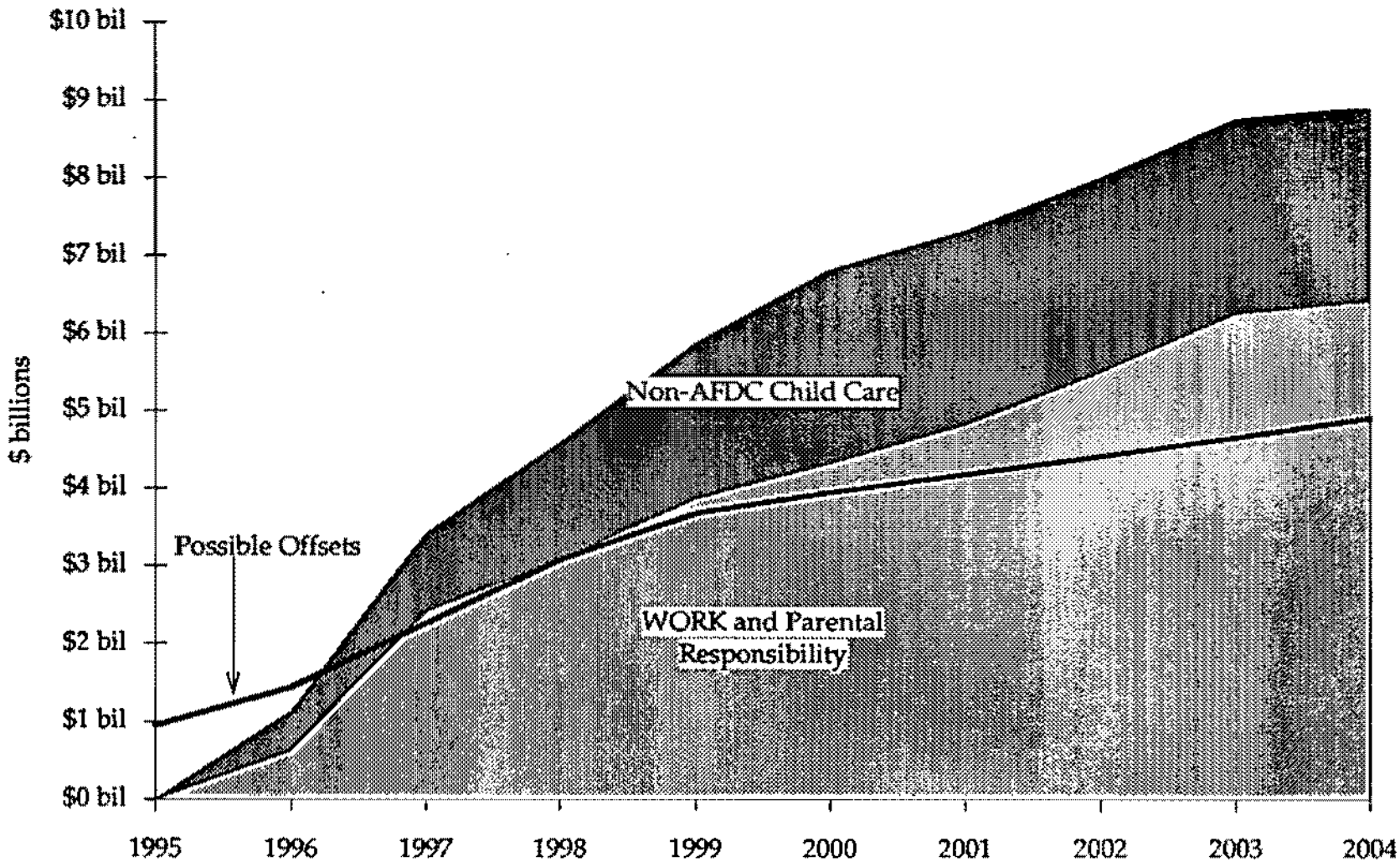
WELFARE TRADEOFFS

COSTS	5-yr	10-yr
HHS Proposal	14.9	54.8
OMB Reestimate of HHS Costs	17.7	64.6
OMB Medium Option	9.6	30.3
OMB Low Option	3.7	10.1
OFFSETS		
HHS Entitlement Reforms		
Cap Emergency Assistance	2.1	
Tighten Sponsorship for Aliens	5.8	
Target Child Care Food Program	1.2	
SSI Reapplication	1.3	
SSI Deeming for Disabled Kids	1.1	
TOTAL, HHS	11.4	31. (est.)
Additional Cuts/Taxes Needed to Pay for HHS Proposal	**3.5**	**24.**
Additional Cuts/Taxes Needed to Pay for OMB Reestimate of HHS	**6.3**	**33.**
Potential <u>Additional</u> Sources of Revenue		
4% Gambling Tax	3.1	7
33% Increase in Liquor Tax	3.5	7
100% Increase in High Alcohol Beer and Wine	.7	2
Phase Out Dependent Care Tax Credit for AGI over $90k	.8	2
Amount <u>Still</u> Needed to Pay for HHS Proposal	--	6
Amount <u>Still</u> Needed to Pay for OMB Reestimate of HHS Proposal	--	15

Welfare Reform Costs and Offsets
HHS Estimates Extrapolated To 2004



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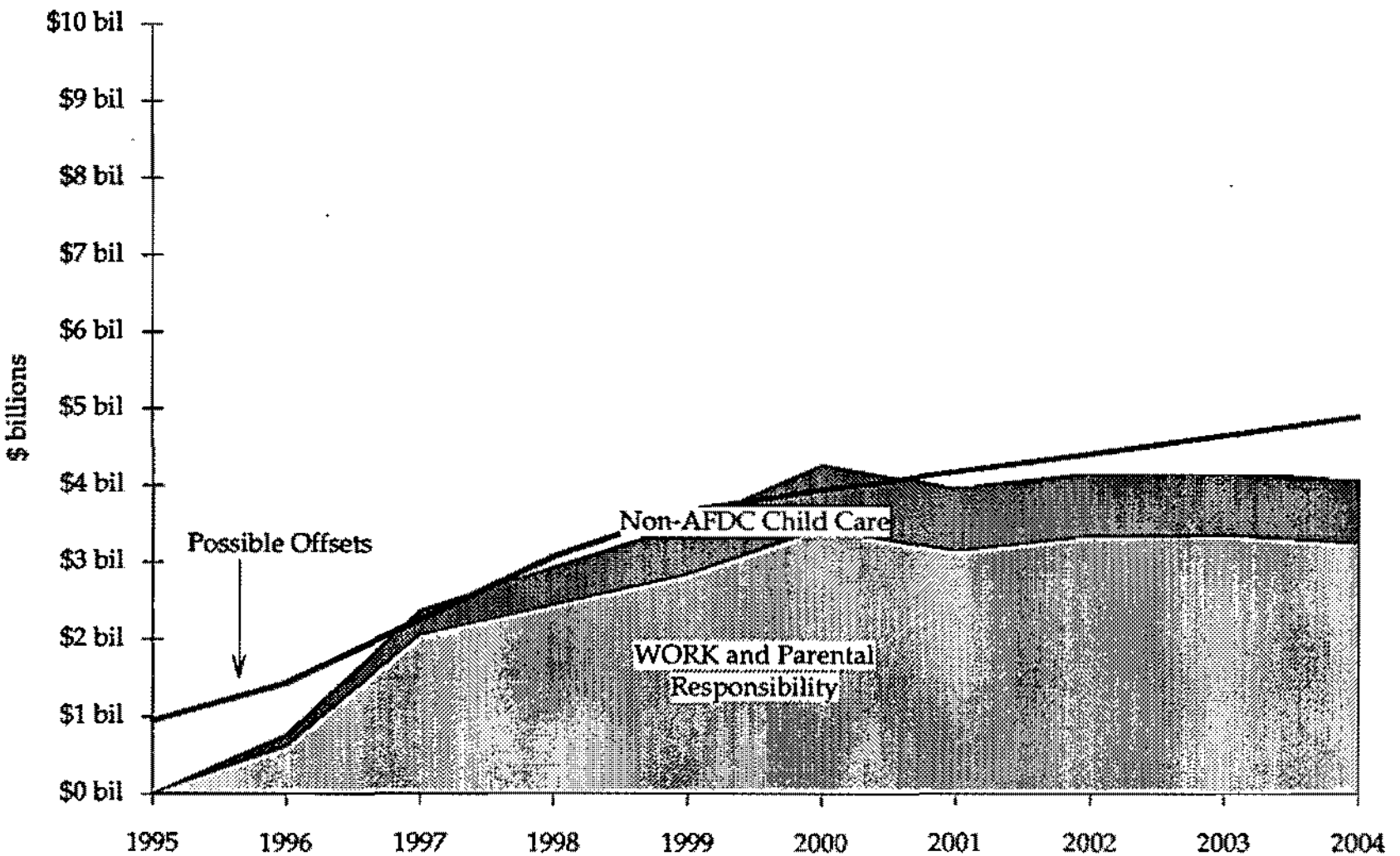
Welfare Reform Costs and Offsets
Option A



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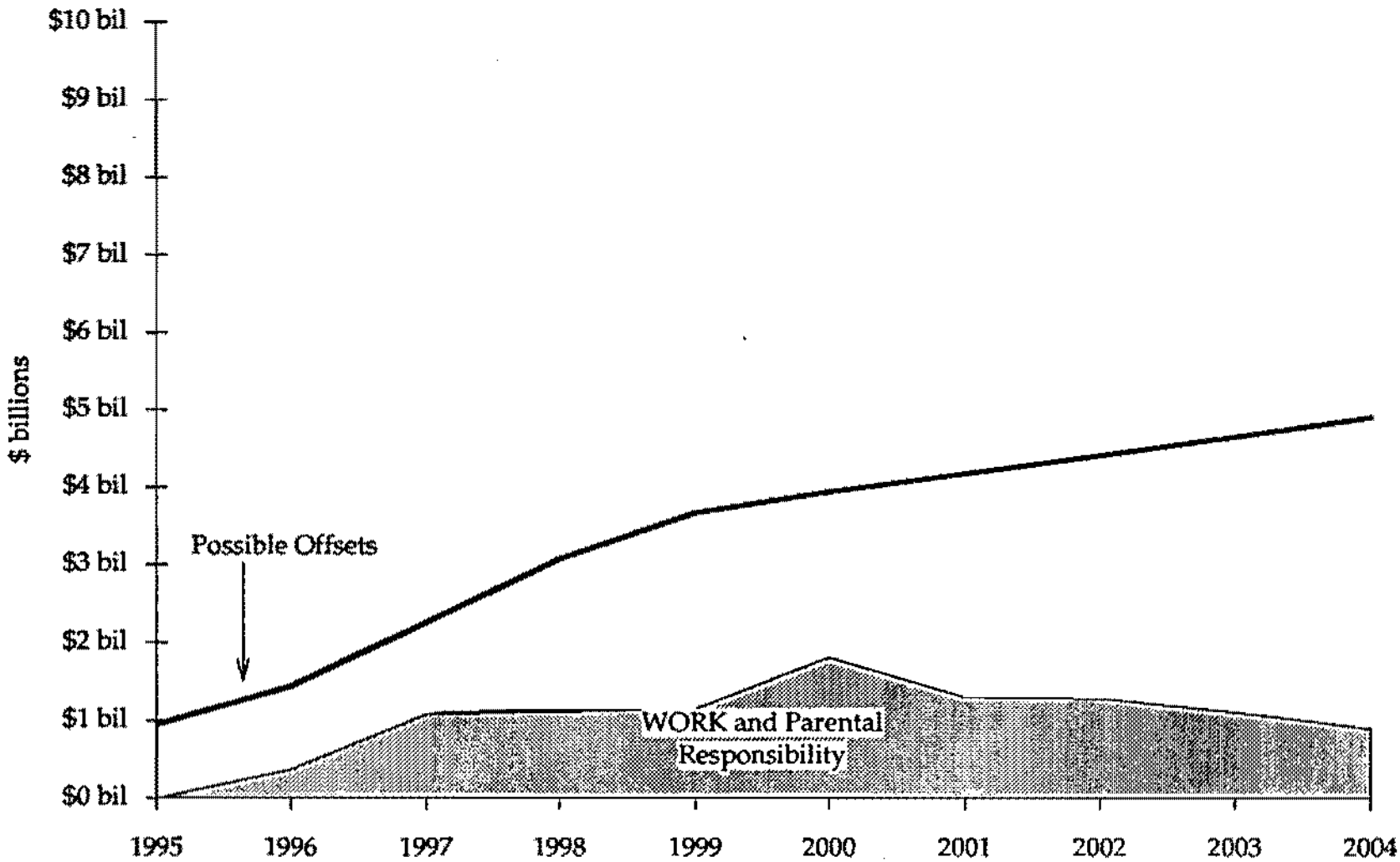
Welfare Reform Costs and Offsets
Option B



3/9/94 2:17 PM

DRAFT

WR-$

POSSIBLE REVENUE OPTIONS FOR WELFARE REFORM

~~PRELIMINARY~~ Pos

Proposal	02/08/94 01:16 PM	1995	1996	1997	1998	1999	1995-99
				Fiscal years ($ millions)			
1	Deny EITC to nonresident aliens students	1	30	33	34	35	133
2	EITC information reporting for DoD personnel - compliance measure	0	10	58	59	63	190
3	Gambling compliance proposals						
	a Increase withholding rate on gambling winnings > $50,000 to 36 percent	256	118	46	47	60	516
	b Withholding rate of 28% on keno, slots, and bingo winnings > $7,500	154	59	11	12	12	248
	c Require information reporting on winnings of $10,000+ from gambling regardless of odds	10	39	47	56	63	215
4	Impose 4% excise tax on all net gambling revenue (except state lotteries)	454	628	660	693	727	3,162
5	Increase taxes on pistols and revolvers from 10% to 25 %	40	49	52	55	59	255
6	Increase tax on distilled spirits from $13.50 per proof gallon to $18.18 (tax would increase from $2.14 per fifth to $2.86 per fifth)	563	766	760	752	745	3,586
7	Double tax on high-alcohol content beer (current rate is $6.45 per proof gallon, or $.33 per six pack) 2/	81	111	111	112	112	527
8	Double tax on fortified wine (current tax is $4.46 per proof gallon, or $.21 per 750 ml. bottle) 3/	23	31	31	30	29	144
9	Phase-out dependent care credit for AGI between $90,000 and $110,000	94	166	175	161	165	761
10	Apply 30% withholding to 85% of Social Security benefits (as opposed to 50% under current law) paid to nonresident aliens. Tax has been conceded under certain treaties.	20	61	64	67	70	282
11	Voluntary withholding on unemployment compensation	67	30	2	2	2	103
	TOTAL:	1,763	2,118	2,049	2,080	2,132	10,142

Note 1/ All proposals are assumed to be effective on 1/1/95.
2/ High-alcohol content beer is beer with more than 5% of alcohol by volume, and consists primarily of malt liquors and the new "ice" beers.
3/ Fortified wine is wine with more than 14% of alcohol by volume. About 10% of all wine sold would be affected.

4. Magnitude has that slipped, some relaxation OK

5. Not very good.

10. Income tax on non-resident aliens up to 85% ⇒ confusing charge

11. Burden on states U.I. raises

~~CONFIDENTIAL~~ RDS

Revised 2/21/94

ENTITLEMENT REFORMS TO FINANCE WELFARE PROPOSALS

(dollars in billions)

	FY 95	96	97	98	99	FY 95-99
Cap Emergency Assistance	0.26	0.35	0.42	0.50	0.56	2.09
Target Child Care Food Program	0.16	0.21	0.23	0.27	0.30	1.17
Adjust SSI Deeming Rules	0.18	0.19	0.21	0.23	0.25	1.06
Reapplication for SSI Cases Most Likely to Improve {being re-estimated}	0.07	0.16	0.26	0.37	0.42	1.28
Tighten Sponsorship and Eligibility Rules for Aliens	0.27	0.52	1.13	1.70	2.14	5.76
Improving EITC and Related Tax and Transfer Policies	N/A					

WR-4

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

07-Mar-1994 01:14pm

TO: Isabel Sawhill

FROM: Bruce N. Reed
Domestic Policy Council

CC: Kathryn J. Way

SUBJECT: WR costs/financing

Belle --

Richard may have mentioned to you that we discussed upfront job search at HHS this morning, and appeared to make some progress. Kathi, Richard, Bonnie, and I pressed the point again, and for once got surprising support from the HHS rank-and-file. Lavinia, who runs the refugee program, and Howard Rolston, who likes job search, blew David and Mary Jo out of the water by pointing out that 1) upfront job search works, and 2) few states do it. I'm sure that when David and Mary Jo get over the initial embarrassment, they'll come up with some new excuse not to do it, but it was one Specs mtg worth attending.

We're trying to arrange the costs/financing mtg for early Thursday afternoon. Our WH group should get together well before then, at your convenience. Kathi and I are at your disposal.

I thought of a few cost and financing questions over the weekend that weren't reflected in the tables you gave Leon. I would also be curious as to your overall opinion of the accuracy of the financing estimates we have received from HHS and Treasury.

Here's my list. I'm sure there are other ideas we've discussed and forgotten:

Other Savings Within the Program:

1. Upfront Job Search -- an earlier OMB estimate said 125m over 5
2. Provide 20% of child care slots thru work program (or was it 20% of work slots thru child care?) -- a very prelimary OMB estimate said 500m over 5 and 600m/yr in steady state
3. Cap on work slots -- should save money in 10yr estimate, but not in 5yr
4. Time limit on WORK program -- ditto
5. How much does it cost to eliminate the 100 hr rule but not the work history reqt?

Unresolved Financing Questions:

1. Cash for Addicts: can we save ANY money from the DA&A SSI program? (I saw Richard's e-mail of Feb 11)

2. Are the non-immigrant SSI offsets that HHS proposed politically feasible? (eg, disabled kids). Can the savings from better targeting the child care food program be used to pay for the increased child care food costs OMB anticipates but HHS has not taken account of in its estimates?

3. EITC savings -- for example, no EITC if no paternity is established. I know David's looking at this, but I don't know where it stands.

4. Someone told me we should look at letting states impose a tax on mail-order items, and target the $ for WR. Bumpers has a bill that would raise about $2.5b/yr for the states. I have no idea of the political viability of this idea (I know it would fall hard on Maine, where George Mitchell and LLBean are based), and I assume it's been tried before and failed. But it occurred to me that perhaps we could use this for the out-year money as a fallback. Congress doesn't seem to mind raising taxes in the out years. I have not brought this idea up to HHS because I'm afraid they'll spend the money before we can raise it -- and I still agree with Leon's point that the overall package can't come in at much more than $25-30b over 10yrs. (Of course, this particular tax would only go to the states, which would reduce our overall costs.)

5. The only items on Treasury's list that made much sense to me were the gambling tax and the phaseout of the dependent care tax credit at $90+K AGI. The Mainstream Forum plans to do the latter and use the money to make the DCTC refundable -- which might be a nice baby step on child care.

Let us know how it's going and what we can do to help. Thanks.

Read
WR-H

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

11-Feb-1994 09:31pm

TO: (See Below)

FROM: Richard A. Popper
Office of Mgmt and Budget, HIMD

SUBJECT: DA&A SSI and DI Issues and Options

This is in response to the information you requested regarding SSI & DI recipients who are drug addicts and alcoholics (DA&A). We were not able to reach anyone at HHS and SSA today due to the weather.

Eligibility Definition
Individuals may be considered disabled under both the SSI and Social Security DI programs as a drug addict or alcoholic (DA&A) if they:
- have a medically determined, physical drug addiction or alcoholism that has or will last 12 months or result in death, and
- are unable to perform substantial gainful activity because of the impairment

CLARIFICATION: This is slightly different than what we told you late yesterday evening. As best we can reconstruct from the regulations and other information, DA&A is now the basis for finding of disability for both programs. However, inconsistent past implementation by SSA often led to benefit denial for claimants who did not have another condition that, in itself, was so severe that benefits could be awarded based on the other condition alone. For example, a physical condition such as cirrhosis supported the award without consideration of alcoholism. Two court cases (McShea, Wilkerson) affirmed that substance addiction disorder in and of itself can be a medically determinable impairment. The discrepancy in policy and practice apparently has been reduced as a result, and the clarification caused by these court cases may help partially explain the growth in DA&A awards.

In addition to the above disability definition, SSI DA&A recipients must:
- undergo appropriate treatment for their addiction at approved facilities that must be monitored, and which must be free of charge to SSA and the recipient
- receive their benefits through a representative payee

Rolls Are Growing
SSI DA&A recipients have increased from 24,000 in FY91 to 78,000 in September 1993. DA&A recipients have also grown from 1 to 2.6% of the total SSI population during the same period. 72% of DA&A SSI recipients are male, with an average age of 42.

Case breakdown of those who are impaired solely due to DA&A:
SSI: 78,000 SSI
DI: 49,000 DI
Concurrent (subset of both): 14,000

Hill Proposals
In addition to the amendment introduced eliminating benefits to drug dealers, the following legislation has recently been introduced:

House Republican Welfare Reform bill
H.R. 3500 requires random drug tests of SSI DA&A recipients disabled due to addiction to illegal drugs (alcoholism is not addressed). Removes this class of SSI recipients if they are determined to be using illegal drugs, or if they refuse to submit to a test. Its not clear how this would work in practice since the bill does not alter the current eligibility of drug addicts.

Senate Republican Welfare Reform bill
Does not specifically address SSI recipients, but requires AFDC recipients to participate in treatment, with those who refuse expelled from AFDC eligibility for 2 years.

H.R. 1712
Requires DA&A recipients to participate in 3 consecutive months of approved treatment before being eligible for benefits

Other options:
Eliminate DA&A as a basis of disability
Eligibility would be limited to those individuals who have a severe impairment, excluding any addiction. SSA estimates that 40% of recipients under DI have impairments solely attributable to DA&A. This option could terminate a large portion of recipients. Alternatively, the proposal could be phased-in for new recipients only.

Time limit eligibility
Flag DA&A cases for an early, thorough CDR reassessment. Alternatively, terminate benefits after certain period of time. Assumption of adequate treatment availability may be important for this approach.

Administrative Improvements
Some modest administrative improvements could be pursued. For example: permit payments to qualified organizations (social service agencies, treatment centers) to offset their costs as rep. payees.

SSA's FY95 budget request for the SSI program expands referral and monitoring activities to cover over 75% of DA&A recipients by FY95, compared to just 45% in FY93. Outlays from this activity will increase from $4 million in FY93 to an estimated $36 million in FY95. HHS is thus continuing the policy of providing benefits to such individuals while enhancing the focus on referring individuals to treatment.

HHS context:
We understand there has been sharp disagreement within HHS on revising current policy in reaction to Congressional, public and media criticism. Some within the Department favor altering or eliminating the payment of benefits to DA&A recipients, while others favor a more administrative solution of emphasizing treatment.

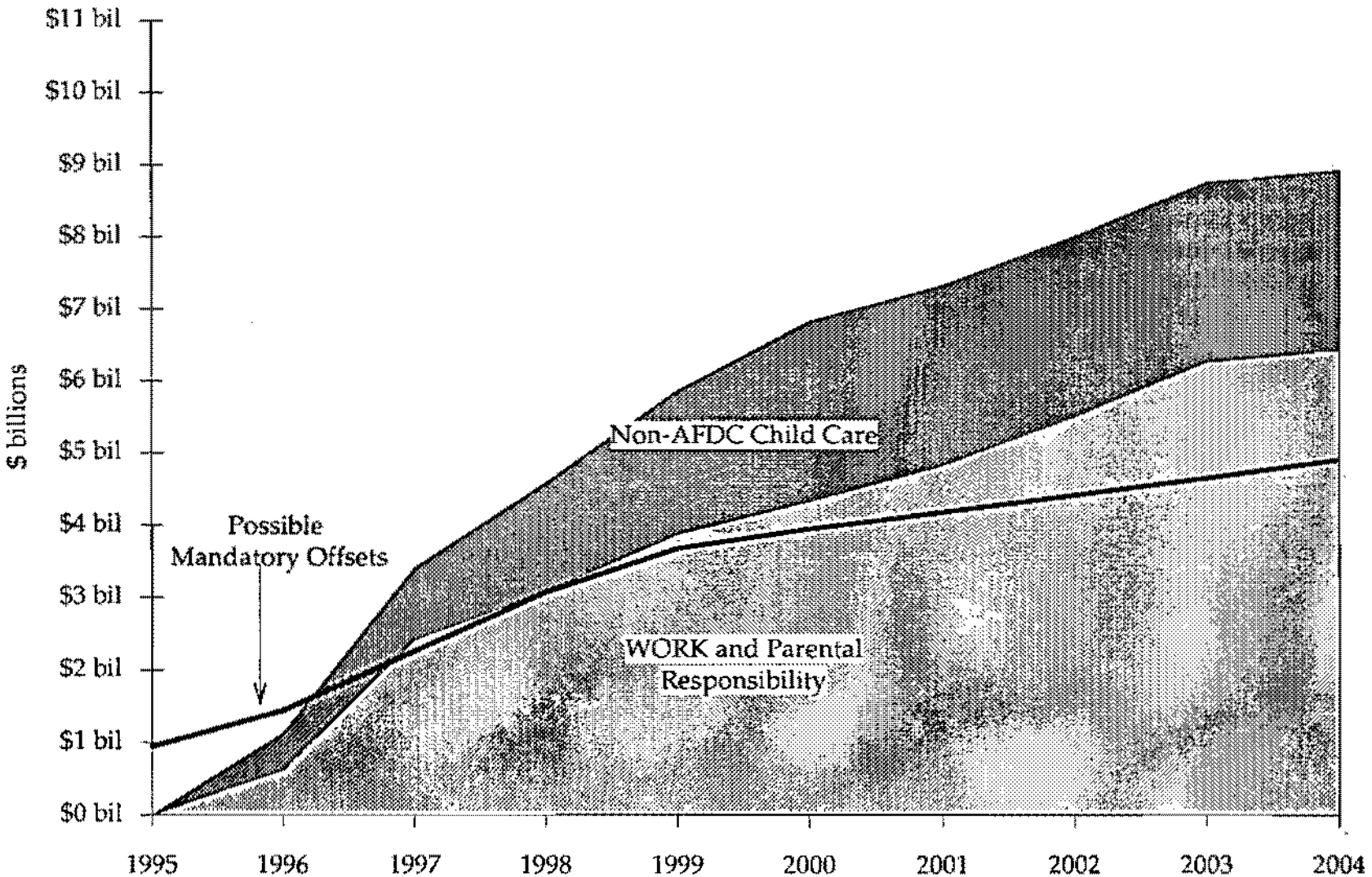
We will pursue further with HHS early next week.

Distribution:

TO: Isabel Sawhill
TO: Barbara S. Selfridge

CC: Wendy C. New
CC: Keith J. Fontenot
CC: Lara L. Roholt
CC: Stacy L. Dean
CC: Thurman B. Clendenin

Welfare Reform Costs and Offsets
High Option



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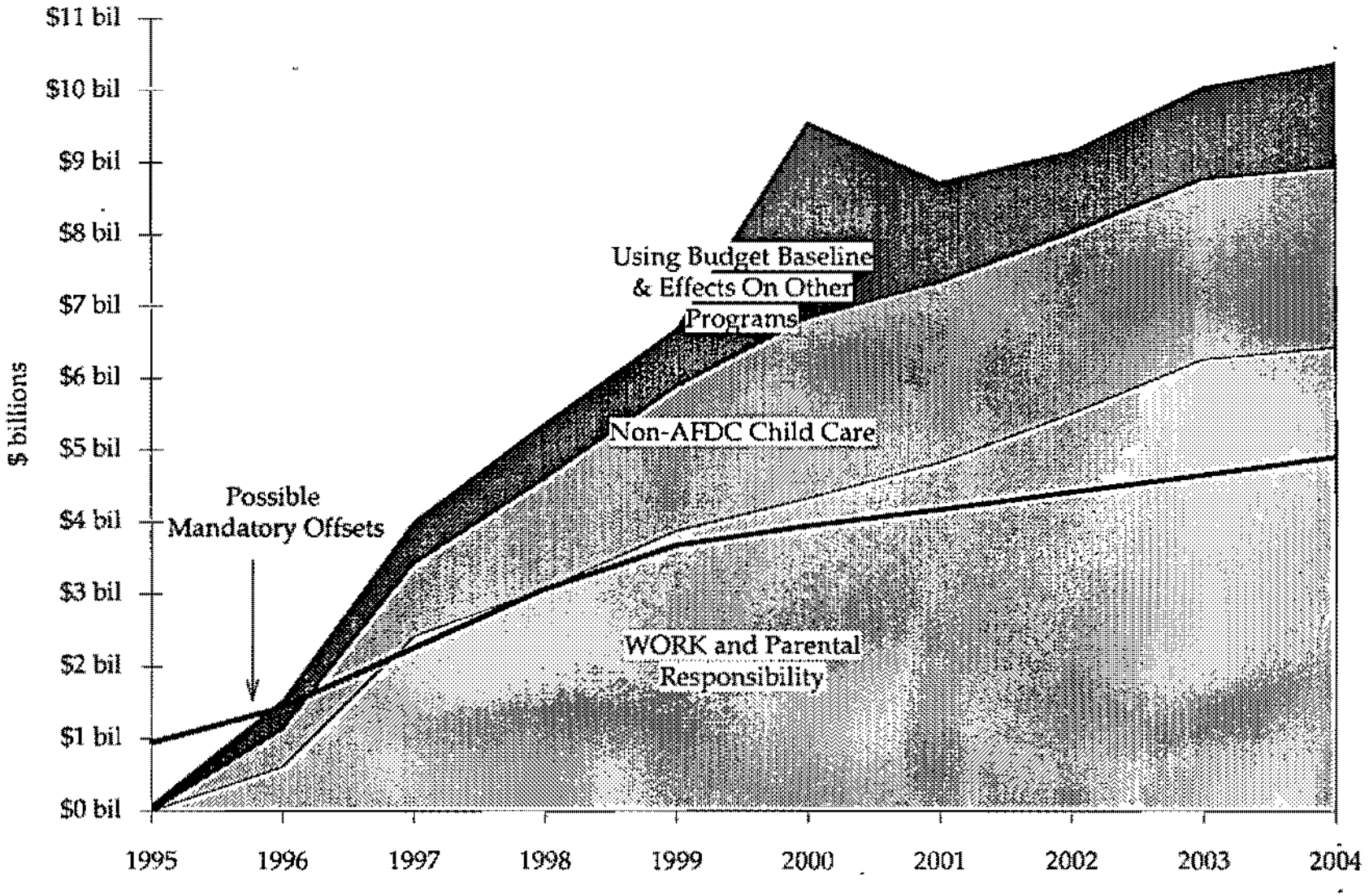
Welfare Reform Costs and Offsets
High Option With Other Costs Added



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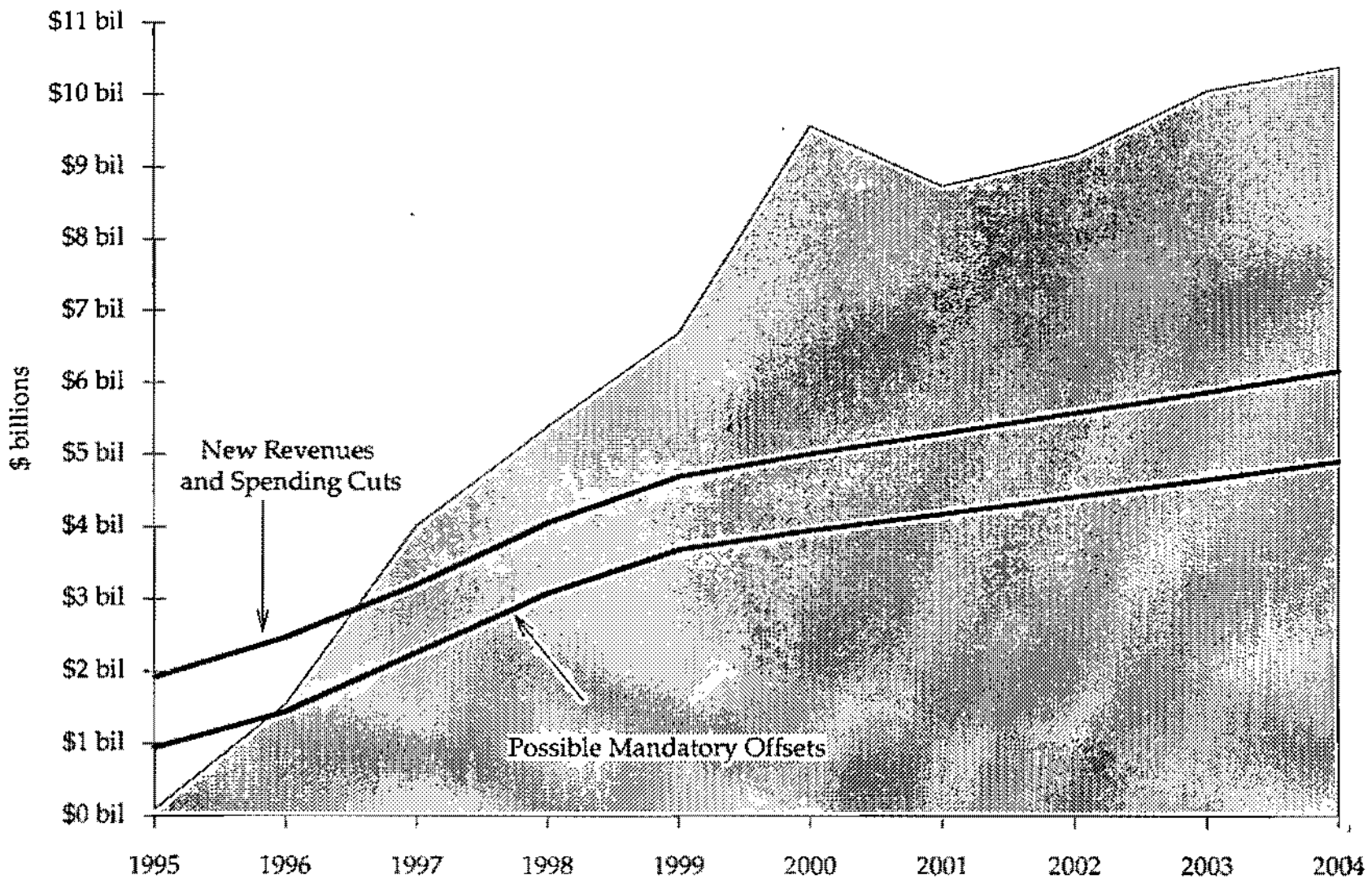
Adding New Revenues To Help Pay For Welfare Reform
High Option With Other Costs Added



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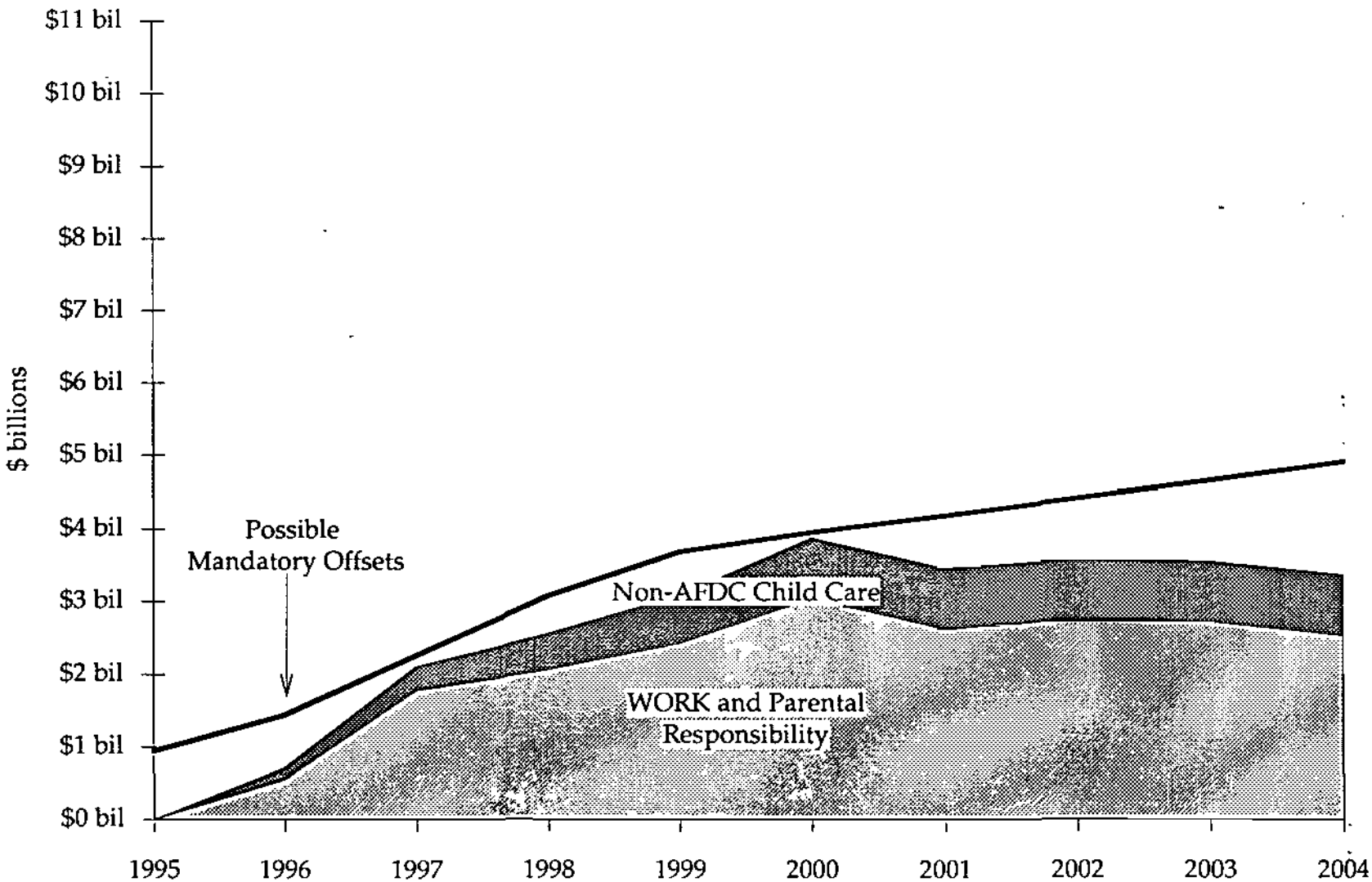
Welfare Reform Costs and Offsets
Medium Option



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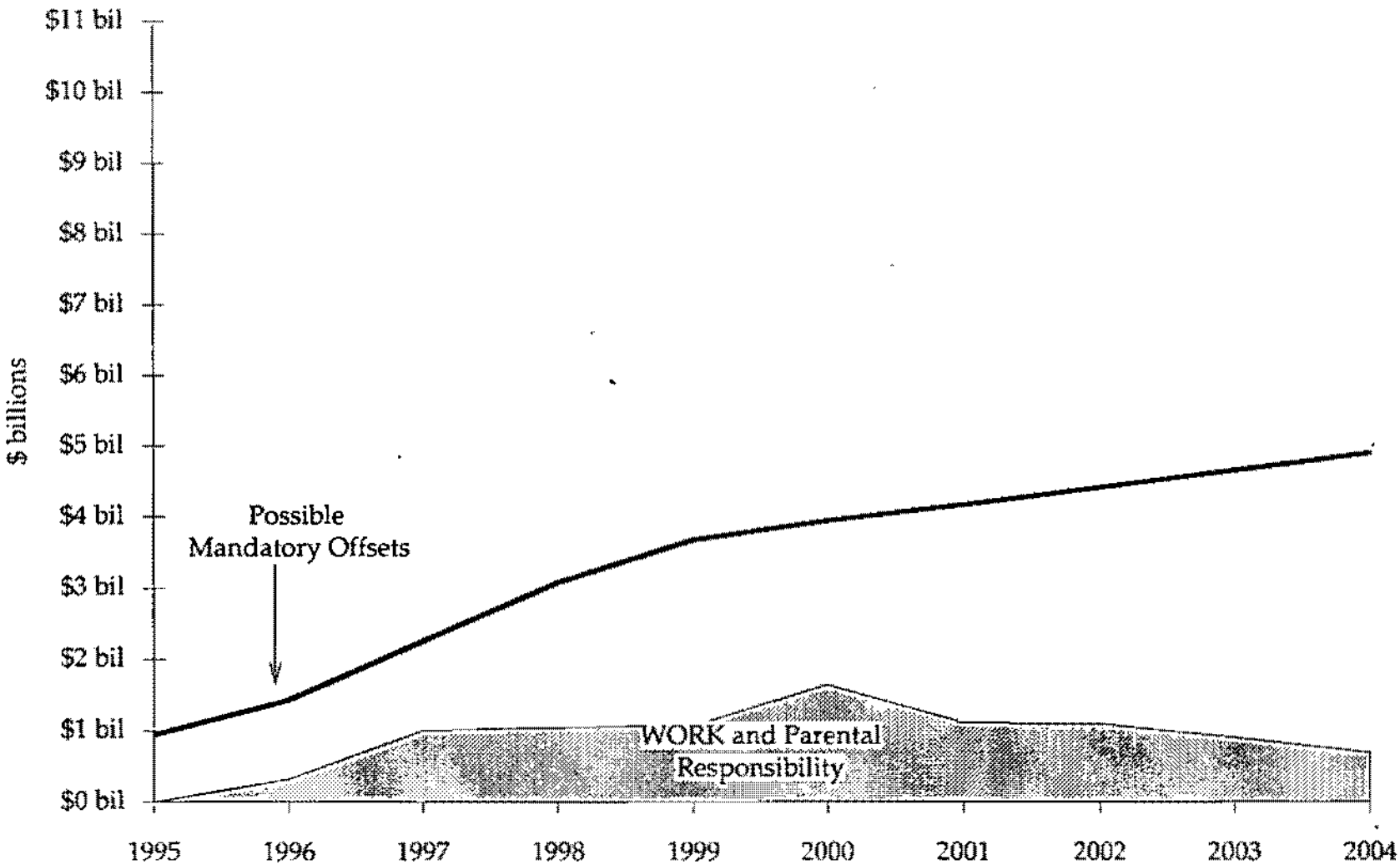
Welfare Reform Costs and Offsets
Low Option



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SUMMARY PRICING

Three Possible Options

(By fiscal year, in millions of dollars)

3/10/94 12:45	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Annual Steady State
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK									
A Subtotal Transitional Assistance/WORK	0	620	1,950	2,285	3,000	7,855	6,535	33,300	N/A
B Option	*0*	*545*	*1,595*	*1,780*	*2,265*	*6,185*	*3,235*	*22,305*	N/A
C Option	*0*	*385*	*1,185*	*1,340*	*1,705*	*4,615*	*2,140*	*16,230*	N/A
PARENTAL RESPONSIBILITY									
A Subtotal Parental Responsibility	(5)	0	460	795	865	2,115	(110)	4,000	N/A
B Option	10	5	180	275	150	620	(710)	(1,860)	N/A
C Option	(20)	(60)	(180)	(295)	(635)	(1,190)	(1,445)	(7,345)	N/A
MAKING WORK PAY									
A Subtotal Making Work Pay	0	500	1,000	1,500	2,000	5,000	2,500	17,500	N/A
B Option	0	165	335	500	665	1,665	835	5,840	N/A
C Option	0	0	0	0	0	0	0	0	N/A
REINVENTING GOVERNMENT									
A Subtotal Reinventing Government	0	0	0	0	0	0	0	0	N/A
B Option	0	0	0	0	0	0	0	0	N/A
C Option	0	0	0	0	0	0	0	0	N/A
GRAND TOTAL									
A SUBTOTAL	(5)	1,120	3,410	4,580	5,865	14,970	8,925	54,800	N/A
B *Subtotal*	10	715	2,110	2,555	3,080	8,470	3,360	26,285	N/A
C *Subtotal*	-20	325	1,005	1,045	1,070	3,425	695	8,885	N/A

WORKING DRAFT

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	annual Steady State
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK										
A **JOBS Prep: Case Management for Deferrals**	0	15	50	60	70	195	120	695		
B *Limited Case Management for JOBS Prep*	*0*	*10*	*25*	*30*	*35*	*100*	*60*	*350*		
C *No Case Management for JOBS Prep*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
A **Additional JOBS Spending: Assumes everyone in JOBS is in an education or training activity or job search 9 months out of the year. (about 50% above the level in a demo intended to achieve maximum participation)**	0	260	820	940	980	3,000	730	6,910		1,405
A technical reestimate of Option A costs (excludes EITC, health care reform and part time work behavior changes)	0	300	930	1,070	1,120	3,420	1,020	8,510	1,600	1,940
B *More realistic participation levels in JOBS: Assumes everyone in JOBS is in an education or training activity or job search 7 months out of the year.*	*0*	*200*	*620*	*690*	*710*	*2,220*	*450*	*4,880*	*(3,630)*	*(940)*
C • *Up front JOBS search for 30 days before AFDC benefit* • *More realistic participation levels in JOBS: Assumes everyone in JOBS is in an education or training activity or job search 7 months out of the year.*										
C SUBTOTAL	*0*	*150*	*545*	*610*	*625*	*1,930*	*355*	*4,125*	*(4,385)*	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
A WORK Program	0	0	0	120	620	740	3,040	11,810		8,005
A technical reestimate of Option A costs (excludes EITC, health care reform and part time work behavior changes)	0	0	0	130	680	810	3,820	14,660	2,850	10,050
B • *Cap Overhead at $3,500/job/year(vs. $5,250) This is approximately the spending level required for community service (work-for-welfare) rather than work-for-wages.*										
• ~~*Cap the WORK Slot number at 5m*~~										
• *Limit time on WORK to 3 years then 75% of AFDC + Food Stamps*										
B SUBTOTAL	*0*	*0*	*0*	*90*	*400*	*490*	*400*	*4,980*	*(9,680)*	
C • *Cap Overhead at $3,500/job/year(vs. $5,250)*										
• *Limit Time on WORK to 1.5 years then 75% of AFDC + Food Stamps*										
• *1/5 WORK Slots in Child Care/Monitoring*										
C SUBTOTAL	*0*	*0*	*0*	*70*	*290*	*360*	*(280)*	*2,340*	*(12,320)*	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

		1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
	OTHER WORK OPTIONS										
D	*Cap the Work Slot number at .4m and WORK overhead at $3,500 per slot*	*0*	*0*	*0*	*95*	*445*	*540*	*1,120*	*6,830*	*(7,830)*	
E	*Cap the Work Slot number at .5m and WORK overhead at $3,500 per slot*	*0*	*0*	*0*	*95*	*445*	*540*	*1,470*	*8,020*	*(6,640)*	
F	*Cap the Work Slot number at .5m and WORK overhead at $4,000 per slot*	*0*	*0*	*0*	*105*	*510*	*615*	*1,720*	*9,170*	*(5,490)*	
G	*Cap the Work Slot number at .7m and WORK overhead at $4,000 per slot*	*0*	*0*	*0*	*105*	*510*	*615*	*2,520*	*10,820*	*(3,840)*	
H	*Part-time workers not eligible for AFDC after two years*	*0*	*0*	*0*	*110*	*560*	*670*	*3,170*	*12,290*	*(2,370)*	
A	**Savings in AFDC Benefits from Caseload Reduction** (Savings in JOBS/WORK are incorporated above)	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)		
B	*Not Yet Estimated*	*0*	*(10)*	*(40)*	*(90)*	*(100)*	*(240)*	*(250)*	*(1,150)*		
C	*Not Yet Estimated*	*0*	*(10)*	*(40)*	*(90)*	*(100)*	*(240)*	*(250)*	*(1,150)*		
A	**Child Care for JOBS/WORK Participants**	0	240	680	750	870	2,540	2,175	10,330		
B	*Less Child Care Needed*	*0*	*230*	*640*	*660*	*770*	*2,300*	*1,925*	*9,180*		
C	*Less Child Care Needed*	*0*	*160*	*430*	*450*	*540*	*1,580*	*1,715*	*7,430*		

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

		1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
A	**Transitional Child Care**	0	85	250	300	350	985	600	3,485		
B	*Alternative under review*	0	85	250	300	350	985	600	3,485		
C	*Alternative under review*	0	85	250	300	350	985	600	3,485		
A	**Enhanced Teen Case Management**	0	30	90	105	110	335	120	920		
B	*Cap case management admin costs at $ 50 m.*	0	30	50	50	50	180	50	430		
C	*Defer*	0	0	0	0	0	0	0	0		
A	**Economic Development: Microenterprise loans and Individual Development Accounts**	0	0	100	100	100	300	0	300		
B	*Modest Economic Development*	0	0	50	50	50	150	0	150		
C	*Defer*	0	0	0	0	0	0	0	0		
A	**Subtotal Transitional Assistance/WORK**	0	620	1,950	2,285	3,000	7,855	6,535	33,300		
B	*Subtotal*	0	545	1,595	1,780	2,265	6,185	3,235	22,305		
C	*Subtotal*	0	385	1,185	1,340	1,705	4,615	2,140	16,230		

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

		1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
PARENTAL RESPONSIBILITY											
A	**Require Minor Moms to Live with Parents**	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)		
B	*No change*	*0*	*(45)*	*(50)*	*(50)*	*(50)*	*(195)*	*(50)*	*(445)*		
C	*No change*	*0*	*(45)*	*(50)*	*(50)*	*(50)*	*(195)*	*(50)*	*(445)*		
A	**Comprehensive Demonstration Grants**	0	50	50	50	50	200	50	450		
B	*No change*	*0*	*50*	*50*	*50*	*50*	*200*	*50*	*450*		
C	*No change*	*0*	*50*	*50*	*50*	*50*	*200*	*50*	*450*		
A	**Two Parent Provision: Quarters of Work and 100 hour rule**	0	0	440	680	945	2,065	1,115	7,290		
B	*Quarters of Work Only*	*0*	*0*	*220*	*340*	*475*	*1,035*	*560*	*3,655*		
C	*Quarters of Work Only*	*0*	*0*	*220*	*340*	*475*	*1,035*	*560*	*3,655*		
A	**No additional benefits for additional children (Family Cap at State Option)**	(35)	(100)	(110)	(140)	(150)	(535)	(150)	(1,285)		
B	*No change*	*(35)*	*(100)*	*(110)*	*(140)*	*(150)*	*(535)*	*(150)*	*(1,285)*		
C	*Mandatory Family Cap*	*(65)*	*(150)*	*(375)*	*(605)*	*(800)*	*(1,995)*	*(800)*	*(5,995)*		

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

		1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
A	**Child Support Enforcement**	10	40	(85)	(85)	(375)	(495)	(1,270)	(5,560)		
B	*Same as A, but higher computer costs*	45	85	(25)	(30)	(310)	(235)	(1,205)	(5,010)		
C	*OPTION B*	45	85	(25)	(30)	(310)	(235)	(1,205)	(5,010)		
A	**Non-custodial Parent Provisions**	0	30	85	110	165	390	165	1,215		
B	*Modest Non-custodial Parent Provisions*	0	15	45	55	85	200	85	625		
C	*Defer*	0	0	0	0	0	0	0	0		
A	**Access Grants and Parenting Demonstrations**	20	25	30	30	30	135	30	285		
B	*Defer*	0	0	0	0	0	0	0	0		
C	*Defer*	0	0	0	0	0	0	0	0		
A	**Child Support Assurance Demonstrations**	0	0	100	200	250	550	0	2,050		
B	*Limit and Cap CSA Demos*	0	0	50	50	50	150	0	150		
C	*Defer*	0	0	0	0	0	0	0	0		
A	**Subtotal Parental Responsibility**	(5)	0	460	795	865	2,115	(110)	4,000		
B	*Subtotal*	10	5	180	275	150	620	(710)	(1,860)		
C	*Subtotal*	(20)	(60)	(180)	(295)	(635)	(1,190)	(1,445)	(7,345)		

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

		1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
MAKING WORK PAY											
A	**Working Poor Child Care**	0	500	1,000	1,500	2,000	5,000	2,500	17,500		
B	*Target Child Care at Parents 26 and under*	*0*	*165*	*335*	*500*	*665*	*1,665*	*835*	*5,840*		
C	*Defer*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
A	**Advance EITC**	0	0	0	0	0	0	0	0		
B	*No Change*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
C	*No Change*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
A	**Subtotal Making Work Pay**	0	500	1,000	1,500	2,000	5,000	2,500	17,500		
B	*Subtotal*	*0*	*165*	*335*	*500*	*665*	*1,665*	*835*	*5,840*		
C	*Subtotal*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
REINVENTING GOVERNMENT										
A Asset Rules, Filing Unit, Simplification of Earnings Disregards, Accounting and Reporting Rules	0	0	0	0	0	0	0	0		
Subtotal Reinventing Government	0	0	0	0	0	0	0	0		
B No Change	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
C No Change	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		
GRAND TOTAL										
A TOTAL	(5)	1,120	3,410	4,580	5,865	14,970	8,925	54,800		N/A
B Total	*10*	*715*	*2,110*	*2,555*	*3,080*	*8,470*	*3,360*	*26,285*		*N/A*
C Total	*(20)*	*325*	*1,005*	*1,045*	*1,070*	*3,425*	*695*	*8,885*		*N/A*

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

Three Possible Options

(By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Delta from adjusted	Steady State
OPTION A: EFFECTS ON OTHER PROGRAMS										
JOBS/WORK Systems Costs	100	300	300	400	300	1,400	100	2,200		
Includes estimates of State/Federal costs to adapt computer and other under the new program.										
Child Care Feeding Costs (JOBS/WORK/TCC)	0	35	95	105	120	355	280	1,380		
The CACFP costs associated with expanded child care										
Child Care Feeding Costs(Working Poor)	0	50	100	150	200	500	250	1,750		
The CACFP costs associated with expanded child care										
WORK Program	0	0	0	10	60	70	780	2,850		
Remove EITC and Health Care Reform Behavioral Assumptions										
JOBS Program	0	40	110	130	140	420	290	1,600		
Remove EITC and Health Care Reform Behavioral Assumptions										
Subtotal	*100*	*425*	*605*	*795*	*820*	2,745	*1,700*	9,785		
Sanctions			Not Yet Estimated							
Federal Match Rate effect on State behavior										
Food Stamps Interactions			Not Yet Estimated							
Medicaid Interactions			Not Yet Estimated							
EITC Interactions			Not Yet Estimated							
Other Interactions			Not Yet Estimated							

HHS Preliminary Welfare Reform Offset Estimates

Extrapolated to 2004

3/9/94 19:50		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
					dollars in billions				
Cap Emergency Assistance	1/	0.26	0.35	0.42	0.50	0.56	2.09	0.70	5.39
Target Child Care Food Program	2/	0.16	0.21	0.23	0.27	0.30	1.17	0.45	3.12
Adjust SSI Deeming Rule	2/	0.18	0.19	0.21	0.23	0.25	1.06	0.35	2.61
Reapplication for SSI Cases Most Likely to Improve	2/	0.07	0.16	0.26	0.37	0.42	1.28	0.67	4.13
Tighten Sponsorship and Eligibility Rules for Aliens	3/	0.27	0.52	1.13	1.70	2.14	5.76	2.73	18.18
Total		0.94	1.43	2.25	3.07	3.67	11.36	4.90	33.43

Notes on extrapolations for 2000 - 2004

1/ Assumes that under current law, States would take maximum advantage of EA by 1999, with baseline growing by inflation afterwards.

2/ Growth assumed to be at the same dollar increment as between 1998 and 1999.

3/ Assumes that continued immigration would keep savings growing slightly more than inflation. A 5% growth rate is assumed.

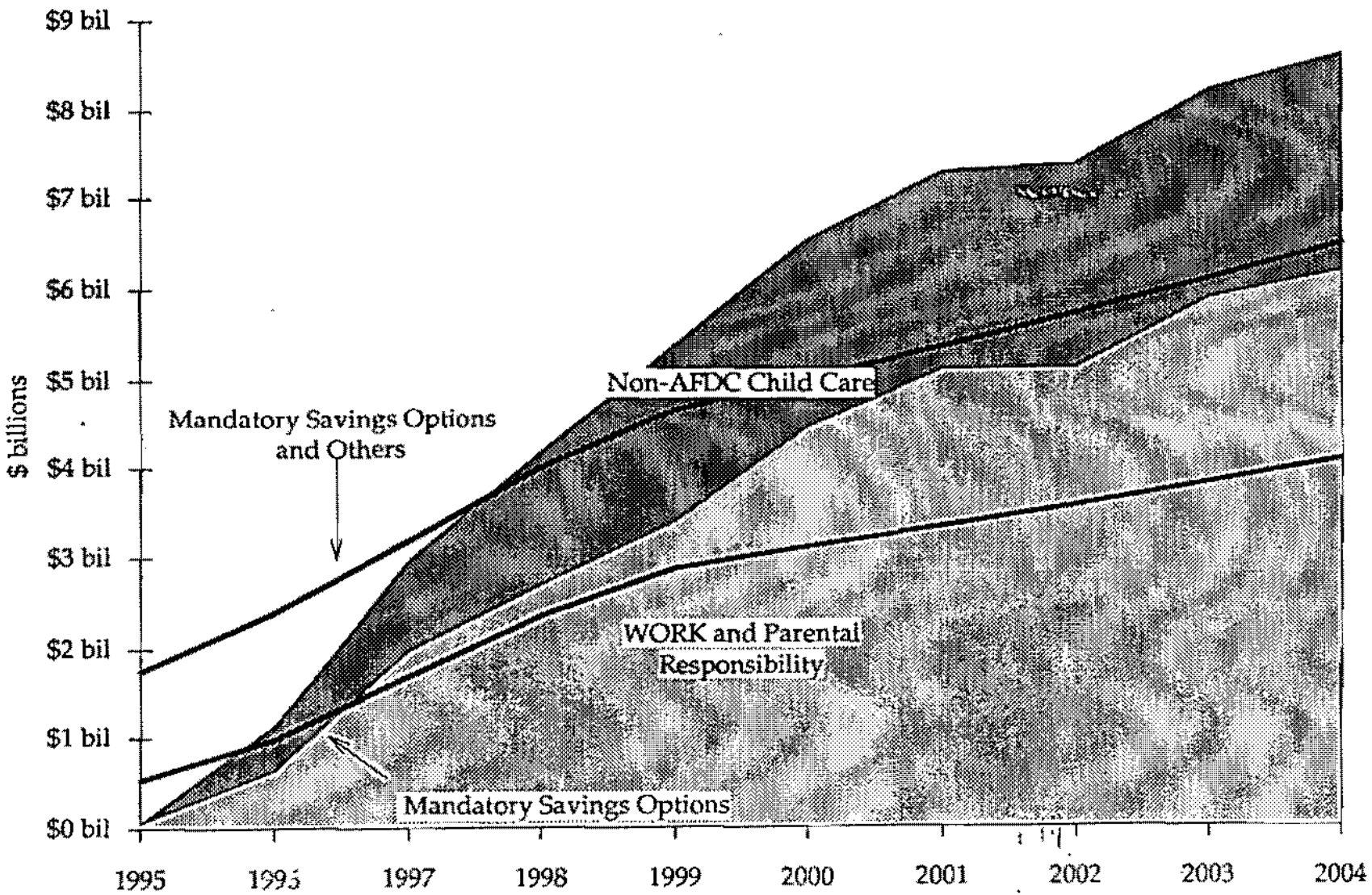
Possible Revenue Options For Welfare Reform

Extrapolated to 2004

3/9/94 19:50	1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
				dollars in billions				
Deny EITC to non-resident aliens	0.00	0.03	0.03	0.03	0.04	0.13	0.04	0.32
EITC information reporting for DoD personnel	0.00	0.01	0.06	0.06	0.06	0.19	0.08	0.57
Increase withholding on gambling winnings > $50,000 to 36%	0.26	0.12	0.05	0.05	0.05	0.52	0.07	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.15	0.06	0.01	0.01	0.01	0.25	0.01	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds	0.01	0.04	0.05	0.06	0.06	0.22	0.10	0.64
4% excise tax on net gambling revenue (except State lotteries)	0.45	0.63	0.66	0.69	0.73	3.16	0.90	7.31
Phase out dependent care tax credit for AGI between $90,000 and $110,000	0.09	0.19	0.18	0.16	0.17	0.78	0.19	1.67
Total	0.97	1.03	0.94	0.97	1.02	4.92	1.26	10.73

Growth assumed to be at the same dollar increment as between 1998 and 1999.

Offsets for Welfare Reform
Preliminary Estimates: Option A



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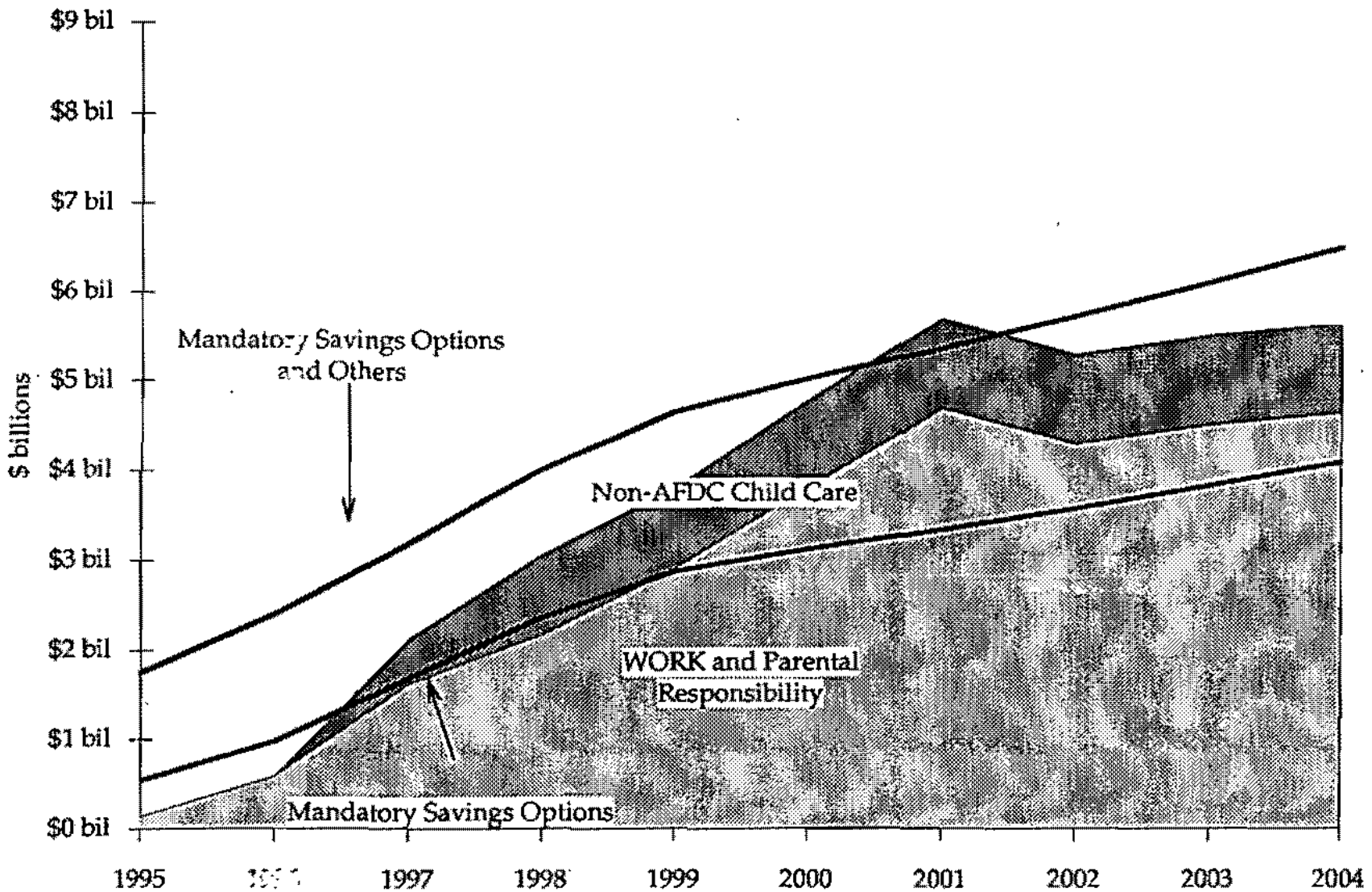
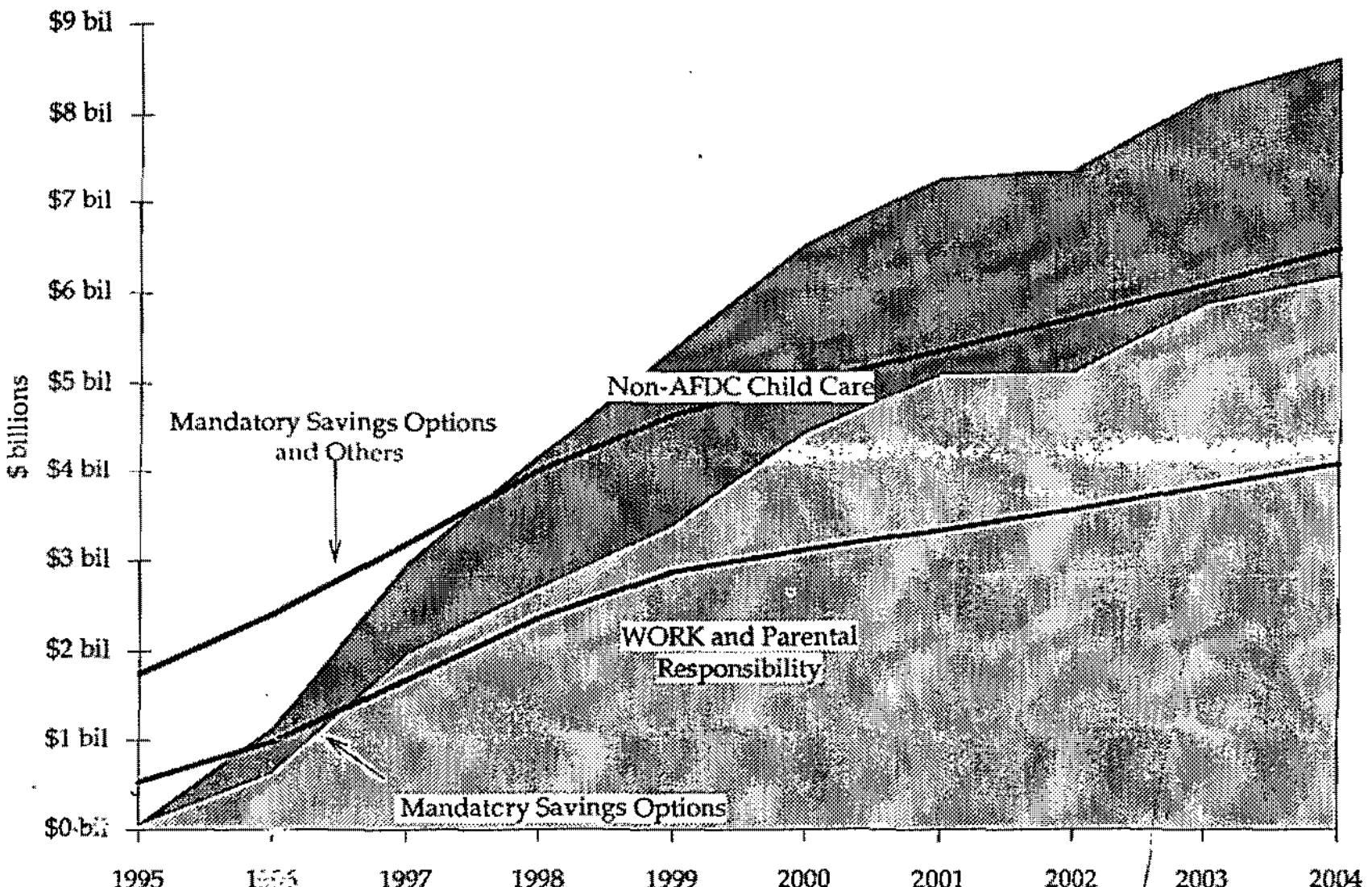
Offsets for Welfare Reform
Preliminary Estimates: Option B



Offsets for Welfare Reform
Preliminary Estimates: Option A



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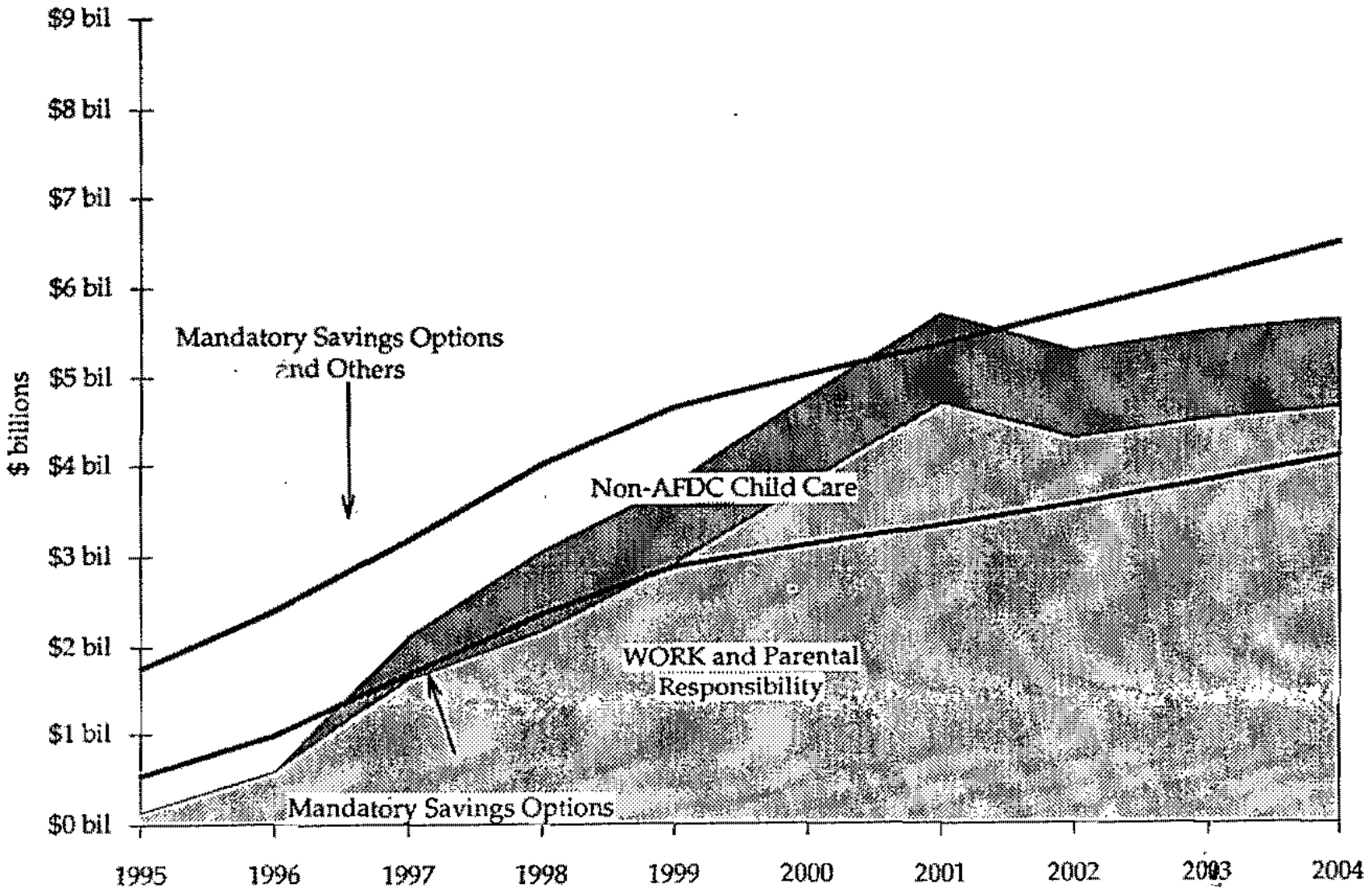
Offsets for Welfare Reform
Preliminary Estimates: Option B



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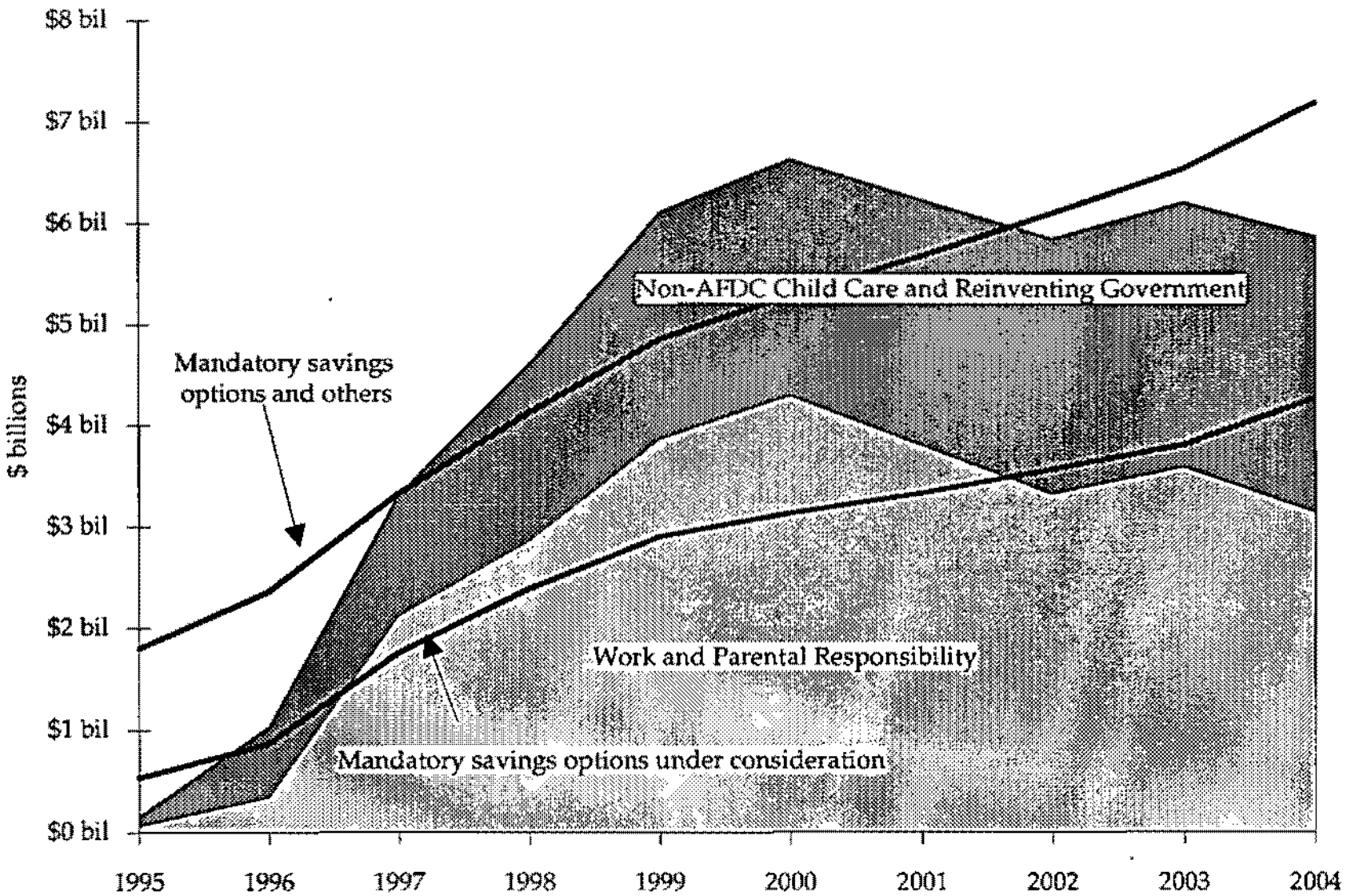
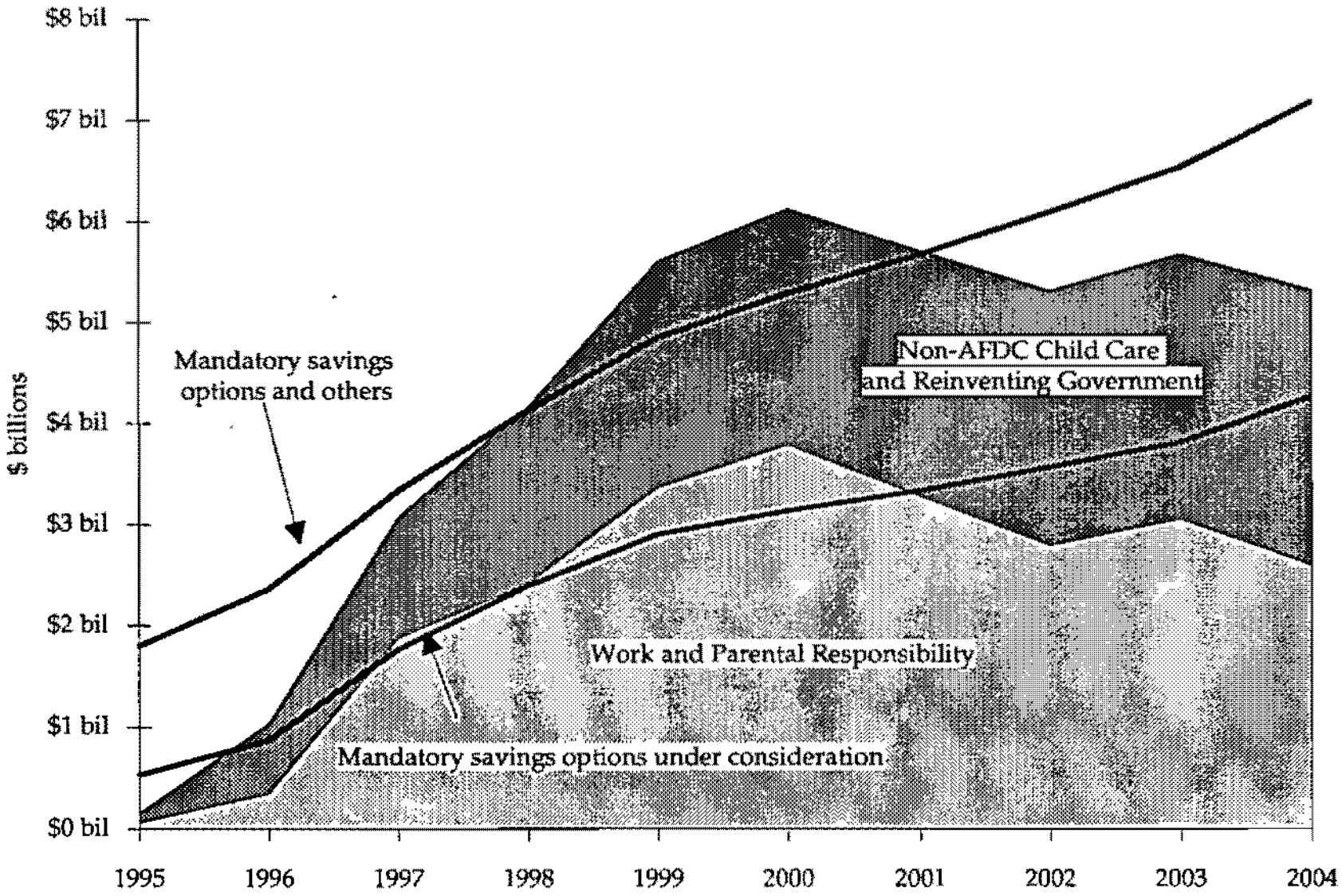
Offsets for Welfare Reform Option A Assuming Nonwelfare Impacts



March 18 estimates

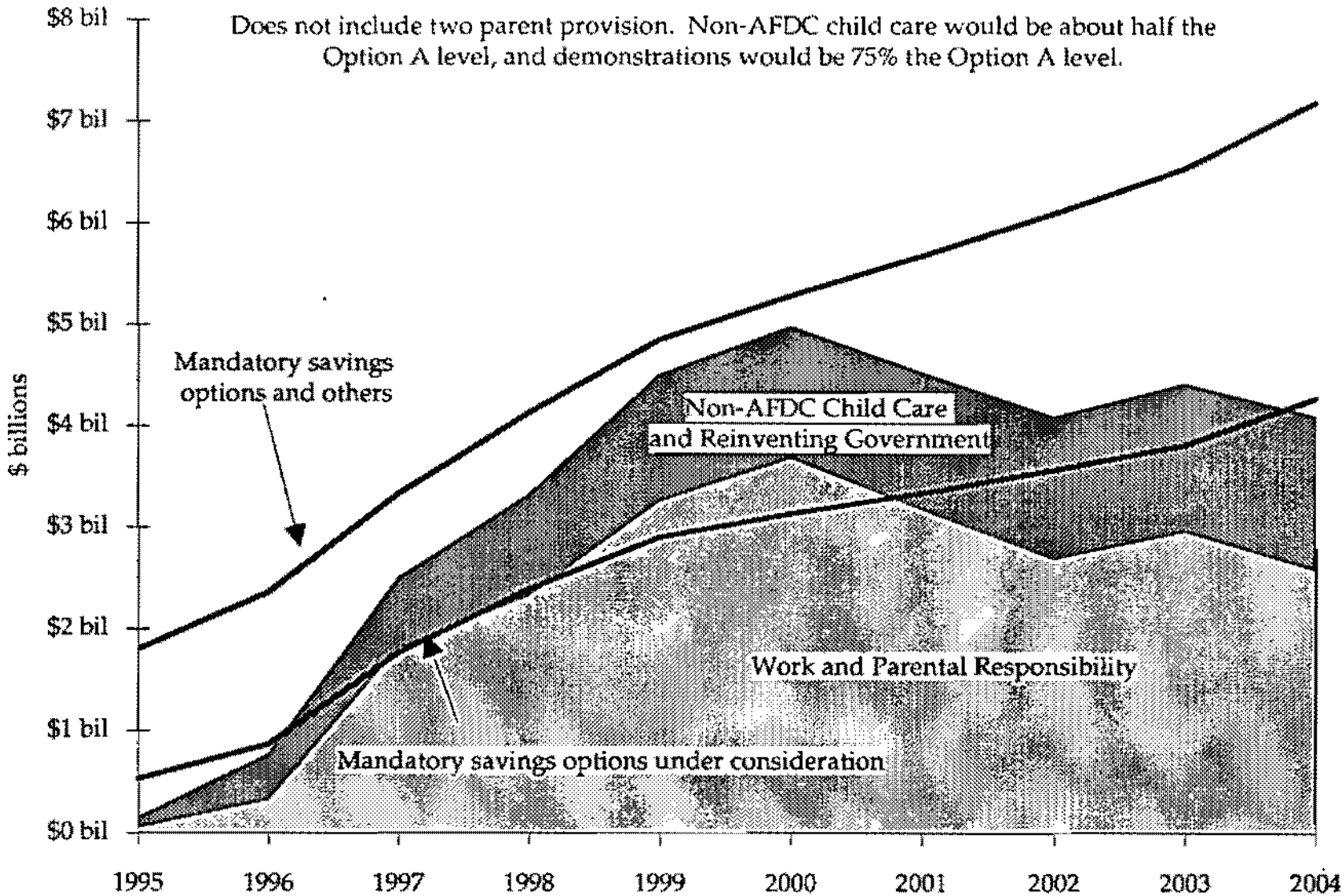
Offsets for Welfare Reform Option B Assuming Nonwelfare Impacts

Does not include two parent provision.



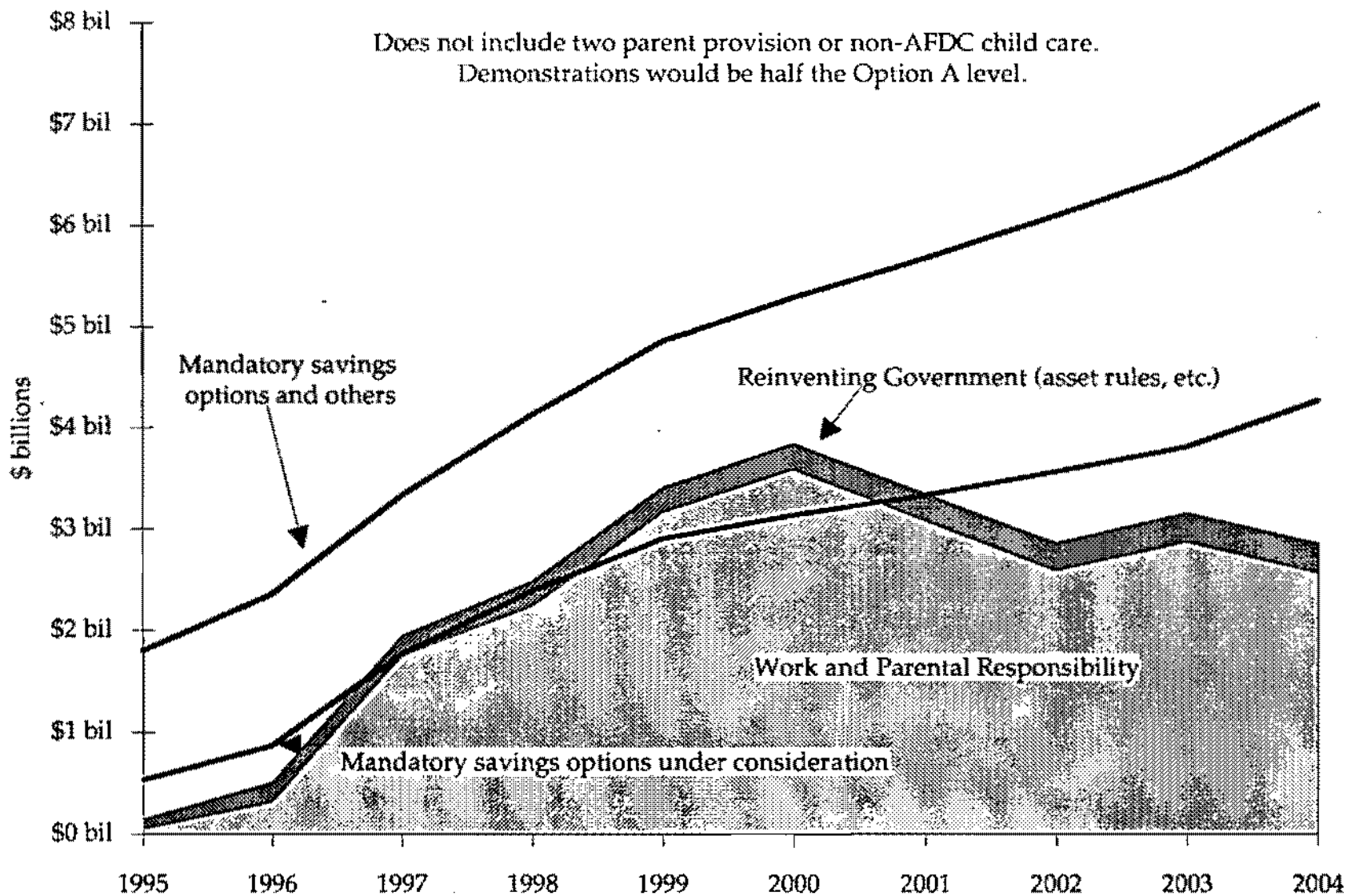
March 18 estimates

Offsets for Welfare Reform Option C Assuming Nonwelfare Impacts



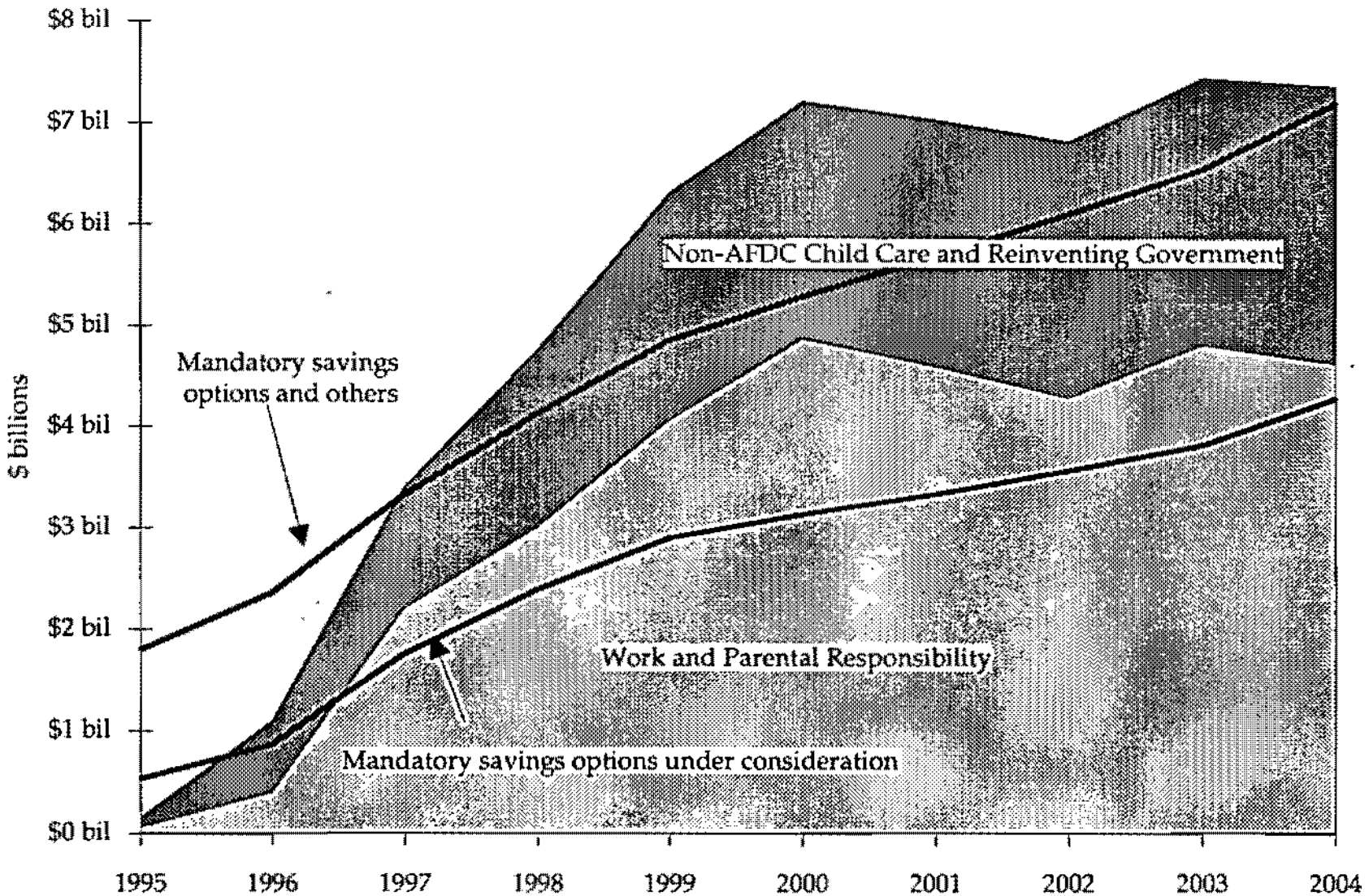
March 18 estimates

Offsets for Welfare Reform Option D Assuming Nonwelfare Impacts



March 18 estimates

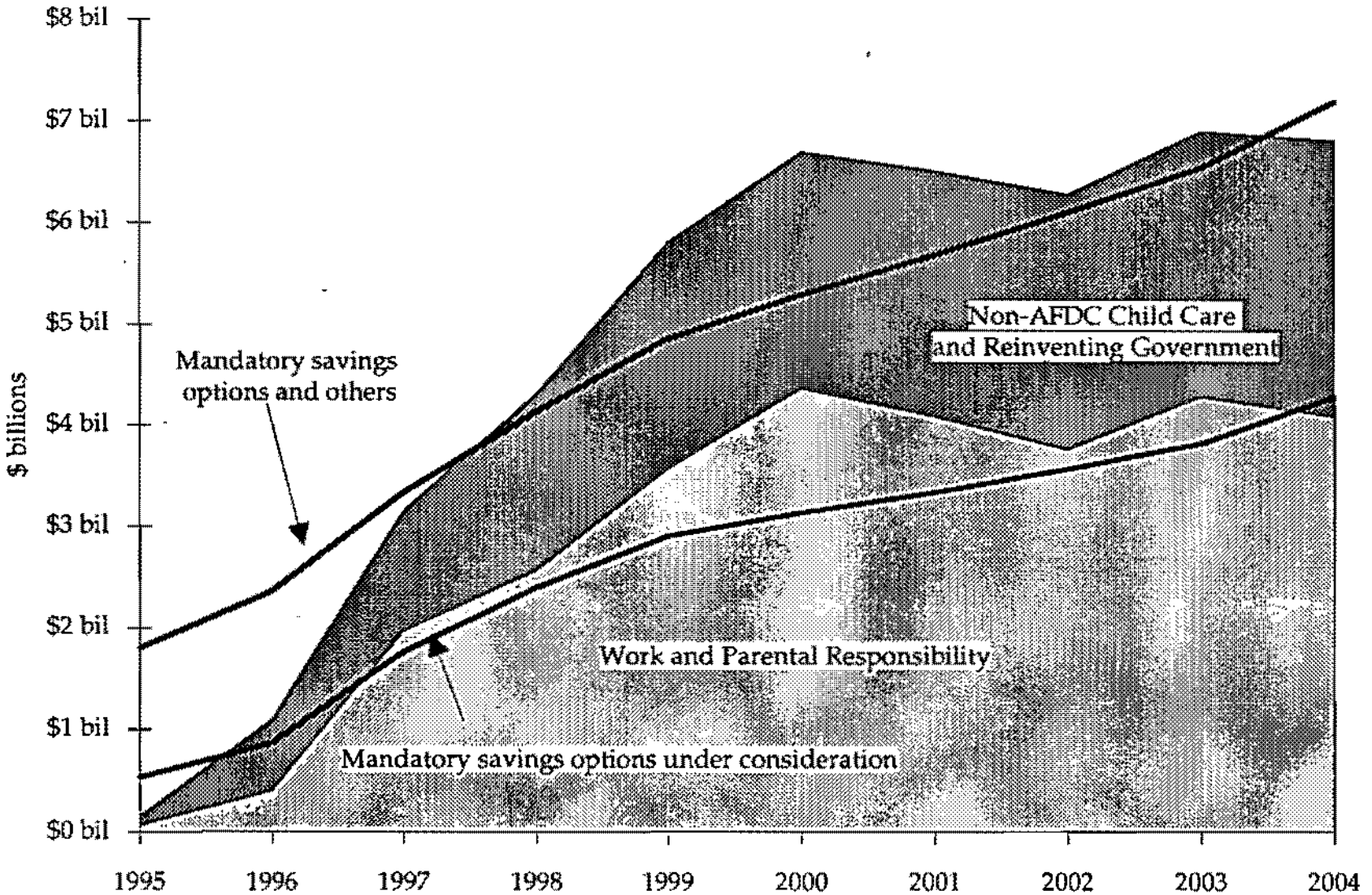
Offsets for Welfare Reform Option A



March 18 estimates

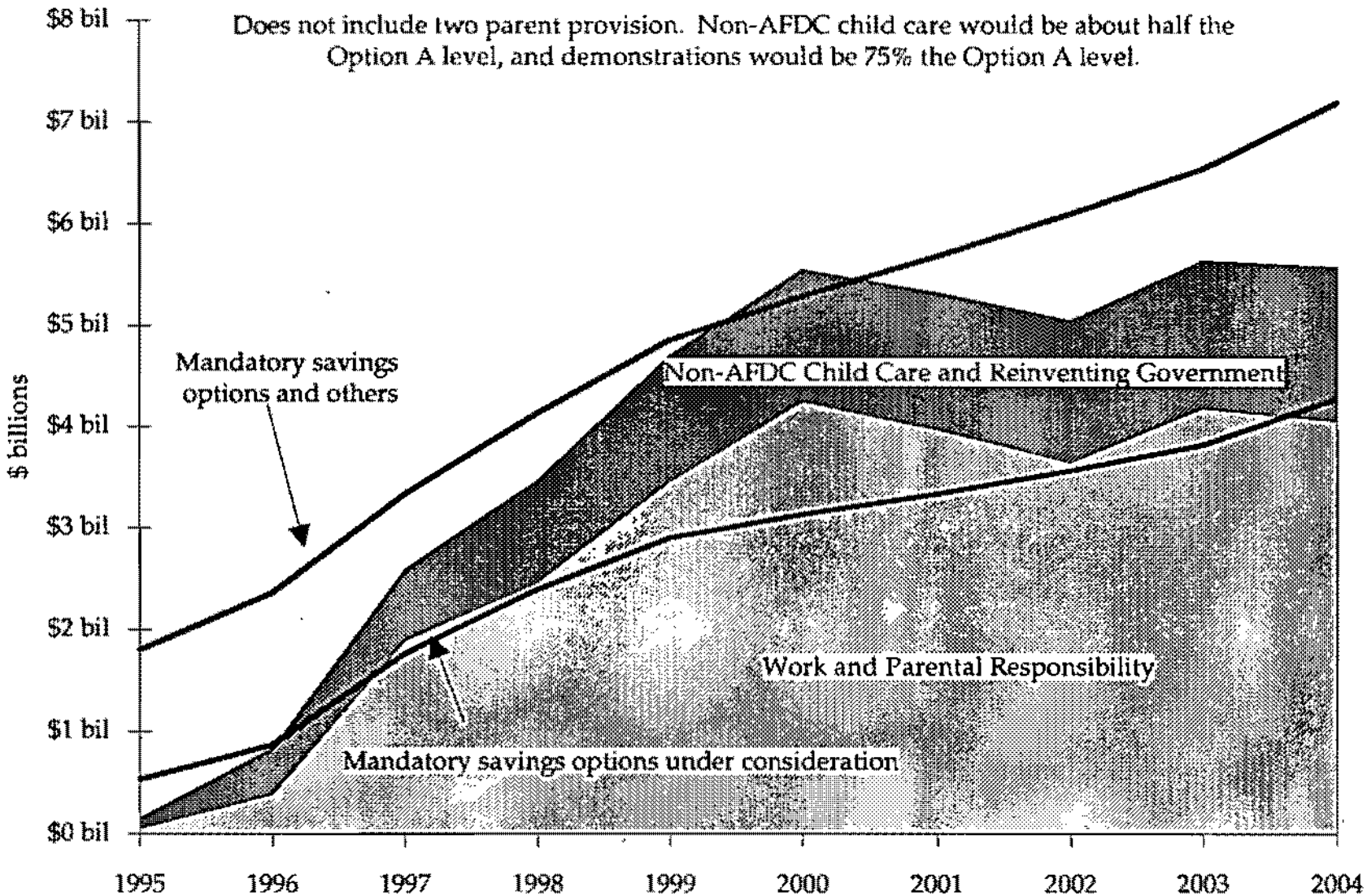
Offsets for Welfare Reform Option B

Does not include two parent provision.



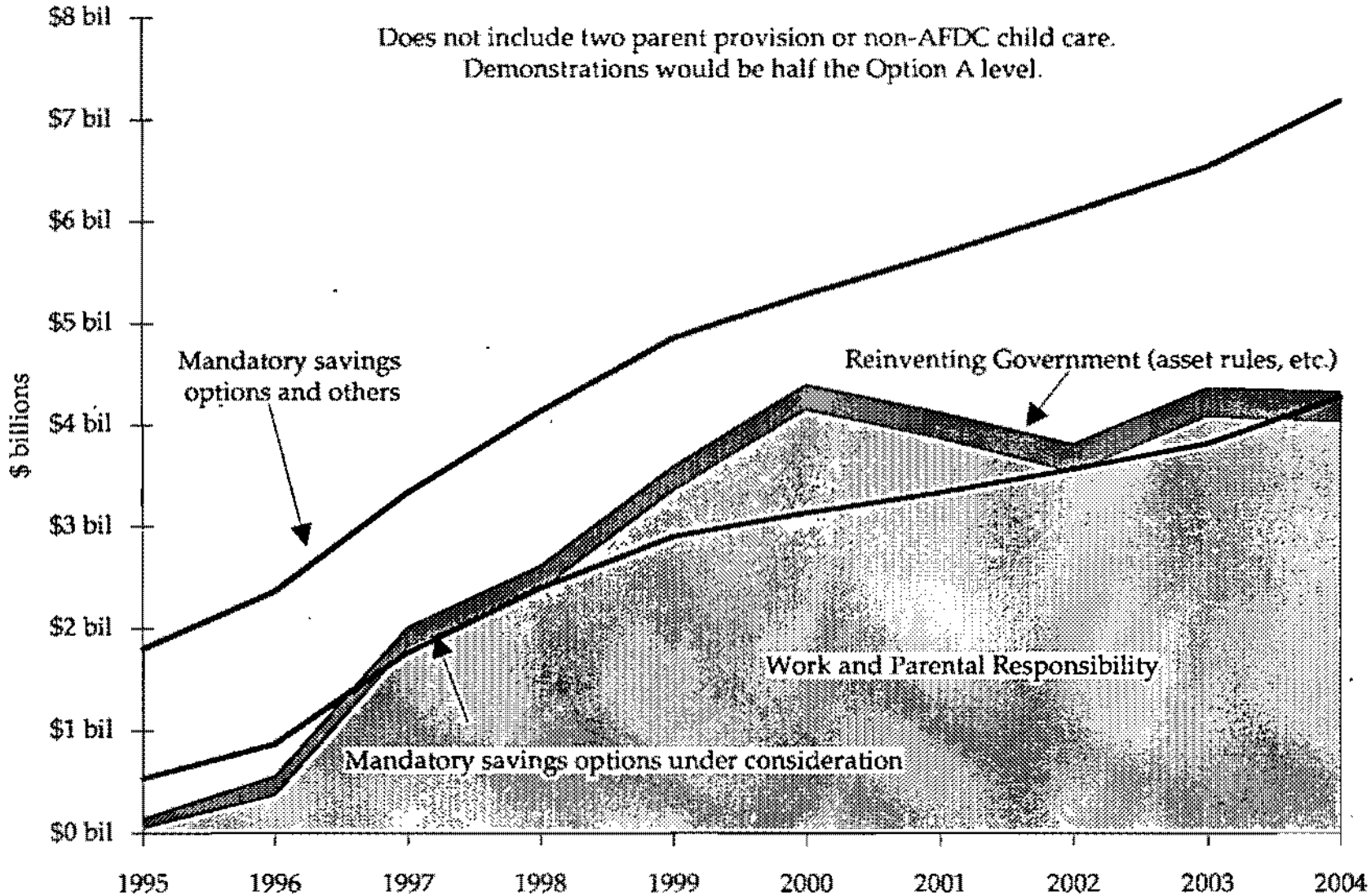
March 18 estimates

Offsets for Welfare Reform Option C



March 18 estimates

Offsets for Welfare Reform Option D



March 18 estimates

Possible Offset Options for Welfare Reform

Extrapolated to 2004

		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
		dollars in billions							
Mandatory Savings Options Under Consideration:									
1 Cap Emergency Assistance	1/	0.26	0.35	0.42	0.50	0.56	2.09	0.70	5.39
2 Target Child Care Food Program	2/	0.00	0.11	0.14	0.16	0.18	0.59	0.27	1.76
3 Tighten Sponsorship and Eligibility Rules for Aliens	3/	0.27	0.52	1.13	1.70	2.14	5.76	3.14	19.30
Subtotal		0.53	0.98	1.69	2.36	2.88	8.44	4.11	26.45
Other Savings and Revenues:									
Savings									
4 Adjust SSI Parent to Child Deeming Rule	2/	0.18	0.19	0.21	0.23	0.25	1.06	0.35	2.61
5 Reapplication for SSI Cases Most Likely to Improve	2/	0.07	0.16	0.26	0.37	0.42	1.28	0.67	4.13
Subtotal		0.25	0.35	0.47	0.60	0.67	2.34	1.02	6.74
Tax Credit Eligibility	4/								
6 Deny EITC to non-resident aliens		0.00	0.03	0.03	0.03	0.04	0.13	0.04	0.33
7 Phase out dependent care tax credit for AGI between $90,000 and $110,000		0.09	0.19	0.18	0.16	0.17	0.78	0.19	1.62
Subtotal		0.09	0.22	0.21	0.19	0.21	0.91	0.23	2.00

NO

Phase down from 20 to 10 at 70K
Cafeteria

Possible Offset Options for Welfare Reform

Extrapolated to 2004

		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
		dollars in billions							
Other Savings and Revenues (continued):									
Tax Compliance	4/								
8 EITC info reporting for DOD personnel		0.00	0.01	0.06	0.06	0.06	0.19	0.08	0.57
9 Increase withholding on gambling winnings > $50,000 to 36%		0.26	0.12	0.05	0.05	0.05	0.52	0.07	0.81
10 Withholding rate of 28% on keno, slots, and bingo winners > $7,500		0.15	0.06	0.01	0.01	0.01	0.25	0.01	0.31
11 Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)		0.01	0.04	0.05	0.06	0.06	0.22	0.10	0.64
Subtotal		0.42	0.23	0.16	0.17	0.19	1.17	0.26	2.32
New Revenue									
12 4% excise tax on net gambling revenue (except State lotteries)	4/	0.45	0.63	0.66	0.69	0.73	3.16	0.90	7.31
TOTAL		1.75	2.40	3.18	4.02	4.67	16.02	6.51	44.81

Notes on extrapolations for 2000 - 2004

1/ Assumes that under current law, States would take maximum advantage of EA by 1999, with baseline growing by inflation afterwards.

2/ Growth assumed to be at the same dollar increment as between 1998 and 1999.

3/ A 5% growth rate is assumed.

4/ Growth Rate assumed to be at the same dollar increment as between 1998 and 1999.

TABLE - PRELIMINARY REVENUE ESTIMATES (FEDERAL AND STATE)
(By fiscal year, in billions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
Cap Emergency Assistance	2.12	2.12	5.66	5.66
Target Child Care Food Program	0.57	0.57	2.29	2.29
Conform AFDC to Food Stamps 130% of Poverty	6.99	3.84	19.18	8.49
Reduce by 1/2	3.50	1.92	9.59	5.28
Reduce by 1/3	4.66	2.56	12.78	7.03
Tighten Sponsorship and Eligibility Rules for Aliens:				
Make current 5-year SSI deeming rules permanent and extend to AFDC and Food Stamps and limit assistance to PRUCOLS	2.74	1.85	9.10	6.11
Extend deeming period to 7 years	3.45	2.32	11.99	7.99
Extend deeming period to citizenship	6.80	4.67	23.95	16.29
EITC: Denial to non-resident aliens				
Info reporting for DOD personnel	0.32	0.32	0.90	0.90
Gambling				
Increase withholding on gambling winnings >$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.25	0.25	0.31	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)	0.22	0.22	0.64	0.64
5% excise tax on net receipts of gambling establishments (except State lotteries)	3.95	3.95	9.14	9.14
Other:				
Phase down dependent care tax credit 10% for AGI over $70,000	0.78	0.78	1.67	1.67
OPTION 1 (5 Yr Deeming, No 130% Income Test)	11.47	10.58	30.52	27.53
OPTION 2 (7 Yr Deeming, 1/3rd 130% Income Test)	16.84	13.61	46.19	36.44
OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
OPTION 4 (Deem to Citizenship, Full 130% Test)	22.52	17.24	64.55	46.20

Possible Offset Options for Welfare Reform

Extrapolated to 2004

		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
		dollars in billions							
Mandatory Savings Options Under Consideration:									
1 Cap Emergency Assistance	1/	0.26	0.35	0.45	0.50	0.56	2.12	0.81	5.56
2 Target Child Care Food Program	2/	0.00	0.00	0.18	0.19	0.20	0.57	0.32	1.69
3 Tighten Sponsorship and Eligibility Rules for Aliens – show both options	3/	0.27	0.52	1.13	1.70	2.14	5.76	3.14	19.30
Subtotal		0.53	0.87	1.76	2.39	2.90	8.45	4.27	26.55
							5-8		18-26
Other Savings and Revenues:									
4 Adjust SSI Parent to Child Deeming Rule (Savings)	2/	0.23	0.26	0.28	0.31	0.34	1.42	0.54	3.71
5 Reapplication for SSI Cases Most Likely to Improve	2/	0.07	0.16	0.26	0.37	0.49	1.35	1.00	5.35
Subtotal		0.30	0.42	0.54	0.68	0.83	2.77	1.54	9.06
Tax Credit Eligibility	4/								
6 Deny EITC to non-resident aliens		0.00	0.03	0.03	0.03	0.04	0.13	0.04	0.33
7 Phase out dependent care tax credit for AGI between $90,000 and $110,000 ~~Phase down~~ Reduce above $70,000 to 10%		0.09	0.19	0.18	0.16	0.17	0.78	0.19	1.67
8 Cafeteria Plan Exemption		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal		0.09	0.22	0.21	0.19	0.21	0.91	0.23	2.00

got bigger Non-starters

– Most of savings is in FICA

ADD 13% CHILD ONLY: $1.3 b/yr.
See Sec. ~~BABY~~ BONUS

CVTS	5	18	3
1/3	2	5	.5
	5	12	1.5

Possible Offset Options for Welfare Reform

Extrapolated to 2004

		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
		dollars in billions							
Other Savings and Revenues (continued):									
Tax Compliance	4/								
8 EITC info reporting for DOD personnel		0.00	0.01	0.06	0.06	0.06	0.19	0.08	0.57
9 Increase withholding on gambling winnings > $50,000 to 36%		0.26	0.12	0.05	0.05	0.05	0.52	0.07	0.81
10 Withholding rate of 28% on keno, slots, and bingo winners > $7,500		0.15	0.06	0.01	0.01	0.01	0.25	0.01	0.31
11 Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)		0.01	0.04	0.05	0.06	0.06	0.22	0.10	0.64
Subtotal		0.42	0.23	0.16	0.17	0.19	1.17	0.26	2.32
New Revenue									
12 4% excise tax on net gambling revenue (except State lotteries)	4/	0.45	0.63	0.66	0.69	0.73	3.16	0.90	7.31
TOTAL		1.80	2.36	3.33	4.13	4.85	16.46	7.19	47.23
							13.40		38.

Notes on extrapolations for 2000 - 2004

1/ Assumes that under current law, States would take maximum advantage of EA by 1999, with baseline growing by inflation afterwards.

2/ Growth assumed to be at the same dollar increment as between 1998 and 1999.

3/ A 5% growth rate is assumed.

4/ Growth Rate assumed to be at the same dollar increment as between 1998 and 1999.

WR- $

Welfare Reform Funding Option
Illustrative Ways Of Allocating Funds Over 5 Years

	(dollars in billions) 5 Years		
	Total	Fed Share	State Share
Offsets			
Parental Responsibility			
Net Child Support savings	0.5	-0.2	0.6
Minor mothers provisions	0.1	0.0	0.1
Family cap	0.7	0.2	0.4
Cap Emergency Assistance	2.1	2.1	0.0
Sponsor to alien deeming			
5 year deeming	2.7	1.9	0.9
extending to 7 year deeming	0.7	0.5	0.2
Family Day Care Homes	0.6	0.6	0.0
Social Security: Eliminate dependent benefits for retirees with minor children	3.6	3.6	0.0
Total Offsets	11.0	8.7	2.3
Illustrative uses of funding			
Transitional assistance and work			
Current estimate	6.7	6.3	0.4
With current law TCC*	6.2	5.8	0.4
Two-parent provision	2.2	1.2	1.1
Demonstrations and improving government assistance	2.6	1.9	0.7
Subtotal with current law TCC	11.0	8.9	2.1
Maintaining Fiscal Shares**		-0.2	0.2
Total funding	11.0	8.8	2.3
Net State and Federal Costs	0.1	0.1	0.0

*Legislative changes in matching rates or requirements for case management could increase the utilzation rate in Transitional Child Care (TCC), and add scorable costs.

**Modifications to fiscal shares could include match rate adjustments or other changes to the mix of Federal and State costs or savings.

Estimates for most offsets are unreviewed HHS estimates. Estimates for the Social Security provision are 5 year CBO estimates extrapolated to 10 years.

3/28/94 9:42 AM

Non-AFDC Day Care Funding
Possible Financing Source

	(dollars in billions) 5 years	10 years
Offset		
3% Gambling excise tax	2.4	5.5
Total Offsets	2.4	5.5
Possible use of funding		
Non-AFDC Day Care	2.4	5.5
Net Federal Costs	0.0	0.0

Gambling tax revenues prorated from Treasury 5-year and HHS 10-year numbers for a 4% excise tax. OTA staff indicate that prorating downward in this manner will slightly underestimate revenues.

Limit the Growth in Emergency Assistance

The little known AFDC/Emergency Assistance program had been constant at a relatively modest at roughly $100 million for many years. Its original intent was to help with emergency needs that would likely push them onto AFDC. Yet in the last few years states have discovered that the program to help fund a wide range of activities formerly funded almost entirely out of state funds, especially child welfare services and some homeless services, that may not be consistent with the original intent of EA, but which are legal under the extremely vague wording of current law. As a result the program is projected to grow from $x in FY1992 to $y in FY1999. Especially with the passage of Family Support and Preservation last year, this sort of entitlement growth and cost shifting ought to be checked. The proposal would cap each state's EA expenditures at 3% of AFDC benefits. The few states such as New Jersey and New York which already exceed this level would be grandfathered at their current expenditure level.

Savings in 1999:
Five year savings:

Deem Sponsor's Income Until Citizenship for New Immigrants

The Republicans have offered a bill to restrict all means tested benefit to citizens, eliminating legal immigrants who are not citizens from support. By 1999 such a proposal would save $x billion. It would also restrict support to a variety of immigrants who have chosen not to become citizens (yet). The vast majority of legal immigrant/non-citizens are here to work and establish a new future, rather than become a public trust. Immigration is generally restricted to people who are not likely to become a public trust. These include ...These legal immigrants work and pay taxes, contribute to and are eligible for employment insurance and Social Security according to the same rules as citizens, and generally are expected to contribute as citizens would.

Yet there are a significant number who apparently do not come to work. Remarkably, over 20% of persons on the SSI-Aged program are non-citizens. Most appear to be elderly parents or relatives of legal immigrants and citizens who came under a policy whereby American citizens and legal immigrants can, in limited numbers, bring in relatives to the U.S. Partly to prevent people from becoming a public such immigrants must be sponsored by the relative. Current law generally requires that a portion of sponsor's income be deemed available to the immigrant for the first three years of residency in determining eligibility and benefits for SSI and other programs. A significant portion of the SSI-Aged population seem to go on SSI in their 4th year. As part of the UI extension, such deeming was extended to 5 years for SSI until 1995.

This proposal would extend deeming until persons became citizens. (Immigrants are eligible to become citizens in 5 years.) Only persons emigrating with a sponsor would be affected. Virtually all savings are from SSI. This seems a sensible and defensible policy.

Savings in 1999:
Five year savings:

Eliminate the Late Baby Bonus for Social Security Retirees

Retirees who have children receive a 50% higher Social Security benefit for as long as their child remains under 18 and lives at home. Since this requires that the beneficiary have children after the age of 47 (44 if they take early retirement), this policy almost exclusively

benefits male beneficiaries who have children late in life. Moreover, the mother of these children also qualify for a sizable Social Security benefit even if they are much younger than 62 so long as they are caring for the child and not working. (If such mothers work, they face the Social Security earnings test.) Clint Eastwood who just had a child at age 63 will be eligible for a 50% higher Social Security benefit for the next 18 years. Note since the benefit is available only until the child reaches 18, this also provides a powerful incentive for those with late babies to retire early to collect the higher benefit longer. Donald Trump will qualify for a higher benefit if he retires at age 62, but by the time he turns 65, his child with Marla will turn 18.

Virtually no one knows this benefit currently exists. This proposal calls for eliminating the late baby bonus prospectively. Current beneficiaries will not be affected.

Savings in 1999:
Five year savings:

Coordinate Tax and Transfer Systems

There is virtually no coordination between the current tax and transfer systems. There are significant differences in the treatment of dependents and others under the tax and transfer systems, opening the possibility of gaming the system. It is currently legal for a mother and children to receive AFDC and food stamp benefits while a man living with her claims the children for purposes of collecting the ETC. (The Working Group met such a family in one of its focus groups). In addition, our tax system is based on annual income, while the means-tested transfers are based on monthly income. In a modest number of cases, persons with very high income part of the year, collect AFDC or food stamps during another part. If such persons received unemployment insurance, the UI would be treated as taxable income an a portion of it would be taxed back. But there is no attempt to recapture means tested payments in any form, even if people have very high annual incomes.

Closer coordination of tax and transfer systems would allow both more appropriate rules regarding the ETC and measures to reduce fraud in that program. And it would allow a policy whereby a portion of transfer benefits would be "clawed back" in cases where annual income was well above poverty. The proposed policy would effectively require that people above the tax threshold (110-125% of poverty) to pay back up a portion of the "excess benefits" up to a maximum of 25% of their benefits above poverty to be paid along with taxes. Note this is still a more favorable treatment than currently accorded unemployment insurance or earnings which are both taxed. (The effective tax rate on earnings or UI is roughly 33% of income above the tax threshold--including the ETC phase out). Because taxes on earnings are collected as though persons earned that amount all year long, and because of the ETC, nearly all families would not owe money and rather get a smaller refund at the end of the year.

Savings from ETC coordination in 1999: still being estimated
Five year savings:

Savings from claw back 1999: $3.2 billion
Five year savings:

ENTITLEMENT REFORM REVENUE OPTIONS

		FY 95	96	97	98	99	FY 95-99
1.1	Emergency Assistance Cap	0.3	0.3	0.5	0.5	0.5	2.1
1.2	Coordinate Tax and Transfer programs[1]	0.0	0.0	3.2	3.4	3.6	10.2
1.3	Minor Children and Young Spouses of Retires	0.2	0.5	0.8	1.0	1.2	3.7
1.4	Adjust SSI Child Benefits Rates[2]	1.2	1.3	1.4	1.5	1.6	7.0
1.5	Sponsorship of Aliens and Eligibility	0.1	0.4	0.9	1.5	1.8	4.7
	Total	1.8	2.5	6.8	7.9	8.7	27.7

1. Preliminary ASPE estimates based on TRIM simulations. Official Treasury estimates will revise them when they become available.

2. Preliminary ASPE estimates. The Social Security Administration is reestimating them.

March 11, 1994

MEMORANDUM FOR ISABEL SAWHILL

From: Mark Menchik

Subject: Potential Revenue for Welfare Reform: State Sales Tax on Interstate Mail-Order Sales

Copies to: J. Minarik, B. Selfridge, K. Fontenot, S. Dean, W. New

Background. Currently, mail-order merchants without a branch in the purchaser's State need not collect sales tax on interstate transactions. If the mail-order merchants were required to collect those sales taxes for the purchasers' home States, the home-state treasuries would not be the only beneficiaries. Home-state merchants would also benefit, since they would gain some sales that had been lost to mail order. Along with most governors, the home-state merchants are the principal supporters of changing the law.

Summary. A Federal law that required mail-order merchants with at least $5 million in annual sales to collect State sales tax on interstate purchases would yield approximately $2.6 billion to the States (1995). Those sales-tax proceeds could, in turn, compensate for increased State costs of welfare reform.

- In-state merchants would benefit even if increased State welfare share exhausted the gain in State tax revenue.
- Alternatively, the State-by-State calculation could allow States to retain, say, 20 percent of the added tax proceeds.

This revenue proposal is not an offset at the Federal level and requires State-by-State calculation of added revenues and welfare cost. Despite the substantial complexity, this revenue source does have appeal because it would also close an unfair tax loophole. I suggest that it be considered further.

Burden of the Revenue Increase. Although it is usually believed that most sales taxes are ultimately passed on to the purchaser, this may not be the case in highly competitive markets, particularly in the short term. If so, and if all interstate sales were taxed, then some mail-order merchants might have to absorb the tax. (Mail-order industry groups have successfully argued against this long-standing proposal thus far.) In the long run, however, consumers would probably bear most of the added tax collection. At present, two very different groups of consumers probably benefit most from the tax not being collected:

- Relatively upscale metropolitan residents who buy specialty items, such as outdoor clothing from L.L. Bean.

- Comparatively low-income rural residents buying items not available locally (or available only at high prices), such as auto or truck parts from J.C. Whitney in Chicago. (The consumers' mail-order business to Ward's, Sears, Penney's and the like is taxed, because these large concerns generally maintain branches in the purchaser's State.)

As a result of the preceding uncertainties, figures on the incidence of collecting the tax on interstate sales are unknown, whether 1) business vs. consumer, 2) among consumers at different income levels, or 3) rural vs. metropolitan.

Without comparing specific alternatives, there are pros and cons to taxing interstate sales for welfare reform.

Pro.

- Changing the tax law closes a loophole that can give mail-order merchants an unfair advantage.

- The revenue is likely to increase in time. From 1990-1992 the potential revenue gain was estimated to grow at 6 percent a year.

- Unlike many other financing possibilities, there would be no cut in services for low-income persons.

- A 1992 Supreme Court decision (Quill v. North Dakota) invited Congress to legislate on State taxation of interstate mail-order sales. Congress may soon be tempted to take up this invitation, perhaps to compensate the States for an otherwise unfunded mandate.

Con.

- Five States (none populous) do not levy a general sales tax. They are Alaska, Delaware, Montana, New Hampshire, and Oregon.

- These added revenues can help the Federal Government pay for welfare reform only indirectly and not simply. State cost shares must be increased and this increase must relate to an estimate of each State's added tax proceeds.

- A subtle Federalism issue lurks, perhaps a near mandate. The Federal Government traditionally has avoided

Federal excise taxes are levied on very specific items, such as tobacco.) But to offset the increased payment for welfare, States would have to tax interstate sales. Presumably, States would not be averse to taxing merchants outside their borders, but what if the State ever wanted to reduce or eliminate (as Alaska did) its sales tax in general? (A reduction might accompany a higher State income tax.) Perhaps the State-by-State calculation in Federal law would derive from last year's tax rate, but this adds complexity.

Revenue Estimates for Different Variants.

(1995. Added collections, billions of dollars)

State tax only, no small-merchant exemption	3.6	
State tax only, merchants with >$5 m ann. sales	2.6	(Quoted above)
State tax only, merchants with >$10 m ann. sales	2.4	
State tax plus local sales tax levied uniformly, no small-merchant exemption	3.8	
State tax plus all local sales taxes, no small-merchant exemption	4.3	

The figures derive from estimates made by the U.S. Advisory Commission on Intergovernmental Relations. Those estimates were not prepared for costing, but for policy discussion. The estimates do not incorporate any behavioral effects, such as reduced mail-order sales after being taxed. The estimates for 1992 were updated by OMB staff.

- Estimates above are available on a State-by-State basis.
- The mail-order industry disputes the estimates above. It once estimated tax gains that were only one-third of the earlier version of those estimates.
- The exemption of mail-order merchants with annual business under $5 million is from a study that interviewed a firm making computer software to handle different sales tax rates.
  - -- The firm said that merchants above the $5 million threshold could use its software efficiently.
  - -- SBA, however, makes small business loans available to mail-order merchants with annual sales of less than $12.5 million, according to the same study.

- Applying local sales taxes -- not just State tax -- to interstate sales would raise additional revenue, but with added complexity. In many local-sales-tax States, the rate varies from place to place.

  -- An alternative also appears above. It would collect only those local taxes levied uniformly by counties (e.g., California), or by other jurisdictions of a single kind.

  -- Because the States grant authority for local sales taxation, a Federal law could raise federalism concerns, depending on how the law is written.

Current Legislation. Last month, Senator Dale Bumpers (D-Ark.) introduced the "Tax Fairness for Main Street Business Act," S.1825. He chairs the Small Business Committee but the bill was referred to the Finance Committee, which has not acted on it.

- The bill allows States to tax mail-order merchants beyond their borders, with certain protections and exemptions, and capitalizes on the 1992 Quill decision.

- There were six original co-sponsors, including one Republican, Sen. Cochran (MS). Cochran has introduced similar legislation in previous years.

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

11-Mar-1994 02:35pm

TO: Isabel Sawhill

FROM: Richard B. Bavier
Office of Mgmt and Budget, HRVL

CC: Stacy L. Dean
CC: Wendy C. New

SUBJECT: Discussions with ASPE and ACR re: participation & job search

I met with Don Oellerich, Donna Pavetti, and Howard Rolston to talk about how to score up-front job search and how to think about participation levels in JOBS under welfare reform.

Up-front job search - We identified three models of up-front job search:

1. Pure applicant job search. (You apply for AFDC on Thursday, you report for job search on Monday.) AFDC eligibility begins only after completion of 30 days of job search. There are administrative savings from this approach, along the lines Mike drew, because initial AFDC checks are delayed. San Diego 1 seems to be the best evidence on which to base estimates of behavioral effects from people getting jobs. ASPE said they would not be able to estimate this using their current models.

2. Immediate job search for AFDC eligibles. (You find out you are eligible on Thursday and report for job search the next Monday.) This approach tries to avoid spending job search funds on the many applicants who, for one reason or another, don't end up on AFDC. However, it makes job search automatic for those without a prima facie deferring condition (like 60 or older, or a non-parental caretaker). It doesn't wait for an assessment and employability plan to be drawn up.

The staff people at the meeting seemed to agree that this approach might be targeted on all applicants above the phase-in age. Two arguments were offered. First, a SWIM-like effect, based on a lot of job search, was already being claimed for the phased-in. A prior round of job-search probably wouldn't add much scorable savings. Second, the large welfare savings impacts of job search have tended to be for mothers with older children and some work experience (i.e., neither the least job-ready nor the most job-ready). Targeting on applicants over 25 would hit a rich mix of parents with these characteristics.

Although most work force attachment demos with rigorous evaluations did not get people into job search the first week of eligibility, a number, such as SWIM and GAIN and Florida's FIP, route a lot there within a few weeks. It appears that savings could be justified based on the evidence from these programs. ASPE will try to model some of this.

3. ASPE was interested in something closer to making job search the first activity in most employability plans. They intend to estimate impacts from a third model along these lines.

The savings from any of these models would be influenced by whether funding was coming out of the current JOBS baseline, or form new money. We agreed to start thinking about job search for not-phased-in applicants being funded from the share of the JOBS baseline not allocated to the phased-in. That would involve requiring up-front job search for current JOBS mandatories and trying to estimate and claim savings for the difference between the impacts of the current JOBS use of these funds and the more effective use we would be proposing.

Participation levels - There was no real argument to my explanation of why ASPE modeling of JOBS under reform was much more ambitious than SWIM. Don indicates that he expects to end up with total monthly participation around 50 percent. (To this point, ASPE has been modeling countable participation around 50 percent, and total participation around 77 percent.) ?

Don was unwilling to say that ASPE's JOBS estimates would fall by about one-third. However, we went through the way ASPE derives annual unit cost data from current JOBS data, and all present seemed pretty comfortable with it. It seems to follow that JOBS costs will have to drop to around the levels we've been calling the less-intensive. This would still be far above the 35 percent monthly participation in arranged or self-initiated activities SWIM managed in its second year.

The discussion walked around the issue of whether there would be an intensity measure like the current 20-hour-rule. Policy officials need to address this, although a pros and cons staff paper would be helpful.

Phase-in - I also brought up, as an issue for future discussion, the ASPE phase-in scenario. The idea that a lot of states will come in a year early is based on the JOBS experience. But states won't have state-level programs like WORK the way GAIN was already like JOBS. Further, in my mind, the likelihood of a richer federal match is supposed to entice states into early implementation. But this may run into another policy goal - reducing federal matching for cases the longer cases stay on the rolls.

I asked ASPE to think about how they would justify their assumption about early phase-in. We also should know what costs

and phase-in would look like if states don't come in early.

WORK overhead - Don had a copy of the tables you sent over to HHS showing our options. He asked about several points. There didn't seem to be any objections about the way the technical re-estimate was done. In explaining the WORK overhead cap, I noted that I had asked several times to have HHS find out about the overhead of large scale workfare programs, like NYC and Ohio. ASPE suggested that OMB follow-up on this.

04/12/94

TABLE 1 -- PRELIMINARY SUMMARY COST ESTIMATES (FEDERAL AND STATE) FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Federal Package 1	5 Year Federal Package 2
PARENTAL RESPONSIBILITY		
Minor Mothers	(30)	(30)
No Additional Benefits for Additional Children	(220)	(220)
Child Support Enforcement		
Paternity Establishment (Net)	(90)	(90)
Enforcement (Net)	(160)	(160)
Computer Costs	370	370
SUBTOTAL, PARENTAL RESPONSIBILITY	**(130)**	**(130)**
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK		
JOBS-Prep	0	300
Additional JOBS Spending	2,295	2,295
Additional Child Care for JOBS	1,610	1,610
WORK Program	1,330	1,330
Additional Child Care for WORK	610	610
Savings from Child Care and Other Expansion	(100)	(100)
Transitional Child Care	445	445
Enhanced Teen Case Management	170	170
Savings - Caseload Reduction	(215)	(215)
ADP Federal and State Systems/Admin Efficiency	545	545
SUBTOTAL, JOBS/WORK	**6,690**	**6,990**
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	**6,560**	**6,860**
WORKING POOR CHILD CARE	**1,500**	**3,500**
REMOVE TWO PARENT (UP) RESTRICTIONS	**495**	**495**
Comprehensive Grants	200	200
Non-Custodial Parent JOBS/WORK Programs	130	390
Access Grants and Parenting Demonstrations	30	70
Child Support Assurance Projects	120	290
IDA and Microenterprise Projects	60	145
SUBTOTAL SPECIAL INITIATIVES	**540**	**1,095**
IMPROVING GOVERNMENT ASSISTANCE (IGA)		
State Flexibility on Earned Income and Child Support Disregards	385	385
Generally Conform Assets to Food Stamps	0	100
Increase Territories' Caps	0	185
All Others	(5)	(5)
SUBTOTAL IGA	**380**	**665**
GRAND TOTAL	**9,475**	**12,615**

President's Table with Full Phase-In in FY 1996 with Further Adjustments in IGA, Working Poor Child Care, and Demonstrations; UP Two-Parent Provision as State Option. Comparisons between Package 1 and Package 2

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

SUMMARY OF COSTS FOR WELFARE REFORM PACKAGES

(Dollars in Millions)

PACKAGE 1 COSTS	FY 1999 Total	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,305	8,170	6,690	1,480	25,185	22,030	3,155
WORKING POOR CHILD CARE	900	1,875	1,500	375	6,930	5,545	1,385
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	225	625	540	85	1,830	1,530	300
IMPROVING GOVERNMENT ASSISTANCE	265	635	380	255	2,060	845	1,215
TOTAL COSTS FOR PACKAGE 1	4,445	10,980	9,475	1,505	30,825	29,550	1,275

PACKAGE 2 COSTS	FY 1999 Total	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,415	8,545	6,990	1,555	26,555	23,125	3,430
WORKING POOR CHILD CARE	1,875	4,375	3,500	875	14,945	11,955	2,990
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	505	1,315	1,095	220	3,945	3,225	720
IMPROVING GOVERNMENT ASSISTANCE	400	1,085	665	420	3,250	1,620	1,630
TOTAL COSTS	5,945	14,995	12,615	2,380	43,515	39,525	3,990

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

TABLE Package 1 – DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE) FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(130)	(8,055)	(1,980)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	0	0	0	0
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	8,170	6,690	25,185	22,030
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	6,950	6,560	17,130	20,050
WORKING POOR CHILD CARE (Capped at $900 million in net spending).	1,875	1,500	6,930	5,545
REMOVE TWO PARENT (UP) RESTRICTIONS	895	495	2,875	1,580
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	165	130	815	650
Access Grants and Parenting Demonstrations	35	30	75	60
Child Support Assurance Projects	150	120	415	330
IDA and Microenterprise Projects	20	15	175	140
SUBTOTAL SPECIAL INITIATIVES	570	495	1,830	1,530
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards	710	385	2,225	850
Generally Conform (but not Increase)				
Assets to Food Stamps	0	0	0	0
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	635	380	2,060	845
GRAND TOTAL	10,925	9,430	30,825	29,550

President's Table with Full Phase-In in Fy 1996 with Further Adjustments in IGA, Working Poor Child Care, and Demonstrations; UP Two-Parent Provision as State Option; Eliminate Increase in Territories' Cap; Conform Asset Rules to Food Stamps but no Increase in Limits.

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

TABLE Package 2 -- DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE)
FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	**(1,220)**	**(130)**	**(8,055)**	**(1,980)**
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	375	300	1,370	1,095
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	**8,545**	**6,990**	**26,555**	**23,125**
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	**7,325**	**6,860**	**18,500**	**21,145**
WORKING POOR CHILD CARE (Capped at $1.9 billion in net spending).	**4,375**	**3,500**	**14,945**	**11,955**
REMOVE TWO PARENT (UP) RESTRICTIONS	**895**	**495**	**2,875**	**1,580**
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	490	390	2,000	1,600
Access Grants and Parenting Demonstrations	85	70	180	145
Child Support Assurance Projects	360	290	995	795
IDA and Microenterprise Projects	180	145	420	335
SUBTOTAL SPECIAL INITIATIVES	**1,315**	**1,095**	**3,945**	**3,225**
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards	710	385	2,225	850
Generally Conform Assets to Food Stamps	265	100	655	240
Increase Territories' Caps	185	185	535	535
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	**1,085**	**665**	**3,250**	**1,620**
GRAND TOTAL	**14,995**	**12,615**	**43,515**	**39,525**

President's Table with Full Phase-In in FY 1996 with Adjustments in IGA, Working Poor Child Care, Demonstrations; UP Parent Provision as State Option.

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
Summary:						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
A. Program Savings						
• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making $100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
Subtotal	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings						
EITC:						
• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00
Gambling:						
• Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

* Treasury currently reviewing this estimate.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions 5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
Subtotal	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions*						
• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep (90 Farm bill)	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services (NAFTA)	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees (OBRA 90)	0.16	0.16	0.00	0.41	0.41	0.00
~~Veterans:~~ 0						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	0.02	0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care	0.05	0.05	0.00	0.31	0.31	0.00
• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA	0.21	0.21	0.00	1.35	1.35	0.00
• Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits	0.19	0.19	N/A *	1.30	1.30	N/A *
• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program	0.64	0.64	0.00	1.98	1.98	0.00
• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93	0.15	0.15	0.00	0.83	0.83	0.00
Subtotal	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Possible Alternative

• Gambling Excise Tax at 4%	3.16	3.16	0.00	7.21	7.21	0.00

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

A. Program Savings

Limit Emergency Assistance

- 5 year Federal savings: $1.5 B 10 year Federal savings: $ 4.0 B
- cap each State's AFDC emergency assistance expenditure at FY1993 levels (with inflation adjustments for future years), or
  limit spending to 3% of a State's total AFDC benefit payments from the past year (a grandfather clause could protect States with large funding drops).
- specifics of this proposal are still under development.

Tighten Sponsorship and Eligibility Rules for Non-Citizens

SSI, AFDC and Food Stamps require that part of a legal immigrant sponsor's income is deemed available to the immigrant for a limited time, should he/she need public assistance. The following tightens benefit eligibility for non-citizens:

- 5 year Federal savings: $ 1.8 B 10 year Federal savings: $6.9 B
- change the deeming period for AFDC and Food Stamps from three to five years, and permanently extend SSI's five year deeming provision, which reverts to three years until FY1997.
- deeming continues for another five years for those aliens whose sponsors have adjusted gross income over $40,000.
- Creates PRUCOL eligibility criteria in the SSI, AFDC, and Medicaid programs similar to the tighter Food Stamps criteria.

Income Test Meal Reimbursements to Family Day Care Homes

- 5 year Federal savings: $.57 B 10 year Federal savings: $ 1.72 B
- Family day care homes in low-income areas would receive reimbursement for all meals at the "free meal" rate.
- Other homes could choose between:

  (a) not means-testing and thus receiving "reduced price" rates, or
  (b) means-testing, in which case meals for children under 185% of poverty would be reimbursed at the "free meal" rate and meals for children above 185% of poverty would be reimbursed at the "reduced price" rate.

Limit Deficiency Payments to Those Making $100,000 or More Annually From Off-Farm Income

- 5 year Federal savings: $ .61 B 10 year Federal savings: $ 1.31 B
- Producers receiving $100,000 or more in off-farm adjusted gross income would be ineligible for Commodity Credit Corporation (CCC) crop subsidies.

Graduated Interest Rates for Early Redemption of Savings Bonds

- 5 year Federal savings: $ .76 B 10 year Federal savings: $ 1.1 B
- New savings bonds issued would initially yield 2% interest, which would gradually rise over 5 years to 4%.
- Current outstanding bonds unaffected.

B. Enforcement Savings

Deny EITC to Non-Resident Aliens

- 5 year Federal savings: $ .13B 10 year Federal savings: $ .33 B
- Deny EITC to nonresident aliens such as foreign students, professors, etc.

Require Income Reporting for DOD Personnel, for EITC Purposes

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .4 B
- Families living overseas and on active military duty would become EITC eligible.
- To finance this, and produce above savings, DOD would report nontaxable earned income (such as subsistence and living quarters allowances) paid to military personnel, overseas and stateside. This is counted for EITC purposes.

Increase Withholding Rate on Gambling Winnings

- 5 year Federal savings: $ .52 B 10 year Federal savings: $ .78 B
- Increase the withholding rate of 28% to 36% for gambling winnings over $50,000. The odds of winning would be irrelevant.

Withhold 28% From Keno, Bingo and Slot Machine Winnings

- 5 year Federal savings: $ .25 B 10 year Federal savings: $ .32 B
- Impose 28% withholding on winnings over $7,500, regardless of the odds. (No withholding is currently done.)

Information Reporting on Gambling Winnings

- 5 year Federal savings: $ .22 B 10 year Federal savings: $ .61 B
- Requires reporting on gambling, bingo, slot and keno winnings of $10,000 or more, regardless of the betting odds. (Reporting is currently required at various winning thresholds, if odds are 300:1 or more.)
- State lotteries exempt.

Limit Tax Deferred Interest Build-Up of Large Annuities

- 5 year Federal savings: $ .8 B 10 year Federal savings[1]: $ 1.83
- Prohibit tax deferral on interest accruing to annuities that pay annual incomes over $100,000 for couples, $50,000 for single persons.

C. Extend Expiring Provisions

Hold Constant the Food Stamps Overpayment Recoveries States May Keep

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .12 B
- Extend 1990 Farm Bill provision letting States keep 25% of Food Stamps recovered due to fraud/intentional program violations.
- Extend the provision letting States keep 10% of Food Stamps recovered due to other unintentional errors.
- This provision would extend the current recoveries rate structure which is set to expire in FY1996.

Fees for Passenger Processing and Other Customs Services

- 5 year Federal savings: $ 0 B 10 year Federal savings: $ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
- The current fee structure, extended by NAFTA, expires after FY2003.

Extend Railroad Safety User Fees

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .41 B
- Extend (and expand) railroad safety inspection fees.
- The provision would extend the fees through FY04. Currently they are set to expire in FY1996.

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[1] Preliminary staff estimate, based on extrapolation of prior year savings.

Veterans:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales

- 5 year Federal savings: $ .08 B 10 year Federal savings: $ .16 B
- Currently, VA may sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities.
- Savings are net of increased costs due to increased default liability of this proposal.
- Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program

- 5 year Federal savings: $ .03 B 10 year Federal savings: $ .14 B
- The loan guaranty program, established to promote home-ownership among returning WWII GI's, guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists.
- There is no limit on how many times a beneficiary can use the Home Loan Program. OBRA 93 increased the fee to 3 percent through FY98 for multiple use of the guaranteed home loan program when there is less than a 5 percent downpayment.
- This proposal would permanently extend the 3 percent fee for multiple use when there is less than a 5 percent downpayment.

Increase Housing Loan Fee by .75 percent

- 5 year Federal savings: $ .14 B 10 year Federal savings: $ .78 B
- Fees on VA guaranteed home loans decrease as the downpayment increases and can be financed as part of the loan.
- OBRA 93 increased the fee on most guaranteed home loans by .75 percent through FY98 (e.g., the no-downpayment fee increased from 1.25 to 2 percent).
- This proposal would permanently extend the fee increase. Increasing the fee reduces the taxpayers' subsidy to this program while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. (Because the fee can be financed over the life of the loan, i.e., thirty years, the cost would not be significant to beneficiaries.)

Extend VA's Authority to Consider Resale Losses on Loans

- 5 year Federal savings: $ .02 B 10 year Federal savings: $ .09 B
- When a private lender forecloses on a VA guarantee property, VA uses a formula to determine whether it is more cost-effective to: (1) acquire a foreclosed property from the lender and resell it, or (2) pay the guarantee to the lender. Under current law, this formula takes into consideration the potential for losses on the resale of a foreclosed property through FY98. This is consistent with the acquisition decisionmaking of private mortgage insurers who consider resale losses.
- This proposal would make permanent the inclusion of potential losses on the resale of a foreclosed property in the formula.

Medical Care Cost Recovery Program: Third Party Health Insurance Reimbursements.

- 5 year Federal savings: $ .39 B 10 year Federal savings: $ 2.95 B
- In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of nonservice-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of <u>service-connected veterans</u> for treatment of <u>nonservice-connected</u> conditions.
- OBRA 1993 extended the service-connected authority to the end of FY 1998.
- This proposal would make this authority permanent.

Medical Care Cost Recovery Program: Per Diems and Prescription Copayments

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .31 B
- OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their nonservice-connected conditions.
- OBRA 1993 extended this authority to the end of FY 1998.
- This proposal would make this authority permanent.

VA Pensions and Medical Care Cost Recovery Programs: Income Verification Match

- 5 year Federal savings: $ .21 B 10 year Federal savings: $ 1.35 B
- Under current authority, VA has access to IRS tax data to verify income reported by VA pension and medical care beneficiaries. VA's pension and medical care programs are means-tested.
- For pensions, the proposal would improve program integrity by reducing overpayments that occur when self-reported income is the only information

used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans.

- This proposal would make this authority permanent.

VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes

- 5 year Federal savings: $ .19 B 10 year Federal savings: $ 1.3 B
- VA pensions is a means-tested program which provides monthly cash support to eligible veterans or their survivors. OBRA 1993 extended through FY 1998 a provision that caps pension benefits at $90 per month for beneficiaries receiving Medicaid nursing home benefits.
- This proposal does not affect the pension beneficiaries. It reduces the amount of income that the beneficiary would have to turn over to the Medicaid program to help offset the costs of their nursing home care.
- These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent less Federal Reimbursement of State Medicaid programs.
- This proposal would make permanent this provision which is currently scheduled to expire in FY1998.

Round down and Reduce COLA Adjustment for Death and Indemnity Compensation (DIC) Benefits

- 5 year Federal savings: $ .64 B 10 year Federal savings: $ 1.98 B
- The DIC program provides monthly cash benefits to survivors of service-connected veterans who died during military service, or after service from their service-connected condition.
- OBRA 1993 provided authority to round down the monthly benefit levels to the nearest dollar and reduce the COLAs by 50% to beneficiaries who were grandfathered into the new DIC program. (The old DIC program based benefits on military rank; the new program pays a flat rate.)
- This proposal would make this authority permanent.

Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent

- 5 year Federal savings: $ .15 B 10 year Federal savings: $ .83 B
- Servicemembers and veterans who have elected and contributed to the MGIB program receive $400 per month towards educational benefits. Under Title 38, MGIB recipients were to have begun receiving annual COLAs increases on their benefits for the first time in FY 1994. OBRA 1993, however, eliminated the FY 1994 COLA and reduced by 50 percent the FY 1995 COLA.
- This proposal would permanently reduce future COLA increases by 50 percent in FY 1996 and beyond for those beneficiaries who benefited by electing to stay in the old payment structure.

Possible Alternative

Excise Tax on Gambling Revenues

- 5 year Federal savings: $ 3.16 B 10 year Federal savings: $ 7.21 B
- Tax gross revenues (wagers minus winnings paid out) from all gambling activities at 4%. (Current Federal wager taxes range from .25%-2%.)
- State lotteries would be exempt from this tax.

WELFARE REFORM OPTIONS 04/11/94

(Five Year Federal Cost in Millions of Dollars)

	Package 1		Package 2
	1A	1B	
Parental Responsibility	(130)	(130)	(130)
Transitional Assistance	6,690	6,990	6,990
Working Poor Child Care	1,500	400	3,500
UP provisions	495	495	495
Demonstrations	540	1,100	1,100
Improving Government Assistance	380	600	600
TOTAL	9,475	9,455	12,555

Jobs Prep

Res

CARS -

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Summary:						
Program Savings	5.70	5.30	0.40	16.94	15.14	1.80
Enforcement Savings	1.30	1.30	0.00	2.56	2.56	0.00
Extend Expiring Provisions	2.40	2.40	0.00	12.94	12.94	0.00
Savings Within the Welfare Reform Package	1.22	0.09	1.14	8.06	2.10	5.97
Total: Financing Options	10.62	9.09	1.54	40.50	32.73	7.77

HHS: 1. 1/3 cut in AFDC living allowance
2. 8 states ~~emergency~~ energy assistance

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Program Savings						
Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.8	0.40	8.70	6.9	1.80
Income Test Meal Reminbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
Limit CCC Deficiency Payments to $50K per year, attributed directly to individuals	0.67	0.67	0.00	1.42	1.42	0.00
Charge a Penalty for Early Redemptions of Savings Bonds	0.76	0.76	0.00	1.10	1.10	0.00
Subtotal	5.70	5.30	0.40	16.94	15.14	1.80
Enforcement Savings						
EITC:						
Deny to Non-Resident Aliens	0.13	0.13	0.00	0.33	0.33	0.00
Require Reporting for DOD Personnel	0.19	0.19	0.00	0.50	0.50	0.00
Gambling:						
Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
Withholding Rate of 28% on Keno, Slots	0.25	0.25	0.00	0.32	0.32	0.00
Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.63	0.63	0.00
Subtotal	1.30	1.30	0.00	2.56	2.56	0.00

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Extend Expiring Provisions*						
Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Maintain.	0.05	0.05	0.00	0.12	0.12	0.00
Fees for Passenger Processing and other Customs Services.	0.00	0.00	0.00	1.04	1.04	0.00
Extend Railroad Safety User Fees.	0.16	0.16	0.00	0.41	0.41	0.00
Veterans: Guarantee the Securities Issued in Connection with VA's Direct Loan Sales.	0.08	0.08	0.00	0.16	0.16	0.00
Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loand program when there is less than a 5% downpayment.	0.03	0.03	0.00	0.14	0.14	0.00
Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%).	0.14	0.14	0.00	0.78	0.78	0.00
Extends DVA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it.	0.02	0.02	0.00	0.09	0.09	0.00
Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers.	0.39	0.39	0.00	2.95	2.95	0.00
Collect Per Diems and Copayments from Certain Veteran's for Non-service Care.	0.05	0.05	0.00	0.31	0.31	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions 5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA.	0.21	0.21	0.00	1.35	1.35	0.00
Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits.	0.31	0.31	N/A *	2.02	2.02	N/A *
Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program.	0.64	0.64	0.00	1.98	1.98	0.00
50% Eliminate GI Bill benefit COLAs, which were to have started in 1994 but were eliminated and reduced by 50% in 1995 in OBRA93.	0.32	0.32	0.00	1.59	1.59	0.00
Subtotal	2.40	2.40	0.00	12.94	12.94	0.00
Savings Within the Welfare Reform Package						
Minor Moms: Eliminate AFDC for Mothers Through Age 17 Living in Separate Household	0.09	0.03	0.06	0.21	0.09	0.13
Family Cap: No Additional Benefits for Additional Children	0.66	0.22	0.44	2.15	0.81	1.34
Child Support Enforcement (neg. indicates a cost):						
CSE Admin Costs (Net)	*-0.80*	*-0.70*	*0.00*	*-3.65*	*-3.99*	*0.44*
CSE Automation Costs (80% Federal Share)	*-0.46*	*-0.37*	*-0.09*	*-1.07*	*-0.86*	*-0.21*
CSE Increased AFDC Collections	*1.81*	*0.95*	*0.75*	*10.52*	*5.95*	*4.58*
Net CSE and Paternity Savings (includes automation -- Totals are rounded)	0.48	-0.16	0.64	5.70	1.20	4.50
Subtotal	1.22	0.09	1.14	8.06	2.10	5.97

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Total: Financing Options	10.62	9.09	1.54	40.50	32.73	7.77
Other Options Not Being Considered						
Gambling Excise Tax at 4%	3.16	3.16	0.00	7.34	7.34	0.00
Defer COLAs for CSRS and Military Retirement Until Age 62	5.21	5.21	0.00	28.01 *	28.01 *	
One-half COLA's for Federal Retirement Until Age 62						
CSRS	0.61	0.61	0.00	1.00	1.00	0.00
Military	2.15	2.15	0.00	11.00	11.00	0.00
subtotal	2.76	2.76	0.00	12.00	12.00	0.00
and Move Military COLA up 6 Months - Oct. to April - For Those Age 62 and over to Conform to CSRS	-2.09	-2.09	0.00	-2.09	-2.09	0.00
Sub-total	0.67	0.67	0.00	9.91	9.91	0.00

* Highly Preliminary Staff Pricing.

Financing Options

	5 Year	10 Year			
Cap EA	1.5	4.0			
Target Food Program	.6	1.7			
Aliens (5 Years) and New Rule	2.0	7.0			
Repayment by Social Security to General Fund Where it has Taken Advantage of General Fund	5.0	22.0	Late Baby Student Earnings	3.7	13.7
EITC and Tax Comp	1.3	2.7			
TOTAL	10.4	37.4			

Cost

[illegible]

[illegible]

12 - 5yr IGA minus 300, WP minus $10 (cap at 1.5)

10yr Same IGA 680, WP minus $4.1 = 36.8 B

10.4 5yr Same IGA and 300, same and $1.1 in WPEC, [illegible] Jobs Prog 900 — Phase-in 1.3b

8 5yr Slower phase-in 1.3b, IGA & Prog [illegible] = 750, at home by 50% = 400, WPEC at 1.5 B

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

04-Apr-1994 12:23pm

TO: Isabel Sawhill

FROM: Bruce N. Reed
Domestic Policy Council

SUBJECT: $ for WR

Happy birthday again! It was nice to meet your husband.

Have you had any thoughts about where to look for money? I went over Rob Shapiro's paper and found a few possibilities, although nothing jumps out as really attractive.

Over the weekend, I invented a handful of two-year time limits for rich people. They're probably all bad policy and a pain for the IRS to enforce, but here goes:

1. 2-yr limit on subsidy payments for wealthy farmers. (Shapiro's paper says eliminating these payments would save $1 bill. over 5)

2. 2-yr lifetime limit on capital gains over $100,000. (Or to put it another way, a total of two such gains in a lifetime. That leaves people room to sell a house and the stocks they inherited, but not chalk up huge gains year after year. But I suppose it would create a whole industry in capital gains of $99,999 or less. And yes, it discriminates against rich two-parent families. I have no idea how much it would raise.)

3. 2-yr limit on the deductability of home equity loans over $50k. (Don't you have to be pretty well off to borrow more than that in a second mortgage? Shapiro says eliminating the deductability of such loans altogether would save $12.8 bill over 5, but he admitted to me that he had come up with that number himself.)

4. 2-yr limit on the deductability of tobacco and alcohol advertising. (In other words, this kind of advertising will no longer be deductable after 1996. Since we're losing to the tobacco industry on the tobacco tax, we should go after them on another front. I don't know whether denying a deduction for one kind of advertising but not another is a violation of the First Amdt, but if we can prohibit tobacco ads on TV, shouldn't we be able to single them out in the tax code? Alcohol ads must be worth a lot of $.)

5. 2-yr limit on the deductability of margin interest. (I don't

understand why you can deduct unlimited costs of borrowing $ to play the market but not to buy a car or send your kid to college. If we go after the home equity loan deal, we should go after this too. Of course, we'd be reopening sacred pacts from '86 tax reform, etc., but this is just our opening bid. And the stock market is already plunging anyway.)

6. 2-yr limit on annuities over $100k. (I don't know the specifics on this, but Gene says it's on the GATT list.)

7. Cap 401 (k) deductions at $100k. (Is there a cap now? I don't think so. This probably wouldn't raise much money, but I'd be curious.) (This one is not a 2 yr limit.)

8. 2-yr limit on the LIHTC. (Make Chris's day.)

If we looked through the CBO book, we could probably come up with others. Putting a two-year limit on something is easier than actually eliminating it. Gene is willing to help if we need him.