SOCIAL SECURITY
Office of the Chief Actuary

March 8, 2013

The Honorable John B. Larson
The Honorable Vern Buchanan
House of Representatives
Washington, D.C. 20515

Dear Mr. Larson and Mr. Buchanan:

I am writing in response to your December 20, 2012 letter requesting an estimate of the effect on the Social Security financial status of a proposal to repeal the employer FICA tax credit on tips for food and beverage workers that was enacted in 1993 (Internal Revenue Code 45B). Our revenue team (Patrick Skirvin, William Piet, Anthony Cheng, Sven Sinclair, Alice Wade, and Karen Glenn) developed an estimate for the effect on Social Security and Medicare payroll tax liability in the near term and the long term. We consulted with Dr. Donald Bruce of the University of Tennessee, as well as staff at the Joint Committee on Taxation, in the development of the estimates.

We estimate that eliminating the credit effective January 1, 2014 would result in a small reduction in reported tips. The reduction in reported tips would lower payroll tax revenue over the period 2014 through 2023 for Social Security (OASDI) and Medicare (HI) by about $1,157 million and $271 million, respectively. The effect on the long- range financial status of these programs would be negligible (less than 0.005 percent of taxable payroll). We consulted with the Joint Committee on Taxation and found that their assumptions and estimates on this proposal for FICA taxes are similar to ours. We cannot comment on whether any increase in revenue to the Treasury from eliminating the credit would be more than offset by loss of tax revenue for Social Security and Medicare.

Under current law, employers of food and beverage workers receive a credit from the General Fund of the Treasury equal to the amount of their payroll tax liability on tips that raise employee compensation above $5.15 per hour. The intention of this credit is to encourage higher levels of reported tips. The credit results in increased payroll tax revenue for both the OASDI and HI programs to the extent that reported tips are increased.

The proposal would eliminate the credit and would thus result in somewhat lower reported tips and payroll tax revenue in the future. Based on the modest effect that implementation of the credit in 1993 had on reported tips in years after 1993, we estimate that elimination of the credit would ultimately result in a 15-percent reduction in reported cash tips and a 2-percent reduction in reported credit card tips. Overall, this would mean a reduction of about 5 percent in reported tips. Assuming enactment in 2013 with the credit eliminated starting January 1, 2014, we estimate changes in tax liability shown in the table below.

Estimated Effect on Payroll Tax Revenue
for Proposal to Eliminate Employer Credit
on Tips that Raise Food and Beverage
Worker Compensation above $5.15 per
Hour

Calendar Year	Reduction in Tax Revenue OASDI	HI
	millions	
2014	$46	$11
2015	74	17
2016	105	24
2017	112	26
2018	119	28
2019	127	30
2020	136	32
2021	141	33
2022	146	34
2023	151	35
2014-23	1,157	271

If we may be of any further assistance on this or other matters, please let us know.

Sincerely,

Stephen C. Goss

Stephen C. Goss
Chief Actuary

Enclosure

Congress of the United States
Washington, DC 20515

December 20, 2012

Stephen C. Goss
Chief Actuary
Social Security Administration
6401 Security Boulevard
Baltimore, MD 21235-0001

Dear Mr. Goss,

We write to request an estimate of the effect repealing the FICA tax tip credit (Internal Revenue Code Section 45B) would have on the finances of the Old Age and Survivors Insurance and Disability Insurance (OASDI) program in both the near term and the long term. Additionally, we request an estimate of the impact on benefit levels for retired workers and the income distribution of these benefit impacts.

Accompanying our request is a recent economic analysis of the FICA tax tip credit which we believe will be helpful in analyzing the financial impacts of repeal. The report concludes that if reported tip income decreases in the absence of the credit, an assumption that is well within the recent experiences of three major restaurant chains, then any revenue increase to the Treasury from employers would be more than offset by a revenue reduction for Social Security and Medicare.

Thank you very much for your assistance. Please let us know if you have any questions.

Sincerely,

John B. Larson
MEMBER OF CONGRESS

Vern Buchanan
MEMBER OF CONGRESS