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Unemployment Insurance and "Millionaires": Recent Data and Policy Considerations

Under the federal-state Unemployment Insurance (UI) system, unemployed workers—including high-income workers—who meet program requirements are eligible to receive UI benefits. States, which determine many of the eligibility requirements for UI benefits, may not restrict eligibility based on individual or household income. The now-expired enhanced UI benefits created by Congress in response to the COVID-19 pandemic substantially increased total spending on UI benefits. Increased UI expenditures are reflected in both wider UI benefit receipt and higher UI benefit amounts by households with different levels of income.

Background

States may not restrict UI eligibility by income level other than considering those income sources deemed related to their unemployment. This requirement is based upon a 1964 U.S. Department of Labor decision that precludes states from means-testing to determine UI eligibility. The U.S. Labor Secretary expanded the restriction on means-testing to severely limit the factors states may use to determine UI 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. Thus, the Labor Department requires that states pay UI benefits to all eligible workers regardless of their income level because the income levels did not influence the fact or cause of unemployment.

Recent Data

Data on UI receipt by income level are available annually from the IRS Statistics of Income (SOI), "Individual Income Tax Returns" Publication 1304. The SOI uses a stratified random sample drawn from individual tax returns. Data are selected before audit from the IRS. **Table 1** presents recently released 2020 data, including the number of tax returns reporting UI income and the amount of UI income by adjusted gross income (AGI).

SOI estimates are based on tax returns from tax filing units, which include an individual's income or a married couple's income. Therefore, reported income may come from an individual receiving UI but may also include income from a spouse. Also, these tax filing data somewhat understate the total number of individuals receiving UI income. If a tax filer's total income from taxable sources is below the filing threshold, the tax filer is not required to file a tax return. If the individual or household does not file a return, they are not included in SOI data. If the individual or household files a tax return but their total income is not taxable, they are categorized as a nontaxable return. Thus, tax return data do not include the full amount of UI received by individuals.

Table 1. Estimated Tax Returns with Reported Unemployment Insurance Income, Tax Year 2020

	Number of Returns	UI Income (thousands)	Share of UI Income
Total returns	29,901,078	$405,286,667	100%
Nontaxable returns	11,751,128	$160,669,684	39.6%
Adjusted Gross Income (AGI) Category			
Under $15,000	4,897,836	$58,622,392	14.5%
$15,000 to under $30,000	8,035,606	$110,884,432	27.4%
$30,000 to under $50,000	6,635,340	$96,343,498	23.8%
$50,000 to under $100,000	6,244,871	$85,704,713	21.1%
$100,000 to under $200,000	3,249,149	$42,469,211	10.5%
$200,000 to under $1 million	819,260	$10,995,360	2.7%
≥$1 million	19,015	$261,061	0.1%

Source: Created by CRS using IRS SOI data 2020, Table 1.4.

Notes: AGI is total income minus statutory adjustments. Data are IRS estimates based on a stratified random sample of tax returns before any audit had been conducted. UI income is rounded to the nearest $1,000. IRS Table 1.4 applies the term *Unemployment Compensation* when referring to UI benefits. The federal income taxation definition of *UI benefits* includes regular state Unemployment Compensation (UC) benefits, Extended Benefits (EB), Trade Adjustment Assistance (TAA) benefits, Disaster Unemployment Assistance (DUA), and railroad unemployment benefits and has included all temporary UI benefits since UI benefits became taxable.

As seen in **Table 1**, out of the estimated 29.9 million households reporting UI income and filing a tax return, just over an estimated 19,000 households with at least $1 million in AGI received UI benefits in tax year 2020. The approximately $261 million in UI benefits paid to these households represents less than 0.1% of total UI benefits reported to the IRS.

In 2020, the enhanced COVID-19 UI benefits provided an unprecedented expansion of benefit amount (an additional

$600/week or $300/week when authorized) as well as an extension of benefits to a new population of self-employed workers and independent contractors. As a result, there was likely higher UI benefit amounts and wider benefit receipt in 2020 than in prior years.

The American Rescue Plan Act of 2021 (P.L. 117-2, §9042) allowed taxpayers to exclude from federal income tax up to $10,200 in UI benefits if the taxpayer's modified AGI was less than $150,000. The $150,000 threshold applied to all filing statuses, including married filing jointly. For taxpayers who filed joint returns, up to $10,200 of unemployment compensation could have been excluded for each spouse. **Table 1** includes all reported UI income, including benefits that were tax excluded. See CRS Report R47105, *Taxing Unemployment Insurance (UI) Benefits: Federal- and State-Level Tax Treatment During the COVID-19 Pandemic* for full details.

Legislative Proposals

Legislation has been introduced in the 117th Congress to prevent UI benefit receipt for high-income unemployed individuals. This policy issue was legislatively active in the 112th and 113th Congresses when prior enhanced UI benefits were authorized in response to the Great Recession (December 2007 to June 2009).

Legislation in the 117th Congress

On November 30, 2022, Senator Joni Ernst introduced S. 5148, the Ending Unemployment Payments to Jobless Millionaires Act of 2022. This bill would prohibit the payment of federal funds for UI benefits to an individual in any year when the individual's AGI is $1 million or more.

Previous Legislation

In the 112th and 113th Congresses, a number of proposals would have restricted or highly taxed the UI income of unemployed workers with high incomes. While the debate in Congress commonly refers to a policy of restricting the receipt of unemployment benefits by "millionaires," various proposals have specified different income thresholds (e.g., AGI of at least $500,000 vs. AGI of at least $750,000 vs. AGI of at least $1 million). Some of these proposals would have used the federal income tax system to tax UI benefits for certain AGI levels at 100% tax rate (effectively clawing back the benefit), while other proposals would have prevented the use of federal funds to pay UI benefits to any individual with resources of at least $1 million in the preceding year.

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 have imposed an income tax on unemployment benefits for high-income individuals. Based on a scaled approach, the tax would have increased to 100% for a single tax filer with an AGI of $1 million (or AGI of $2 million for a married couple filing a joint return). The provision 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 change the current requirement to provide unemployment benefits to all workers without income restrictions): S. 1944, H.R. 235, and S. 310. A number of bills in the 113th Congress would also have imposed income restrictions for the purposes of UI benefits: S. 18, H.R. 2448, H.R. 3979, H.R. 4415, H.R. 4550, H.R. 4970, S.Amdt. 2714, S. 2097, S. 2148, S. 2149, and S. 2532.

Policy Considerations

The policy considerations associated with proposals to restrict payment of UI benefits from those with high incomes include:

- *Potential effect on federal expenditures:* Under permanent law, most UI benefit outlays are state funded with state taxes. Thus, most savings would generally accrue to the states.

- *Issues related to administrative costs:* Proposals to require states to prevent the use of federal funds to pay UI benefits to higher income workers may add burdens and costs to UI administration. 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. Moreover, the state UI programs do not link marital or household earnings. Alternatively, administering the proposal through the tax system may be a relatively cost effective approach. However, adding a separate tax rate for UI benefits may further complicate an already complicated tax form.

- *Issues related to benefit access:* Adding complexity to the UI application process could discourage some eligible individuals from applying for benefits. Workers may consider the time and other costs associated with applying for benefits to outweigh the additional funds. Additionally, a worker who becomes unemployed early in the tax 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. While conditioning eligibility for UI benefits based on income may decrease expenditures, the policy may erode the underlying goal of providing insurance against involuntary unemployment for all workers.

Additional Resources

CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*

IRS, "Individual Income Tax Returns Complete Report," Publication 1304, https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-returns-complete-report-publication-1304

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