

have both age and income. Persons who are older but poorer may not benefit from this measure.

To illustrate the point, the Treasury estimates that in 1966 tax preferences to the aged costing \$2.3 billion annually were going to 11 million of an estimated 18 million aged persons. Only one-fourth of these benefits went to persons whose incomes (including social security and railroad retirement benefits) were \$3,000 or less. An additional one-fourth went to persons with incomes between \$3,000 and \$5,000. The remaining one-half went to persons with incomes over \$5,000. No benefit went to the approximately 40 percent of the aged whose incomes were the lowest (13, p. 5). It is doubtful that this was the distribution of benefits envisioned when the measures were enacted.

Secondly, we have often seen how tax preference granted to one group generated political pressure to extend the benefits to similar or closely related groups. The exemption from tax given to railroad retirement benefits was probably significant in its effect on the tax treatment later accorded social security benefits which, in turn, served as justification for the favorable tax treatment accorded other income under the retirement income credit. Within limits the extension may not be a serious problem, but it can lead to the destruction of the tax system. The larger the benefits from tax preference, the higher must be the tax rates required to raise a given amount of revenue. The higher are these rates, the greater is the pressure to gain exemption from tax.

Thirdly, a system of taxation, already complex from special provisions, becomes increasingly difficult or impossible to comprehend as new exemptions are added. While those qualifying for the special treatment may profit, those who serve as tax consultants or in other ways advise or assist taxpayers are also beneficiaries. Complex special provisions, as for example those dealing with the sale of a residence by a person over age 65, increase the likelihood that intended beneficiaries will not understand the favorable provisions and so fail to benefit from them. This is reported to be particularly true with regard to the present retirement income credit (8, p. 197).

1.3 *Definitions of tax favor*

It may be readily agreed that tax preference is a source of aid, but agreement may not be so readily forthcoming as to what constitutes tax preference. Relief from a given tax may be viewed as a justified exemption from the power to destroy. The exemption from income taxation of interest on State and local bonds and the exemption of church property from taxation might be cited as examples.

Whether tax preference is involved might also depend on the definition of the tax base. An income tax should apply to income, but are contributions made by an employer to a pension plan to be considered as income to the employee? Since Congress defines the tax base, it may include or exclude items as it sees fit, although there is bound to be disagreement among constituents as to the propriety of the definition chosen or implied. A third area of disagreement might appear when it is agreed that the item is legitimately taxable, properly a part of the tax base, but should be excluded because some similar or closely related item is exempt. Examples abound: The retirement