

The scale-up in benefits in the lower income brackets is keyed to \$50 jumps in average monthly covered income, whereas in the upper income brackets the scale-up in benefits is keyed to \$100 jumps in income.

By more than doubling the base, the Johnson Administration is shifting the cost of Medicare to those in the \$6,000 to \$10,800 income range. Their eventual benefits from Medicare probably will not be much higher under the proposed changes, but their relative share of the costs of the plan will, in some instances, more than double.

Tax withholding

The changes in income tax withholding rates for individuals effected in 1966 were originally estimated to remove approximately \$1.2 billion (annual rate) from disposable income. Recently, the estimate was raised to \$1.5 billion.

The most significant immediate result for our purposes here is the fact that the individual earning more than \$7,500 and owning his own home was substantially over-withheld last year.

The federal government was aware of this and provided that such a taxpayer could reduce his 1967 withholding rate by claiming a portion of the excess itemized deductions in his 1967 withholding, so long as they average 18% or more.

The net effect is that some homeowners whose incomes range from \$7,500 up now have a lower withholding rate and are receiving, or have received, a substantial refund on 1966 taxes. It is to be expected that some of them will put the "windfall" into savings. But many will use it to buy durable goods, especially if they decided against purchasing "big ticket" items last year, when their paychecks were smaller because of over-withholding. While an accurate figure for the size of the refund is not available, a fair guess is \$2 billion.

Furthermore, this is not a one-time item. Hereafter, the middle-income homeowner will be over-withheld and receive a refund the following year, through probably not as big a one as this year. In past years many of these individuals made the final payment on their income taxes on or before April 15. Now they will be receiving refunds instead at about the same time of the year. It is not inconceivable that this will alter seasonal purchasing patterns.

On the negative side, taxes of lower income individuals will be withheld at almost exactly the rate of accrual of their tax liability. Thus they will be receiving much smaller refunds than in the past. (This would be offset, however, by the massive increase in Social Security benefits proposed for July 1, 1967.) And the minimum that self-employed individuals and those with substantial investment or "unearned" income have to pay on their estimated income tax liabilities was increased from 70% to 80%.

EXHIBIT III. COMBINED SOCIAL SECURITY AND INCOME TAX BURDEN AS A PERCENT OF TOTAL INCOME

Income level	1961	1963	1965	1966	1967	1968	1969	1971	1973	1974
\$5,000.....	11.4	11.9	9.3	10.0	10.2	10.2	10.8	10.8	11.4	11.4
\$7,500.....	12.6	12.9	10.5	11.9	12.1	12.6	13.2	13.2	13.8	13.8
\$10,000.....	14.1	14.4	11.9	13.0	13.1	13.6	14.1	14.7	15.2	15.7
\$15,000.....	16.3	16.4	13.8	14.5	14.6	14.9	15.2	15.6	16.0	16.6
\$20,000.....	18.3	18.4	15.4	15.9	16.0	16.3	16.5	16.8	17.0	17.5

Note.—Assumptions: The taxpayer is married, and he has 2 children. The 10 percent standard deduction is taken for the \$5,000 income group and an allowance for 15 percent in itemized deductions is made for the other groups.

Combined burden

To the consumer, a tax is a tax, regardless of whether it is called an income tax or a Social Security tax. An increase or decrease in one or the other alters his net cash income and changes his attitude toward buying goods and services. The trend of the combined income and Social Security tax burden is shown in *Exhibit III* for individuals at several earnings levels, with the proposed increases in Social Security taxes factored in.

The relative regressiveness of Social Security taxes is shown by the change in combined tax burden from 1961 to 1963, when Social Security taxes were increased. The decline in the combined burden from 1963 to 1965 reflects the two-stage reduction in rates in 1964 and 1965. The total burden moves up most sharply from 1965 to 1969 for lower-middle income taxpayers; their income tax reductions of 1964 and 1965 will have been wiped out by 1969.