1-23-2013

# Receipt of Unemployment Insurance by Higher-Income Unemployed Workers ("Millionaires")

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**Abstract**

[Excerpt] While the debate in the 112th Congress commonly referred to a proposed policy of restricting the receipt of unemployment benefits by "millionaires," the various proposals specified different income thresholds. For example, one proposal would have placed restrictions on unemployment benefit income for a single tax filer with AGI beginning at $750,000 (or beginning at $1.5 million for a married couple filing a joint return). Another proposal would have placed restrictions on unemployment benefit income for a single tax filer with AGI of at least $500,000 (or at least $1 million for a married couple filing jointly). Although the proposals varied in how they define high-income individuals, each would have restricted individuals and households with incomes above a specified threshold from receiving unemployment benefits.

This report addresses many of the questions that have arisen regarding such proposals, including the potential number of people who would be affected and the potential savings to federal and state governments. To place these proposals into context, the report provides a brief overview of the UI system and explains why receipt of UI benefits is not restricted based on income under current law. It then presents Internal Revenue Service (IRS) data on the distribution of household income and unemployment benefits for tax years 2008 and 2009 to shed light on the size of the group potentially affected by such proposals. The report raises policy considerations such as the potential impact of such proposals on federal expenditures, given the joint federal-state nature of unemployment programs. Finally, it summarizes relevant legislation in the 112th Congress.

**Keywords**

unemployment benefits, Adjusted Gross Income, AGI, Congress

**Comments**

**Suggested Citation**

Hirasuna, D. (2013). *Receipt of unemployment insurance by higher-income unemployed workers ("millionaires")*. Washington, DC: Congressional Research Service.

An earlier version of this report can be found here: http://digitalcommons.ilr.cornell.edu/key_workplace/924/

# Receipt of Unemployment Insurance by Higher-Income Unemployed Workers ("Millionaires")

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January 23, 2013

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7-5700
www.crs.gov
R42643

**CRS Report for Congress**
*Prepared for Members and Committees of Congress*

# Summary

The economic recession that began in December 2007 officially ended in June 2009 when the U.S. economy reached a trough, or low-point, in business activity. This recession lasted 18 months, making it the longest of any recession since World War II. To date, there is some growth in the nation's Gross Domestic Product (GDP), and unemployment rates have fallen—but they remain persistently high in comparison to previous years. Peaking at 10.0% in October 2009, the unemployment rate was 7.8% in December 2012, up from 4.4% in December 2006.

In response to the sustained period of high unemployment rates, Congress has enacted several laws that extend Unemployment Insurance (UI) benefits. Currently, UI benefits are available for up to 93 weeks, a period longer than during any previous recession. The additional months of benefits are made possible with the temporary Emergency Unemployment Compensation (EUC08) program authorized by the amended Supplemental Appropriations Act of 2008 (P.L. 110-252). In addition, the American Recovery and Reinvestment Act 2009 (P.L. 111-5, as amended) temporarily provides for 100% federal financing of the Extended Benefit (EB) program through December 31, 2013.

The temporary, long-term extensions of UI benefits have occurred at a time when the federal government and the states face serious budget constraints. The debate in Congress over the extension that was authorized in 2012 took place in a climate of ongoing concern over the level of federal budget deficits. It was in this context that a proposal to restrict unemployment benefit receipt based on income emerged. Specifically, the House-passed version of H.R. 3630 (the Middle Class Tax Relief and Job Creation Act) included a provision that would impose an income tax on unemployment benefits for high-income individuals. Based on a scaled approach, the tax would increase to 100% for a single tax filer with Adjusted Gross Income (AGI) of $1 million (or AGI of $2 million for a married couple filing a joint return). The provision, however, was not included in the final version of the legislation that became P.L. 112-96.

Several other bills introduced in the 112th Congress would have restricted unemployment benefit receipt based on income (i.e., they would have changed the current requirement to provide unemployment benefits to all workers without income restrictions). S. 1944 would have imposed an income tax on unemployment benefit income for certain high-income tax filers, among other provisions. S. 1931 included the same provisions for a tax on unemployment benefits received by high-income individuals as H.R. 3630. H.R. 235 and S. 310 would have prohibited the use of federal funds to pay UI benefits to certain high-income individuals, among other provisions. While the debate in Congress commonly referred to restricting "millionaires" from receiving UI benefits, the various proposals specified different income thresholds at which the restrictions would have applied (i.e., they varied in how they defined high-income individuals).

To inform the ongoing policy debate, this report provides information relevant to proposals that would restrict the payment of unemployment benefits to individuals with high incomes. Three primary areas that may be of interest to lawmakers are addressed: (1) the current U.S. Department of Labor (DOL) opinion on means-testing UI benefits; (2) the potential number of people who would be affected by such proposals; and (3) policy considerations such as the potential savings associated with such proposals, particularly in terms of federal expenditures. The latter two issues are discussed because a small percentage (approximately 0.02%) of tax filers receiving unemployment benefit income had AGI of $1 million or more in tax year 2009 based on Internal Revenue Service (IRS) data.

# Contents



## Tables



## Contacts

# Background

The economic recession officially ended in June 2009 when the U.S. economy reached a trough, or low-point, in business activity. Beginning in December 2007, the recession lasted 18 months, making it the longest of any recession since World War II. To date, there is some growth in the nation's Gross Domestic Product, and unemployment rates have fallen—but they remain persistently high in comparison to previous years. Peaking at 10.0% in October 2009, the unemployment rate was 7.8% in December 2012, up from 4.4% in December 2006.[1]

In response to the sustained period of high unemployment rates, Congress has enacted several laws that extend Unemployment Insurance (UI) benefits. Currently, UI benefits are available for up to 93 weeks, a period longer than during any previous recession. The additional months of benefits are made possible with the temporary Emergency Unemployment Compensation (EUC08) program authorized by the amended Supplemental Appropriations Act of 2008 (P.L. 110-252). In addition, the American Recovery and Reinvestment Act 2009 (P.L. 111-5, as amended) temporarily provides for 100% federal financing of the Extended Benefit (EB) program through December 31, 2013.[2]

The temporary, long-term expansion and extension of UI benefits has taken place at a time when the federal government and the states face serious budgetary pressures. In recent years, various proposals have been offered to reduce the large and growing federal budget deficits, as well as to make various reforms to the UI system, including measures to alleviate state UI financing stress and to improve the solvency of the UI trust fund.[3]

It was in this context—consideration by Congress of a further extension of UI benefits amidst ongoing concerns about the level of federal budget deficits—that proposals to restrict the receipt of unemployment benefits by high-income individuals emerged. Although no bills have been introduced in the 113th Congress, bills have been introduced in the past. For example, in the 112th Congress, the House-passed version of H.R. 3630, the Middle Class Tax Relief and Job Creation Act, included a provision that would impose an income tax on unemployment benefits for high-income individuals. Using a scaled approach, the percentage of unemployment benefits that would be taxed would increase with an individual's Adjusted Gross Income (AGI)—beginning with AGI of $750,000 for a single tax filer and $1.5 million for a married couple filing a joint

[1] Before the 2007-2009 recession, the longest postwar recessions were those in 1973-1975 and 1981-1982, both of which lasted 16 months. Since the recession, Gross Domestic Product (GDP) has consistently increased with a 1.8% increase in 2011 and a 3.1% increase in the third quarter of 2012. The measures of GDP reported here are in real 2005 chained dollars from the Bureau of Economic Analysis website. For more information on the designation of the recession, see Business Cycle Dating Committee, National Bureau of Economic Research, September 20, 2010, http://www.nber.org/cycles/sept2010.html. For the GDP data, see Bureau of Economic Analysis, "Gross Domestic Product, Percent Change From Preceding Period," *National Economic Accounts*, December 20, 2012, at http://www.bea.gov/national/index.htm. Unemployment rates are for the civilian, non-institutionalized population aged 16 through 64, seasonally adjusted, and are from the Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, Labor Force Statistics from the Current Population Survey, June 4, 2012, http://www.bls.gov/cps/data.htm.

[2] Authorized under the American Taxpayer Relief Act of 2012 (P.L. 112-240), which was signed January 2, 2013. For more information, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[3] For more information, see CRS Report RS22954, *The Unemployment Trust Fund (UTF): State Insolvency and Federal Loans to States*, by Julie M. Whittaker.

return. Unemployment benefits would be taxed at 100% for a single tax filer with AGI of $1 million and for a married couple filing a joint return with AGI of $2 million. The final version of H.R. 3630 enacted by Congress and signed into law by President Obama (P.L. 112-96, signed on February 22, 2012) extended UI benefits, among other provisions. It did not, however, include the provision in the House-passed version of the bill that would have restricted unemployment benefit receipt based on income.[4]

While the debate in the 112th Congress commonly referred to a proposed policy of restricting the receipt of unemployment benefits by "millionaires," the various proposals specified different income thresholds. For example, one proposal would have placed restrictions on unemployment benefit income for a single tax filer with AGI beginning at $750,000 (or beginning at $1.5 million for a married couple filing a joint return). Another proposal would have placed restrictions on unemployment benefit income for a single tax filer with AGI of at least $500,000 (or at least $1 million for a married couple filing jointly). Although the proposals varied in how they define high-income individuals, each would have restricted individuals and households with incomes above a specified threshold from receiving unemployment benefits.

This report addresses many of the questions that have arisen regarding such proposals, including the potential number of people who would be affected and the potential savings to federal and state governments. To place these proposals into context, the report provides a brief overview of the UI system and explains why receipt of UI benefits is not restricted based on income under current law. It then presents Internal Revenue Service (IRS) data on the distribution of household income and unemployment benefits for tax years 2008 and 2009 to shed light on the size of the group potentially affected by such proposals. The report raises policy considerations such as the potential impact of such proposals on federal expenditures, given the joint federal-state nature of unemployment programs. Finally, it summarizes relevant legislation in the 112th Congress.

## The Unemployment Insurance System

A variety of benefits are available to involuntarily unemployed workers to provide them with income support during their spell of unemployment. These benefits include the Unemployment Compensation (UC) program, the temporary EUC08 program, and the EB program. UC is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA). The federal taxes fund federal and state UC program administration, the federal share of EB payments, and federal loans to insolvent state UC programs.[5] State taxes fund the UC payments and the state share of EB payments. Most states provide for 26 weeks of UC benefits to eligible workers who become unemployed through no fault of their own, and meet certain other eligibility requirements.[6] The EUC08 and the EB programs may provide additional benefits after UC program benefits have been exhausted.

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[4] For information on the Unemployment Insurance (UI) provisions in P.L. 112-96 and P.L. 112-240, see CRS Report R41662, *Unemployment Insurance: Legislative Issues in the 112th Congress*, by Julie M. Whittaker and Katelin P. Isaacs.

[5] The EUC08 program is funded with revenues from the general fund of the U.S. Treasury.

[6] Montana provides up to 28 weeks; Massachusetts provides up to 30 weeks; and several states have reduced their UC maximum durations: Arkansas and Illinois (25 weeks); Michigan, Missouri, and South Carolina (20 weeks); Florida (variable duration based on state unemployment rate: 12-23 weeks); and Georgia (variable duration based on state unemployment rate: 14-20 weeks). For more information, see CRS Report R41508, *Temporary Unemployment* (continued...)

Within broad federal guidelines, states determine many of the substantive aspects of their UC program, including the level of payment, duration and eligibility. This authority for the states to decide on program matters effectively results in 53 different UC programs that are financed by the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

## Current Law—Individuals Must Receive UI Benefits Regardless of Individual or Household Income

Currently, states may not restrict UI benefits by income level other than those income sources deemed related to their unemployment. This requirement is based upon a 1964 U.S. Department of Labor (DOL) decision that precludes states from means-testing to determine UC eligibility.[7] The U.S. Labor Secretary expanded the restriction on means-testing to severely limit the factors states may use to determine UC entitlement. Under this interpretation, federal law requires entitlement to compensation to be determined from facts or causes related to the individual's state of unemployment.[8]

Thus, the DOL requires that states pay compensation for unemployment to all eligible beneficiaries regardless of their income level because individual or household income would not be considered to impact the fact or cause of unemployment.[9]

## Distribution of Household Income and Unemployment Benefits

**Table 1** shows the number of tax filers[10] that received unemployment benefit income [11] by categories[12] of AGI for tax years 2008 and 2009. Among tax filers with AGI of $1 million or

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*Insurance Provisions*, by Katelin P. Isaacs.

[7] Letter from Robert C. Goodwin, DOL administrator, to All State Employment Security Agencies, October 2, 1964, http://ows.doleta.gov/dmstree/uipl/uipl_pre75/uipl_787.htm. The determination was in response to a South Dakota law that required longer waiting periods for unemployment benefits for individuals with higher earnings.

[8] For a worker to be monetarily eligible to receive any UC benefits, all states require the worker to have earned a certain amount of wages or to have worked for a certain period of time (or both) within the last base period. Almost all states assign the base period as the first four of the last five completed calendar quarters preceding the worker's filing of a claim.

[9] Although this decision directly pertains to the UC program, all other UI programs except for Disaster Unemployment Assistance (DUA) use the same eligibility requirements.

[10] There is a difference between the number of tax filers, the number of persons (or individuals), and the number of households. Households, which consist of one or more persons, may contain more than one tax filer. For example, a married couple may file separate tax returns or a joint tax return. This may impact the number of beneficiaries counted in **Table 1** if both persons in a married couple receive unemployment compensation, and the couple files a single joint return, the number of tax filers receiving unemployment compensation would be equal to one. If they file separate tax returns, then they would be counted as two.

[11] For income tax purposes, unemployment benefits include more than regular UC. They include any amounts received under the unemployment compensation laws of the United States or of a state; state unemployment insurance benefits and benefits paid to an individual by a state or the District of Columbia from the Federal Unemployment Trust Fund; and railroad unemployment compensation benefits, disability benefits paid as a substitute for unemployment compensation, Trade Adjustment Assistance, and Disaster Relief and Emergency Assistance. Unemployment benefits do not include workers compensation. See 26 U.S.C. § 85(b).

[12] The income categories shown here do not align exactly with the proposed bills, because the bills provide for different income thresholds based upon the household filing status, different levels of AGI, and different definitions of income (continued...)

more, 2,840 reported receipt of unemployment benefit income in 2008 and 2,362 tax filers reported receipt of unemployment benefit income in 2009.[13] This represents 0.02% to 0.03% of all tax filers that reported receiving unemployment benefit income.

Note that the tax filing data shown here somewhat understate the total number receiving unemployment benefit income. If an individual or married couple's total income from taxable sources is below the filing threshold, he or she is not required to file a tax return and therefore may not be included in the data for tax years 2008 and 2009. This would particularly understate the number of tax filers in the lower AGI categories. In addition, for tax year 2009 only, P.L. 111-5 allowed each individual to exclude up to $2,400 in unemployment benefit income from their AGI calculation. Thus, for tax year 2009, tax filers did not report the first $2,400 of any type of unemployment benefit income for federal income tax purposes. As a result, the number of tax filers receiving unemployment benefit income would be understated across all AGI categories for tax year 2009, creating additional underreporting of the number of tax filers who received unemployment benefit income. The data for tax year 2008 are included to provide some comparison to the most recent year (tax year 2009) when $2,400 of unemployment benefit income was excluded.

**Table 1. Number of Tax Filers Receiving Unemployment Benefit Income**

(by income category for tax years 2008 and 2009)

| | 2008 | | 2009 | |
|---|---|---|---|---|
| **AGI Category** | **Number of Tax Filers** | **Percentage of Tax Filers** | **Number of Tax Filers** | **Percentage of Tax Filers** |
| Under $1million | 9,530,056 | 99.97% | 11,296,474 | 99.98% |
| No Adjusted Gross Income | 30,613 | 0.32% | 52,332 | 0.46% |
| $1 to <$100,000 | 8,682,774 | 91.08% | 10,290,362 | 91.07% |
| $100,000 to <$200,000 | 710,875 | 7.46% | 825,218 | 7.30% |
| $200,000 to <$500,000 | 97,783 | 1.03% | 120,227 | 1.06% |
| $500,000 to <$1,000,000 | 8,011 | 0.08% | 8,335 | 0.07% |
| $1 million or more | 2,840 | 0.03% | 2,362 | 0.02% |
| Total Tax Filers | 9,532,896 | 100.00% | 11,298,836 | 100.00% |

**Source:** Internal Revenue Service, Statistics of Income, Individual Complete Report (Publication 1304), Table 1.4 Tax Years 2008 and 2009, http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html#_grp1.

**Notes:** The number of tax filers receiving unemployment benefit income is somewhat understated for tax years 2008 and 2009. If an individual or married couple's total income from taxable sources is below the filing threshold, he or she is not required to file a tax return and therefore may not be included in the data for tax years 2008 and 2009. In addition, the number of tax filers receiving unemployment benefit income is understated for tax year 2009 because, under P.L. 111-5 (signed into law on February 17, 2009), the first $2,400 of

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(e.g., income as defined by AGI or income as defined by resources when applying for Medicare Part D benefits).

[13] AGI includes income from wages and salaries, alimony, business income, taxable capital gains, interest and dividends, unemployment compensation, plus other sources minus several adjustments, such as deductions for IRA and medical savings account contributions and moving expenses. For purposes of the IRS tax code, the programs that provide insurance for the unemployed are called unemployment compensation. See http://www.irs.gov/pub/irs-prior/f1040sb--2009.pdf.

unemployment benefit income was excluded from AGI for federal income tax purposes. All estimates are based on samples maintained by the Statistics of Income Division of the Internal Revenue Service.

**Table 2** shows the amount of unemployment benefit income received by tax filers by AGI category for tax years 2008 and 2009, where incomes are not adjusted for inflation. As shown in the table, the amount of unemployment benefit income received by tax filers with AGI of $1 million or more is relatively small. For tax year 2008, tax filers with at least $1 million in AGI reported receiving $18.6 million in unemployment benefit income, which represents 0.04% of total reported unemployment benefit income. Similarly, for tax year 2009, tax filers with at least $1 million in AGI reported receiving $20.8 million in unemployment benefit income, which represents 0.02% of total reported unemployment benefit income.

Lowering the proposed income threshold would restrict more households from receiving unemployment benefits. **Table 1** and **Table 2** provide estimates of how many households might be affected and how much less in unemployment benefits might be distributed if the income threshold for restricting benefits were changed to lower income levels. For example, if the restriction were placed at households with AGI of $500,000 or more, approximately 8,011 more households might have been restricted from receiving unemployment benefits and $52.8 million less in unemployment benefits might have been distributed in 2009.

**Table 2. Amount of Unemployment Benefit Income Received by Tax Filers**

(by income category for tax years 2008 and 2009)

| | 2008 | | 2009 | |
|---|---|---|---|---|
| **AGI Category** | **Amount of Unemployment Benefit Income ($000)** | **Percentage of Total Unemployment Benefit Income** | **Amount of Unemployment Benefit Income ($000)** | **Percentage of Total Unemployment Benefit Income** |
| Under $1million | $43,656,079 | 99.96% | $83,517,301 | 99.98% |
| No Adjusted Gross Income | 190,209 | 0.44% | 445,003 | 0.53% |
| $1 to <$100,000 | 39,115,042 | 89.56% | 75,131,037 | 89.94% |
| $100,000 to <$200,000 | 3,772,147 | 8.64% | 6,856,390 | 8.21% |
| $200,000 to <$500,000 | 525,899 | 1.20% | 1,009,976 | 1.21% |
| $500,000 to <$1,000,000 | 52,782 | 0.12% | 74,895 | 0.09% |
| $1 million or more | 18,615 | 0.04% | 20,799 | 0.02% |
| Total Tax Filers | $43,674,694 | 100.00% | $83,538,100 | 100.00% |

**Source:** Internal Revenue Service, Statistics of Income, Individual Income Tax Returns Publication 1304 (Complete Report), Table 1.4, Tax Years 2008 and 2009, http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html#_grp1.

**Notes:** The amount of unemployment benefit income is somewhat understated for tax years 2008 and 2009. If an individual or married couple's total income from taxable sources is below the filing threshold, he or she is not required to file a tax return and therefore may not be included in the data for tax years 2008 and 2009. In addition, the amount of unemployment benefit income is understated for tax year 2009 because, under P.L. 111-5 (signed into law on February 17, 2009), the first $2,400 of unemployment benefit income was excluded from AGI for federal income tax purposes. All estimates are based on samples maintained by the Statistics of Income Division of the Internal Revenue Service. Dollar amounts are not adjusted for inflation.

# Policy Considerations

This section addresses some of the policy considerations associated with proposals to restrict the payment of UI benefits to those with high incomes. These include the potential effect on federal expenditures given the joint federal-state nature of unemployment programs and the potential increase in administrative costs associated with such proposals.

## Potential Impact of Restricting UI Benefits on Federal Outlays

Under permanent law, most UI benefit outlays are state funded (i.e., most UI benefits are funded with state taxes and paid by the states). This in turn implies that any savings under permanent law would mostly accrue to the states. However, there may be some differences in the near term due to funding for the EB and EUC08 programs. States largely fund the primary program, the UC program, by collecting taxes from employers.[14] The EB program is funded 50% by the federal government and 50% by the states under permanent law. However, P.L. 111-5, as amended, temporarily provides for 100% federal funding of the EB program through December 31, 2013.[15] The EUC08 program, which is 100% federally funded, is authorized under the American Taxpayer Relief Act of 2012 (P.L. 112-240) until the week ending on or before January 1, 2014 (i.e., December 28, 2013, in all states except New York State, in which the program ends December 29, 2013).[16] Thus the current 100% federal funding for the EB and EUC08 programs is authorized until the end of the year. Given the small amount of unemployment benefit income paid to "millionaires" and without further legislative action, any savings to the federal government would diminish at the end of the year.

The amount of savings associated with such proposals would depend on the income threshold at which UI benefit receipt is restricted (the higher the income threshold, the lower the savings). If, strictly speaking, only millionaires were restricted from receiving UI benefits, there would be a small amount of savings. The savings estimate for a provision in the House-passed version of the Middle Class Tax Relief and Job Creation Act of 2012 (H.R. 3630) serves as a guide. A provision in the House-passed bill would have taxed unemployment benefit income at 100% for single tax filers with AGI of $1 million (or for married couples filing a joint return with AGI of $2 million). The provision would have taxed unemployment benefit income at a lower percentage for single tax filers with AGI beginning at $750,000 (or for married couples filing jointly with AGI beginning at $1.5 million).[17] The Joint Committee on Taxation (JCT), in conjunction with the Congressional Budget Office (CBO), estimates that this provision would have reduced federal outlays by $20 million over 10 years (2012-2021).[18] This estimate excludes any increase in

[14] Federal taxes pay for the administration of the UC program and federal agencies reimburse states for former federal workers' UI benefits.

[15] P.L. 112-96 provided for 100% financing up to December 31, 2012.

[16] The Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96) authorized the EUC08 program until the week ending on or before January 2, 2013.

[17] Based on a telephone conversation with Joint Committee on Taxation staff, the range of AGI over which the taxes are phased in (i.e., $750,000 to $1 million for single tax filers and $1.5 million to $2 million for married couples filing a joint return) includes relatively few persons. Thus, any difference in the cost estimate for a similar proposal with no phase-in would likely be small.

[18] Letter from Douglas W. Elmendorf, director, Congressional Budget Office, December 9, 2011, http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr3630.pdf. Based on a telephone conversation with JCT staff, the estimate for taxing UI benefits received by high-income individuals also includes an estimate for restricting Supplemental Nutrition (continued...)

administrative costs because administrative costs are considered a discretionary item. Any additional funding for the administration of this provision of the bill (i.e., over and above the current funding for administration of the tax and UI systems) would have to be written explicitly in the bill and passed into law.

Lowering the proposed income threshold at which the proposed restriction is applied would make more people unable to receive UI benefit income and result in greater savings. However, determining the level at which to set the income threshold may depend upon the goals of the program. For example, making large numbers of people ineligible for UI benefits based on income to achieve greater savings may be perceived as unfair and may further compromise the objective of providing insurance against involuntary unemployment for all workers.

## Potential Administrative Costs

The potential administrative costs could outweigh the potential savings. Although lawmakers could choose among different ways to administer the provision, one of the more cost effective ways may be to recoup UI benefits through the tax system rather than make high-income groups ineligible for benefits. For example, H.R. 3630, S. 1931, and S. 1944 of the 112th Congress, which are summarized briefly in the "Legislation" section, would have imposed an income tax rate (of up to 100% in the case of H.R. 3630 and S. 1931) on unemployment benefit income for tax filers with AGI above a specified threshold.[19] This approach would allow the federal government to recoup the value of UI benefits paid to certain individuals when they file their income tax returns. Taking advantage of the existing tax system to administer the provision may be more cost effective than other approaches because the tax system already requires individuals to report their unemployment benefits and other sources of income and it has a mechanism in place for individuals to pay back the value of UI benefits with a check to the federal government.[20]

Although administering the provision through the tax system may be a relatively cost effective approach, there are some potential disadvantages. Adding a separate tax rate for UI benefits may further complicate an already complicated tax form.[21] Among the alternatives, one could restrict UI benefits for those who have or are expected to have at least $1 million in *earnings*. For example, states collect information on earnings for each job covered under the UI system. UI benefits could be denied to those with more than $333,333 of earnings in a four-month period. This would be a cost effective approach in that the UI database, which contains data collected by the states, could be used to identify such individuals. However, the UI database would not identify those who have at least $1 million in *total income* when other sources of income (such as

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Assistance Program (SNAP) benefits for high-income individuals. However, the net estimate for the SNAP restriction is zero, essentially making the estimated $20 million in savings equal to the estimated impact of taxing high-income individuals' UI benefits.

[19] Unemployment benefits that would be subject to taxation under H.R. 3630, S. 1931, and S. 1944 included more than benefits from the UI system. For a description of other unemployment benefits that would be subject to taxation, see the "Distribution of Household Income and Unemployment Benefits" section above.

[20] For an example of how administrative costs may be lower when administered via the tax system, see Jeffrey B. Liebman, "The EITC Compliance Problem," *Joint Center for Poverty Research News*, vol. 3, no. 3 (summer 1998).

[21] For further discussion on the implications of a complex tax system, see Joel B. Slemrod, "Tax Systems," *NBER Reporter*, summer 2002.

stocks) are taken into account. Moreover, it would not identify all married couples or households that have at least $1 million in earnings or total income.

## Other Potential Administrative Issues

Proposals to restrict the payment of UI benefits to those with high incomes may pose administrative issues for the states as well. This would be the case, for example, if the provision were to be administered by making modifications to the UI system, rather than by recouping benefits already paid through the tax system. Some of the potential administrative issues from the perspective of the states are described below.

- State UI administrators currently do not have the infrastructure needed to restrict UI benefits based on income. UI program administrators do not collect comprehensive income information. Earnings are used to calculate UI benefit amounts, but state UI administrators may not collect information on capital gains, interest or other sources of income. In addition, income information for spouses and other family members is not collected for purposes of UC and other UI programs. This implies that any restriction based on household income would require states to collect additional data. Setting up such a system may prove expensive in comparison to the cost savings derived from restricting UI benefit payments to certain individuals.
- Some of the costs associated with establishing a system to administer the provision may be related to setting up new administrative procedures, setting up software programs, creating databases, and automating ways to validate income statements. In this case, the costs may be largely one-time setup costs. As the savings derived from restricting UI benefit payments to certain individuals accrue over time, they may eventually offset the one-time setup costs. However, the ongoing year-to-year administrative costs (related to working with applicants to collect the proper income statements, etc.) could prove to be large relative to the benefit savings.

## Other Considerations

A policy of restricting UI benefit receipt based on income may discourage some eligible individuals from applying for benefits. For example, if the tax system were used to recoup some or all of the value of UI benefits paid to certain high-income individuals, some eligible unemployed workers may choose not to apply for UI benefits if they consider the time and other costs associated with applying for benefits to outweigh the additional funds. There may be other reasons why an eligible individual may not apply for UI benefits. For example, a person who becomes unemployed early in the year may expect (erroneously) to have income over the course of the year above the applicable threshold, and therefore may choose not to apply for benefits based on an expectation that those benefits would only be recaptured later through the tax system.

Alternatively, if a restriction on the payment of UI benefits to certain high-income individuals were administered through the UI system, all applicants for UI benefits would be required to complete additional forms for the purpose of reporting income from various sources. (In addition to his or her own income, the applicant may be required to report the income of others in the household, such as a spouse.) Adding this complexity to the application process for UI benefits could discourage some eligible individuals from applying for benefits. An eligible individual may have trouble filling out the forms, expect little in UI benefits, and decide not to apply for benefits (e.g., new immigrants with language barriers).[22]

# Legislation

Several bills were introduced that would restrict or highly tax the unemployment benefit income of unemployed workers with high incomes. These bills are summarized below.

## The 112th Congress

**H.R. 3630**. On December 9, 2011, Representative Dave Camp introduced H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2011. Among other provisions, House-passed version of H.R. 3630 would have taxed unemployment benefit income at 100% for single tax filers with AGI of $1 million (or for married couples filing a joint return with AGI of $2 million). The measure would have taxed unemployment benefit income at a lower percentage for single tax filers with AGI beginning at $750,000 (or for married couples filing jointly with AGI beginning at $1.5 million). (The unemployment benefit income would have continued to be counted in the calculation of AGI and thus subject to "regular" federal income tax.)

**S. 1944**. On December 5, 2011, Senator Robert Casey introduced S. 1944, the Middle Class Tax Cut Act of 2011. Among other provisions, S. 1944 would have created a new income tax on unemployment benefit income for a single tax filer with AGI of at least $500,000 (or at least $1 million for a married couple filing a joint return). The tax rate for unemployment benefit income would be 55% in tax years 2011 and 2012 and 50% for tax years after 2012. (The unemployment benefit income would continue to be counted in the calculation of AGI and thus subject to "regular" federal income tax.)

**S. 1931**. On November 30, 2011, Senator Dean Heller introduced S. 1931, the Temporary Tax Holiday and Government Reduction Act. Among other provisions, S. 1931 would have taxed the unemployment benefit income of certain high-income tax filers. The provision in this bill is the same as the one in H.R. 3630 (described above).

**H.R. 235**. On January 7, 2011, Representative Kevin Brady introduced H.R. 235, the Cut Unsustainable and Top-Heavy Spending Act of 2011. Among other provisions, H.R. 235 would have prohibited the use of federal funds—from the EUC08 and EB programs—to pay unemployment benefits to an individual with resources of at least $1 million in the preceding year. An individual's resources would have been determined in the same way as the resource test for the Medicare Part D drug benefit subsidy (for purposes of the drug benefit subsidy, resources are defined by the individual states and include savings and investments but do not include the value of a primary residence or the value of a car). This provision would be effective for any weeks of unemployment benefits beginning on or after January 1, 2011.

[22] For a related discussion regarding whether individuals eligible for government benefits actually receive benefits, see Currie, Janet, *The Take-Up of Social Benefits*, National Bureau of Economic Research Working Paper no. 10488, May 2004. For a related discussion regarding the take-up of unemployment benefits, see Patricia M. Anderson and Bruce D. Meyer, "Unemployment Insurance Takeup Rates and the After-Tax Value of Benefits," *Quarterly Journal of Economics*, vol. 112, no. 3 (August 1997), pp. 913-937.

**S. 310**. On February 8, 2011, Senator Tom Coburn introduced S. 310, the Ending Unemployment Payments to Jobless Millionaires Act of 2011 (see also companion bill H.R. 569 introduced by Representative James Lankford). The bill would have prohibited any EUC08 or EB benefit payments to an individual with resources in the preceding year of at least $1 million, as determined through the resource test for the Medicare Part D drug benefit subsidy. For the purposes of the drug benefit subsidy, resources are defined by the individual states and include savings and investments but do not include the value of a primary residence or the value of a car. Unlike H.R. 235, this provision in S. 310 would have been effective on **Table 1**or after the date of enactment of this legislation.

## The 113th Congress

No legislation has been introduced at this time.

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