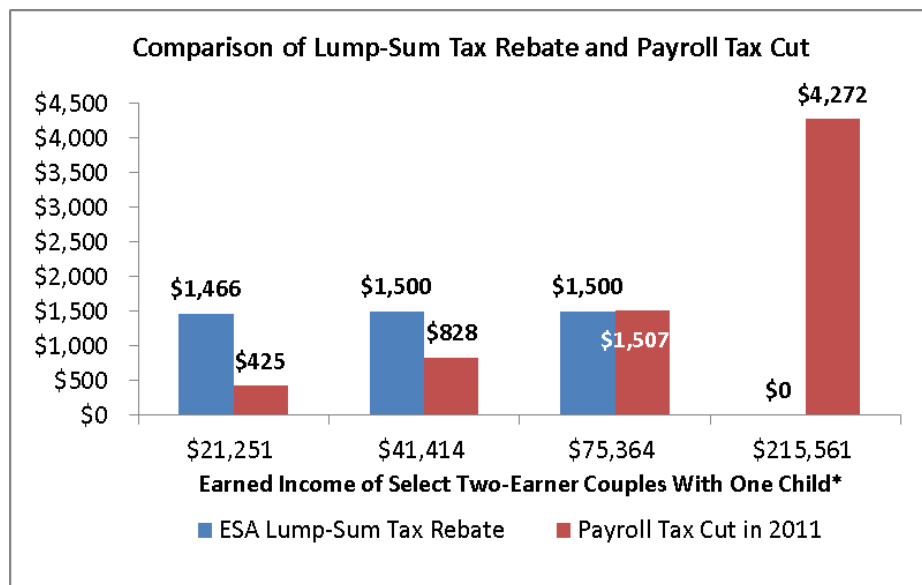


Lump-Sum Tax Rebate Better Stimulus Than the Payroll Tax Cut

In 2008, Congress enacted a partially refundable lump-sum tax rebate as part of the Economic Stimulus Act (ESA) at a cost of \$115.4 billion.¹ In 2010, Congress enacted a two-percentage-point payroll tax cut at a cost of \$111.7 billion, which it is currently considering extending and possibly expanding.² The data presented in the table below indicate that the lump-sum tax rebate is better targeted to families with low and modest incomes. Dollar for dollar, the lump-sum approach does more to stimulate the economy than periodic withholding from wages. Moreover, an income tax rebate provides a break to the state, local, and federal employees who do not participate in Social Security. Perhaps most importantly, it does not decrease Social Security's dedicated revenue.

A targeted lump-sum tax credit like the 2008 stimulus payment has a variety of advantages over the extension of the 2010 payroll tax cut. It would:

- **Target middle- and lower-income workers and their families.** The 2008 stimulus payment provided \$300-\$600 to individuals, \$600-\$1,200 to couples, and an additional \$300 for every dependent child.³ As a result, it was more generous than the payroll tax cut for middle- and lower-income families. [See chart below.] And, unlike the payroll tax cut, a tax cut similar to the 2008 stimulus payment would not provide the largest benefits to upper-income workers.⁴



Source: Economic Policy Institute analysis based on 2008 tax return Statistics of Income, Internal Revenue Service, 2011.⁵

*Figures assume both earners in couple earn the same amount.

- **Increase spending in more households than the payroll tax cut.** A new study by the National Bureau of Economic Research (NBER) shows that a lump-sum check stimulates spending more than reduced withholdings, the mechanism used to deliver the payroll tax cut.⁶
- **Benefit state, local and federal workers who do not participate in Social Security.** 6.6 million (25 percent) state and local workers, as well as federal employees hired before January 1, 1984, do not participate in Social Security and therefore do not pay payroll taxes.⁷
- **Not affect Social Security's dedicated revenue stream.**



¹ Congressional Budget Office (CBO), "Cost Estimate, H.R. 5140: Economic Stimulus Act of 2008," February 11, 2008. <http://cbo.gov/ftpdocs/89xx/doc8973/hr5140pgo.pdf>

² CBO, "Cost Estimate of Changes in Revenue and Direct Spending for S.A. 4753, an Amendment to H.R. 4853, the Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010," December 10, 2010. <http://www.cbo.gov/ftpdocs/120xx/doc12020/sa4753.pdf>

³ "H.R. 5140: Economic Stimulus Act of 2008." <http://www.govtrack.us/congress/billtext.xpd?bill=h110-5140> The tax rebate was partially refundable in that it provided a minimum \$300 tax credit to all workers with earned income of at least \$3,000. Above this minimum, the rebate refunded the lesser of individual income tax liability or \$600. The tax rebate was phased out at a rate of 5% of adjusted gross income (AGI) above a \$75,000 and \$150,000 AGI threshold for single and joint filers, respectively.

⁴ "H.R. 5140: Economic Stimulus Act of 2008." The ESA tax cut phased out for individuals earning \$75,000 a year or more, and joint filers earning \$150,000 a year or more. See endnote 4.

⁵ Economic Policy Institute, Andrew Fieldhouse, Table 2., *A Bigger and Better Economic Boost*, July 28, 2011. http://w3.epi-data.org/temp2011/EPI-TCF_IssueBrief309.pdf

⁶ National Bureau of Economic Research (NBER), *Check in the Mail or More in the Paycheck: Does the Effectiveness of Stimulus Depend on How It Is Delivered?* July 2010. <http://www.nber.org/papers/w16246.pdf> According to the NBER study, where one-quarter (25 percent) of households reported increasing their spending as a result of the 2008 ESA lump-sum tax cut, only 1 out of 8 (13 percent) households reported increasing their spending as a result of the lower tax withholdings from the 2009 Making Work Pay tax credit.

⁷ Congressional Research Service, *Social Security: Mandatory Coverage of New State and Local Government Employees*, July 25, 2011, p. 1. <http://www.nasra.org/resources/CRS%202011%20Report.pdf>