



***From the Desk of  
Joseph-Paul Timpano, CPA***

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*Commentary from the President of JPT Financial Solutions, Inc.*



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***Break Down the Federal Economy to Help Get Our  
Financial House in Order***

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A greater distinction and emphasis should be made on the specific classification of each component of the US economy. Too often the various types of funding and spending are lumped together in a complex financial analysis and communication to the general public, as opposed to clearly and separately presenting each individual tax component and its related financial projection of shortfall or surplus.

There are two types of payroll taxes: appropriated and un-appropriated. Appropriated payroll taxes are those taxes which are specifically set apart or assigned to a particular purpose or use. Funds withheld from the employee's payroll or paid by the employer that are labeled "Social Security" and "Medicare" fall into this category. Un-appropriated payroll taxes are those taxes that generally fund

the government and are not reserved for any specific purpose. An employee's income tax withholding performed by the employer is an example of an un-appropriated payroll tax.

When analyzing our current national deficit, I would like to see a breakdown of the deficit between appropriated and un-appropriated funding. Social Security and Medicare, as appropriated funding through payroll taxes, should have their own profit and loss statement showing current activity and a forecast for future periods. This analysis should be made easily available to the general public on a regular basis. Since we have specific payroll taxes to fund these entitlements, this should not be too difficult to put together.

The American public can then understand whether these appropriated funds currently have a deficit or a surplus and where we expect to be in the future. Since Social Security and Medicare are funded with appropriated payroll taxes, by definition these payroll taxes should be held only for that purpose. The government should never be permitted to use any surplus in these funds for any non-appropriated programs in the government. If they continue to do this, we never really know where we are with respect to these funds. On the flip side, if there is a shortfall with either of these appropriated programs, the American public should be made aware of them and then deal with the matter separately from the un-appropriated programs of the government.

Until we begin to break down the federal economy into manageable components, the American public will not begin to understand what is causing the deficit. It's not enough to say "we're spending too much" or "we're not collecting enough tax revenue". We need to see a separate profit and loss statement for each category of spending and funding in the government. As such, the easiest way to begin this monumental task is to begin with those funds which are already "appropriated" by definition, as discussed above.

We can then tackle the analysis of "non-appropriated" spending for each major non-appropriated category or program (e.g. defense, transportation, education, etc.). A separate profit and loss statement for each non-appropriated program should be prepared and presented to the public by showing revenues collected by program against related spending data for the current time period and a forecast of future activity. Revenues for each non-appropriated program would be calculated based

on a budgeted percentage by program allocated against the total non-appropriated revenues collected.

The time has come to break down the analysis of the federal economy for the American public into components that are easy to understand and digest. We need to see where the risks and opportunities lie in order to help us get our financial house in order.



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