Disposable income as the Tax Base: route to reform?

Phantom wages

...oneywell said the venture is s... ject to approvals by the U.S. and Yugoslavian governments and by affected Yugoslavian workers. It would employ 200 people.

Paul B. Dinkel has been appointed a senior vice president of Whittaker Corp., Los Angeles.

"Get up, Alice! I believe it's the ... advertising age!"

FICA SCHEME MAY PROFIT WORKER AND FIRM

Continued from 12th Page

tax, to a net before income taxes of $21,496.23. He or she will pay income taxes, however, on $22,900.

But if the firm adopts Walton's proposal and pays the total FICA, the figures change remarkably.

First the employe must agree to accept an annual wage equal to what it would have been if he or she had paid half the FICA tax.

In this example, the worker gets an annual wage of $21,496.23. Since the employer is now paying the total tax bill, the worker seems no better or worse off than under the prior method. That total is exactly the same as $22,900 minus what the employe's FICA tax would have been.

The company, however, is in a very different position. It is paying the total FICA tax, but that tax is figured on the employe's new wages of $21,496.23. The FICA tax amounts to $2,635.44. So the company's total cost of compensating the employe is $24,131.67.

That's a saving of $172.10 from what the company would have shelled out under the original case.

For a company with several hundred employes earning incomes at or below the Social Security wage base, Walton points out, the total savings can be substantial. Even for a worker earning $10,000 a year the firm will save more than $75 annually. (Above the wage base, savings quickly drop to zero.)

A spokeswomen for the Internal Revenue Service in Washington said the practice is "perfectly legal, since it complies with the (tax) statutes."

She pointed out, as does Walton, that the worker would have to include in his or her taxable income FICA taxes paid by the employer that normally are paid by the employe.

But even with this half of the FICA added back in to taxable income, says Walton, the employe still comes out ahead. In the case of the worker who earned $22,900 and dropped down to $21,496.23 when the company picked up the whole FICA tab, the total taxable income would be $22,813.95, or $86.05 less than it would have been in the first instance.

How does Uncle Sam come out? The income tax bite on the worker is slightly less. The company more than offsets this, since it will pay in income taxes about half of its savings under Walton's plan. But since the FICA collections decline even more than income taxes increase, the total federal take ends up smaller.

Workers should be aware, says Walton, that a change to the plan he advocates would slightly reduce their wage base on which Social Security pension benefits are figured. For each $1,000 drop in annual wages (up to $22,900) the monthly benefits at age 65 would fall about $20 or $25.

Young workers, such as teenagers working in fast-food chains, may not care about this, and other industries with a high turnover of personnel may also find little resistance. But employers could use some of the savings to buy annuities for workers concerned about retirement income, Walton notes.

The combination of possible personnel problems, the mathematics, the Social Security rules and the federal tax regulations makes the idea hard to sell to corporations, Walton admits. So far, he says, eight Southern California firms have studied it in depth, but none has yet decided to take the plunge.

...change, were traded ... better prices.

"It works both ways for protection of the investor," said the Pacific spokesman. "We draw volume from the other markets and we direct orders to the other markets when they have better prices. Investors may direct their orders through the Pacific Stock Exchange for execution on any of the other markets."

Meanwhile, William M. Batten, chairman of the New York exchange, said in a speech on Friday that most key elements of a national market system were already in operation and were benefiting investors.

"With the rapid, continuing expansion of ITS," Batten said, "it is accurate to say that the securities industry —with the valued assistance of the Securities & Exchange Commission— has succeeded in defining and developing most of the key elements of a national market system. More important, those elements are now operating with increasing effectiveness. While several issues remain to be resolved, the structure and operation of the markets has been substantially improved, without damage to their basic strengths and integrity."

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Los Angeles Times

Business

12 Part III

MONDAY, OCTOBER 30, 1978

Worker, Firm Can Gain by FICA Scheme

BY ALEXANDER AUERBACH
Times Staff Writer

How can a company boost its employes' after-tax income and increase corporate profits at the same time? By treading delicately through the jumble of federal tax laws, says William L. Walton.

Walton is a Los Angeles accountant who has made a career of poking through the seemingly uncontroversial, familiar sections of the tax codes. He was the one, for example, who realized that many companies were routinely paying Social Security taxes on the wages of workers getting sick pay. Such pay is exempt from the levy, and Walton has recovered some $10 million for some 100 corporate clients.

Now Walton is pushing another idea: employers, he says, should pay their workers' entire Social Security tax tab, which usually is split evenly between employer and employe. The item is generally noted a "FICA" on paycheck stubs, for Federal Insurance Contributions Act.

It's not an act of blind generosity on the employer's part, Walton explains. The idea only works if the employe agrees to take a cut in gross pay equal to his or her half of the FICA payment. The worker may well agree, however, since the change won't affect the amount on the paycheck subject to income tax, and thus will leave take-home pay the same. Yet at the end of the year the worker's total income tax bill will be slightly lower.

If none of that seems to make sense, the confusion is one reason companies have not adopted Walton's proposal, he says. But it becomes clearer with an example.

The FICA tax bite, which rises gradually each year, next year will [illegible] of the so-called

Figures

back Steve De-held to 46 yards.
AP Wirephoto

HOCKEY

NHL STANDINGS

PRINCE OF WALES CONFERENCE

Norris Division

	W	L	T	Pts	GF	GA
Detroit	4	2	3	11	34	27
Montreal	4	4	1	9	33	30
Los Angeles	4	4	0	8	33	29
Washington	1	5	2	4	20	33
Pittsburgh	1	6	2	4	27	37

Adams Division

	W	L	T	Pts	GF	GA
Boston	6	1	2	14	43	24
Toronto	4	5	1	9	28	33
Buffalo	2	4	2	6	19	25
Minnesota	1	4	2	4	19	25

CAMPBELL CONFERENCE

Patrick Division

	W	L	T	Pts	GF	GA
Atlanta	7	0	2	16	52	28
NY Rangers	5	1	3	13	31	21
NY Islanders	4	2	2	10	36	33
Philadelphia	3	4	2	8	24	24

Smythe Division

	W	L	T	Pts	GF	GA
Chicago	4	1	3	11	31	26
Vancouver	4	5	1	9	40	44
St. Louis	2	4	3	7	42	53
Colorado	2	6	1	5	23	43

Sunday's Results

Vancouver 5, Philadelphia 2
NY Rangers 3, Pittsburgh 2
Chicago 4, Montreal 1
Only games scheduled

Tonight's Schedule

No games scheduled

Sunday's NHL Summaries

Canucks 5, Flyers 2

Vancouver	2	1	2—5
Philadelphia	1	1	0—2

SCORING: 1. Phi., Kelly (1) (Dean, Bridgman); 2. Van., Smyl (2) (Snepsts, Gradin); 3. Van., Sedlbauer (6) (unassisted); 4. Van., Gillis (2), power play, (Oddleifson, Ververgaert); 5. Phi., Barber (5) (Clarke, Wilson); 6. Van., Fraser (5) (Gradin); 7. Van., Oddleifson (4) (unassisted) Shots on Goal: Vanc. on Stephenson 30; Phil. on Hanlon 35. Att—17,077

Rangers 3, Penguins 2

Pittsburgh	1	0	1—2
New York	0	3	0—3

SCORING: 1. Pit., Bianchin (2) (Ferguson, Stackhouse); 2. NY, Greschner (1), power play, (Hedberg, Hickey); 3. NY, Hickey (2) (Greschner, Hedberg); 4. NY, Plante (1) (Duguay, Vadnais); 5. Pit., Kindrachuk (3) (Schutt, Stackhouse). Shots on Goal: Pitt. on Davidson 28; NY on Herron 33. Att—17,419.

Black Hawks 4, Canadiens 1

Montreal	0	0	1—1
Chicago	1	2	1—4

SCORING: 1. Chi., Boldirev (5), power play, (Koroll, Wilson); 2. Chi., Boldirev (6), pp, (Koroll, Wilson); 3. Chi., Bordeleau (5), pp, (Russell, Marks); 4. Mon., Lemaire (4), pp, (Lambert, Lapointe); 5. Chi., Russell (2, empty net), short handed, (Esposito). Shots on Goal: Montreal on Esposito 36; Chicago on Dryden 21 Att—17,223.

WHA

Sunday's Results

Cincinnati 7, New England 4
Quebec 6, Edmonton 2
Indianapolis 3, Winnipeg 3 (overtime)

Tonight's Schedule

No games scheduled

WHA Highlights

At Edmonton: Quebec 6, Edmonton 2. Real Cloutier and Marc Tardif scored two goals each to lead Nordiques. Cloutier also collected three assists to take over scoring lead in WHA. He has 11 goals in 9 games. Att. —10,231.

At Winnipeg: Indianapolis 3, Winnipeg 3 (overtime)

ALL

..... 33 21 24 21—99
..... 20 23 23 28—94
t—None. Total fouls—
15, Cleveland 17. Att—7,-

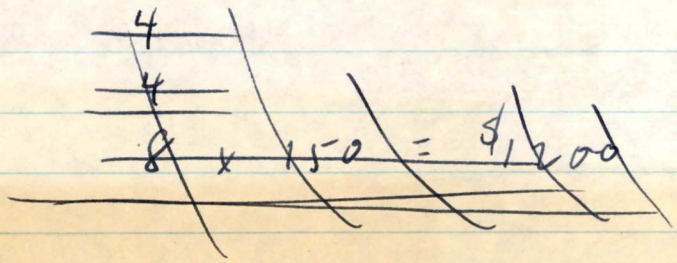
ts 134, Rockets 121

(121)—Barry 29, Tom-, Malone 23, Murphy 22, wlin 0, Jones 10, Dunleavy Barker 2, Bradley 4.
R (134)—McGinnis 26, 0, Issel 15, Thompson 26, Wilkerson 13, Boswell 16, Smith 7, Crompton 6, Ellis 0.
..... 27 26 31 37—121
..... 36 27 30 41—134
out—Reid. Total fouls—
33, Denver 28. Technical ry. Att—14,485.

ippers 103. Sonics 100

TLE (100)—J. Johnson 20, Sik-LaGarde 12, G. Williams 8, D. 13, Brown 10, Shelton 4, 3, Snyder 9, Silas 5.
DIEGO (103)—Washington 11, spoon 13, Nater 8, Smith 26, Norman 19, Bigelow 2, Kun-F. Williams 2. Note: Sidney d not play because of flu.
..... 28 25 27 20—100
o ..... 21 39 18 25—103
out—None. Total fouls—
San Diego 22. Att—9,469.

A proposal for progressive taxation.



G, gross inc.
D, disp. "
t, t.r.

Now $D = G(1-t)$

$T = tG$

Propose:

$T = tD$

$G = D + T = D(1+t)$

$D = G - tD$

$D = \frac{G}{1+t}$

As rates get high, this makes huge difference.

Is more realistic -- only taxes what taxpayer gets, not an imaginary no. he never sees.

Same time, could change land taxes, base them on value free of capn. (Or, present as alternative. Or, use to achieve more consistency. Land is taxed on basis of after-tax value, i.e. its capd. disposable income.)

D can be reduced by payroll taxes, too.

Income not withheld can be treated differently?

A tenant paying rent to landlord doesn't withhold taxes.

Bec. of fast write-off, landlord's $D = G$, where G means cash flow. With tax shelter, his $D > G$.

Thus this proposal wd. automatically lower value of all loopholes.

Equivalent tax on $G \equiv u$

$$uG = tD = t\frac{G}{1+t}$$

$$u = \frac{t}{1+t}$$

Thus reducing progressivity of rates. Progressivity has been used as a sub. for closing loopholes. Basing on D closes loopholes, so it is a fair tradeoff. Could also compensate by making rate structure more progressive, but better to take occasion to reduce progressivity, which many recommend anyway.

Defined realizn. schemes wd. now rise in value.

Pension deductions wd. not be takable. (many of them aren't anyway.) until the money is recd. This wd. put them on same basis as cap. gains.

By reducing value of loopholes, wd. lower resistance to closing them.

Also put in an earned-income credit.

"Phantom Wagen"

Los Angeles Times

Business

12 Part III

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If none of that seems to make sense, the confusion is one reason companies have not adopted Walton's proposal, he says. But it becomes clearer with an example.

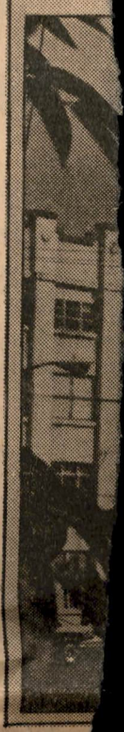
The FICA tax bite, which rises gradually each year, next year will amount to 12.23% of the so-called Social Security wage base, which in 1979 will be the first $22,900 of wages or salary. ± 2,900

For the sake of the example, assume a worker earns exactly the maximum wage base, or $22,900, in 1979.

The company can pay only its half of the FICA bill, or $1,403.77, so that its total cost of compensating that employe will be the $22,900 wage plus the $1,403.77 for FICA, or a total of $24,303.77.

As for the worker, his or her annual paycheck of $22,900 will be reduced by the other half of the FICA

Please Turn to Page 13, Col. 2



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