Viewpoints

Nanny Tax Lets Poor Pay, Rich Profit

By MARC LINDER and LARRY NORTON

AMID their partisan bickering last month, Republicans and Democrats took time out to congratulate themselves for a piece of work well done. "A pleasant effort to correct the egregious wrong" done to taxpayers, said Representative Andrew Jacobs Jr., an Indiana Democrat. A chance "to make the lives of many hard-working Americans a little bit simpler," said Representative Jim McCrery, a Louisiana Republican.

What was all this bipartisan sweetness and light? None other than the so-called Zoe Baird bill, signed by President Clinton three weeks ago and retroactive to Jan. 1. But far from achieving "justice, fairness, civility," as Mr. Jacobs said, the "nanny tax" law is a Scrooge-like act that leaves the most vulnerable Americans out in the cold.

For one, the new law works a surprising switch. Remember the outrage in 1993 at the news that Ms. Baird and other prominent politicians had not paid Social Security taxes for maids, nannies or other domestic workers? Amid reports that only 25 percent of household employers followed the tax rules, few doubted that Congress would soon stop such wholesale wrongdoing against low-paid employees.

But in fact, the new measure does not help workers. It helps their privileged employers!

Parts of the new law make sense. Employers can now pay the Social Security taxes annually, and on their own income-tax returns, instead of making special quarterly filings. And the law also excludes students under 18, thus relieving employers from its strictures for youngsters who baby-sit or mow the lawn.

But Congress also quintupled the law's wage threshold — from $50 a quarter to $1,000 a year. This is a shameful tax break for wealthy citizens, one that will reduce the Social Security benefits of those who clean their houses and care for their children. The numbers are vast. Hundreds of thousands of workers will be deprived of disability insurance and old-age pension credits, say the actuaries at the Social Security Administration.

Under the old law, both employers and household workers had to pay a tax, now set at 7.65 percent each, when workers earned $50 or more a quarter. These payments gave workers the right to Social Security benefits.

By raising excluded income to $1,000 a year, the new law deprives household workers of Social Security's protections for all lesser sums. And the $1,000 is a minimum. In the future, it will be adjusted for inflation in $100 increments.

This is bad enough. But the nature of household work worsens the effect. For while the law calculates the $1,000 separately for each employer, tens of thousands of full-time employees work only one day every two weeks, or a half-day every week, for the same family. With workers commonly earning $4.25 to $5 an hour, many will fall short of the $1,000 threshold for each of several or many employers. As far as the Social Security Administration is concerned, all that hard work and income will have disappeared.

INSTEAD of raising excluded income to $1,000, Congress should have lowered it to $1. Other workers enjoy first-dollar Social Security coverage. Why shouldn't domestic workers?

Some people may suspect that domestic workers themselves favor the new law over the old, perhaps wishing to minimize their Social Security payments. This idea is misguided. Avoiding Social Security payments is shortsighted, especially for domestic workers; the lowest-paid are most in need of Social Security.

But misguided or not, worker preferences played no role in the law. Baldly put, the new nanny tax penalizes household workers as a favor to their wealthy employers — whose annual incomes may be 10 or even 100 times as great. For Congress to know this, and then to parade this measure as a step to benefit "hard-working Americans," is scandalous.

With this statute, Congress wanted in part to avoid the embarrassment of massive violations of the tax law. But to increase compliance by kicking the neediest workers out of Social Security makes as much sense as to reduce the homicide rate by decriminalizing the killing of poor minority women. ■

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