Federal Personal Income Tax Liabilities and Payments: Revised and Updated Estimates, 1991–93

By Thae S. Park

THIS ARTICLE presents revised estimates of Federal personal income tax liabilities and payments for 1991–92 and new estimates for 1993 (table 1).[1] The estimates incorporate the annual revision of the national income and product accounts (NIPA's) released in July 1994 and newly available data from the following Internal Revenue Service (IRS) sources: *Statistics of Income, Individual Income Tax Returns* (SOI) for 1992, *Annual Report* for 1992, and published and unpublished information on individual income tax collections for liability year 1993.

This article first presents an overview of the tax liabilities and payments measures and the reasons why they differ. It then discusses the differences for 1991–93 and the sources of revision to the estimates for 1991–92.

Overview

In the NIPA's, personal income taxes are recorded on a payment basis—that is, at the time tax payments are made by or on behalf of persons.[2] For certain types of analysis, personal income taxes recorded on a liability basis—that is, at the time persons earn their income and incur their tax liability—may be more appropriate.

The payment series, which appears in NIPA table 3.4,[3] consists of three parts: Withheld income taxes; declarations and settlements, or "nonwithheld taxes"; and refunds. Withheld income taxes are those withheld at the income source. Declarations are estimated taxes paid quarterly, largely on income not subject to withholding, and settlements are additional taxes paid either at the time of filing tax returns or as the result of audits. Refunds, made when payments exceed liabilities, occur at the time of filing tax returns.

For all years but the most recent, the liability series is derived from SOI estimates of total income tax paid by individuals; the following adjustments are made: Refundable earned income credits are subtracted; fiduciary income taxes are added, because the NIPA definition of persons includes fiduciaries; and audit assessments are added, because SOI estimates of total income tax are before audits. For the most recent year, when the SOI estimates are yet not available, the liability series is derived from published and unpublished IRS information on individual income tax collections.

Table 1.—Federal Personal Income Tax Liabilities and Payments, 1990–93

[Billions of dollars, quarters seasonally adjusted annual rates]

Personal income taxes	Year and quarter: Liability basis[1]	Payment basis[2]	Excess of liability basis over payment basis
1990	449.6	471.5	–21.9
1991	447.5	463.2	–15.7
1992	473.3	476.8	–3.5
1993	516.9	505.9	11.0
1990:I	437.7	465.1	–27.4
II	448.4	473.5	–25.1
III	454.0	475.6	–21.6
IV	458.3	471.6	–13.3
1991:I	439.8	464.4	–24.6
II	445.5	461.5	–16.0
III	449.5	461.7	–12.2
IV	455.0	465.2	–10.2
1992:I	459.8	463.5	–3.7
II	467.5	468.7	–1.2
III	472.6	476.7	–4.1
IV	493.2	498.5	–5.3
1993 I	502.2	484.0	18.2
II	510.6	505.0	5.6
III	516.1	513.3	2.8
IV	538.6	521.4	17.2

1. This series is derived by the Bureau of Economic Analysis based on data from the following Internal Revenue Service sources: Statistics of Income, Individual Income Tax Returns, Annual Reports for 1990–92, and individual income tax collections for liability year 1993.

2. This series appears in table 3.2 of the "Selected NIPA Tables," which appears monthly in the Survey of Current Business.

1. Estimates for 1959–88 were published in the August 1992 SURVEY OF CURRENT BUSINESS (pp. 32–35) and for 1989–90 in the November 1993 SURVEY (pp. 66–67).

2. In the NIPA's, persons consist of individuals, nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds.

3. This table is included in the full set of NIPA tables that is published annually in the SURVEY; it appeared most recently in the July 1994 issue.

For taxes withheld from wages and salaries, differences between tax liabilities and payments arise for several reasons. First, overwithholding is built into the withholding tables used by employers; however, as discussed later, new withholding tables introduced in 1992 reduced the extent of overwithholding. Second, the withholding tables are constructed under the assumption that taxpayers use the standard deduction in calculating their income tax liabilities; overwithholding results when taxpayers who itemize their deductions do not request enough exemptions for withholding purposes. Third, withholding is based on the assumption that wages are constant during the year; when wages vary widely within the year, they will be subject to varying withholding rates, and overwithholding is likely to result. Fourth, withholding tables may not always be revised to coincide with changes in liabilities; tax law provisions usually are effective on January 1, but corresponding revisions in withholding tables sometimes occur later. In addition, withholding tables are usually revised to reflect changes in the standard deduction, exemptions, and tax rates; they are usually not revised to reflect changes in provisions affecting itemized deductions. Fifth, at the option of the employer, taxes withheld on bonuses, commissions, overtime pay, sick pay, and taxable fringe benefits may be based on a flat 20-percent rate instead of the regular withholding rate.

For some types of taxable incomes, differences arise because taxes withheld have no direct relationship to the corresponding liabilities. For interest, dividends, and certain other types of income, an arbitrary 20 percent (31 percent, beginning in 1993) is withheld if the recipient fails to furnish an accurate taxpayer identification number (this withholding was initiated in 1984 as a compliance measure). For pensions and annuities, withholding is at the option of the taxpayer.

For incomes not subject to withholding (primarily income from proprietorships, partnerships, and small business corporations, from capital gains, and from taxable social security benefits) and for most interest, dividends, pensions, and annuities, differences arise because the proportion of the current year's liabilities that must be paid to avoid a penalty is less than 100 percent and because the last installment of quarterly estimated taxes and any settlements are made in the year after the liabilities were incurred. As a result, payments of nonwithheld taxes during a tax year do not always reflect that year's income. Thus, when incomes not subject to withholding are increasing, payments tend to lag liabilities.

Refunds arise from overpayment of taxes. Actual refunds are recorded in the payment series as negative payments in the calendar quarter they are made by the Treasury. Thus, refunds are unrelated to the current year's liabilities.

Differences for 1991–93

For 1991, payments exceeded liabilities by about $16 billion. The excess payments were largely due to the overwithholding that was built into the withholding tables prior to 1992. This overwithholding was partially offset by a limit on total itemized deductions, introduced in 1991, that was not reflected in the withholding tables.

Excess payments were about $4 billion for 1992; this relatively small amount largely reflects a revision in the withholding tables that affected the timing of payments for 1992 tax liabilities. The withholding tables introduced in 1992 reflected a reduction in withholding in an effort to stimulate the economy. The new withholding tables, which became effective for wages paid after February 1992, did not affect 1992 liabilities, but they reduced 1992 payments, thereby reducing excess payments for 1992. This effect was partially offset by tighter requirements for estimated tax payments.

For 1993, liabilities exceeded payments by $11 billion. The excess liabilities are due to provisions of the Omnibus Budget Reconciliation Act of 1993, which increased marginal tax rates for high-income individuals retroactive to January 1, 1993, but made no revisions to withholding tables. These individuals were given an option to pay their additional 1993 tax liabilities in three equal installments; the first installment was to

Table 2.—Revisions in Tax Liabilities and Payments, 1991–92

[Billions of dollars]

Year	Liability basis			Payment basis			Excess of liability basis over payment basis		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
1991	447.5	447.5	0	462.3	463.2	.9	–14.8	–15.7	–.9
1992	471.3	473.3	2.0	478.0	476.8	–1.2	–6.7	–3.5	3.2
1991:I	439.9	439.8	–.1	461.7	464.4	2.7	–21.8	–24.6	–2.8
II	444.7	445.5	.8	460.3	461.5	1.2	–15.6	–16.0	–.4
III	449.6	449.5	–.1	461.2	461.7	.5	–11.6	–12.2	–.6
IV	455.7	455.0	–.7	466.0	465.2	–.8	–10.3	–10.2	.1
1992:I	457.3	459.8	2.5	467.3	463.5	–3.8	–10.0	–3.7	6.3
II	465.7	467.5	1.8	469.8	468.7	–1.1	–4.1	–1.2	2.9
III	470.8	472.6	1.8	476.7	476.7	0	–6.0	–4.1	1.9
IV	491.5	493.2	1.7	498.3	498.5	.2	–6.8	–5.3	1.5

be paid in 1994 on or before the due date of the 1993 return. Some of these individuals did increase their withholdings in 1993 or 1994, but most of them are expected to pay their additional 1993 liabilities, through the installment option, as settlements in 1994–96.

Sources of revisions for 1991–92

Table 2 shows the revisions to the annual and quarterly estimates of the liability and payment series for 1991–92. For liabilities, the annual estimate for 1991 is unchanged. For 1992, the annual liability estimate is revised up $2.0 billion, reflecting the incorporation of *SOI* data. The quarterly liability estimates for 1991–92 are revised to reflect revised quarterly NIPA estimates of personal income; the quarterly NIPA estimates are used to allocate the annual estimates to the quarters because quarterly estimates of taxable income are not available. For payments, the annual and quarterly estimates were revised as part of the annual NIPA revision in July 1994. The payments estimate was revised up $0.9 billion for 1991 and revised down $1.2 billion for 1992.