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Tax Holiday Hits Social Security It's About Perception; Temporary budgeting; makes real fiscal holes look smaller, officially

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Washington appeared Thursday to agree on a short-term payroll tax extension, almost certainly not for the last time. Some say it will become a "permanently temporary" fix that has far-reaching consequences.

"We could be having this conversation 15 years from now and talking about how President Obama, as a Democrat, was the president that started the path to killing Social Security," said Jason Fichtner, a senior fellow at the libertarian Mercatus Center.

The 2-percentage-point reduction on employee wages originally was set to expire Dec. 31.

But House Republicans late Thursday agreed to adopt the Senate's two-month stopgap approach. They had pushed for a yearlong extension but they came under fire by President Obama and Democrats, who accused them of being willing to raise taxes on the middle class.

Few analysts doubt that the payroll tax eventually will be renewed beyond 2012. And that could be a slippery slope to ending Social Security.

"If the argument is that a 2% payroll tax cut helps job creation, then why not 4% or 6%?" Fichtner asked. "Why not get rid of the entire payroll tax if it is holding back job creation?"

But that would mean Social Security will no longer be funded by the payroll tax but by transfers from general revenues. That could change the perception, real or not, that Social Security is an earned retirement pension.

"It becomes a welfare program, and a lot of people will think that they're not paying into the system and want to cut back on Social Security," Fichtner said.

"Doomsday Scenario'

That's the "doomsday scenario" for Max Richtman, president and CEO of the liberal National Committee to Preserve Social Security and Medicare. "Although the money used for this tax cut is supposed to be paid back to Social Security, we worry that it won't be due to other priorities. So instead of being a self-funding program, Social Security will have to compete with other programs for general revenue."

That development probably is years away. In the meantime, the payroll tax cut may become "permanently temporary" -- continuously renewed by Congress for limited spans -- like the Alternative Minimum Tax patch or the Medicare "Doc Fix."

Letting the payroll tax cut expire would mean a tax hike of roughly $1,000 for an individual worker.

"You listen to the president and he's accusing Republicans who have not gotten on board the extension as wanting to raise taxes," said Richtman. "Politicians don't want to be labeled as being for raising taxes."

That same problem will resurface next year and every other time when the tax holiday is about to end.

Making tax cuts and spending increases "temporary" masks the fiscal impact in official 10-year budget forecasts.

The Congressional Budget Office must estimate future budgets based on current law. If current law states that Medicare will cut physician payments by 27% next year, CBO must score it that way even though Congress regularly suspends such cuts. By assuming the cuts, CBO scores the deficit as $302 billion less over the next decade.

"When Obama presents his budget next year, he'll have the tax cut in year one but not for years 2 to 10. That'll make the numbers look marginally better," said Dan Mitchell, senior fellow at the libertarian **Cato Institute.**

Assuming the payroll tax cut expires at the end of 2012 will allow the CBO pencil in an additional $1.37 trillion in tax revenue from 2013-21, IBD estimates.