income credit, depletion allowances for coal, exemption of old-age insurance benefits from income taxation, the taxation of small business corporations as partnerships and vice versa, and others.

Before it is argued that a given group of persons or form of payment is given tax favor, it would be well to state the assumptions that underlie the position. With this warning in mind, we will examine some of the forms of payment that are often listed as sources of tax preference for the aged.

2. Old-Age Insurance

While the old-age, survivors, disability, and hospital insurance program, as part of a broader social security program, is itself financed with a tax, the emphasis here will be on the income tax treatment of the payments and benefits made under the old-age insurance (OAI) part of the program. The aims, accomplishments, and operation of the program as it now exists is a proper topic for another paper.

Contributions to the program are made by employees at a prescribed rate and are matched by employers. Self-employed persons contribute at 1½ times the rate contributed by employees. The contribution of the employee and the self-employed person are considered part of adjusted gross income and so may become subject to the income tax. Contributions by the employer on behalf of his employees are not taxed to either of the parties. Benefits when received are not included in adjusted gross income and so are not subject to the income tax.

With these benefits to the aged exempt from income tax, the after-tax incomes of those who receive them are higher than they otherwise would be and so some contribution is made to the aims of income maintenance or income assurance. But these gains go only to those whose other incomes are high enough to make them subject to the income tax or whose other incomes are high enough that with these benefits they would become taxable. Those whose incomes are below these levels do not benefit from this provision. Further, the higher the person's taxable income, the greater the value of the provision to him. Benefits are, therefore, distributed in direct proportion to the tax bracket of the recipient.

It may be felt by some that while the income tax exemption of OAI benefits helps only the aged who are relatively better off, at least the exemption does not hurt those in the lower brackets. If, however, the loss in general revenue from this source must be replaced, income taxes and/or other taxes must be increased. Musgrave's study of the incidence of taxes and the more recent study by the Tax Foundation indicate that while Federal taxes are on balance progressive, the overall structure is much less progressive than the tax rates imply, and some taxes, like excises and customs are actually regressive (4, pp. 97–98; 7, p. 20). Thus, for every $3 that a family making over $15,000 has to pay in taxes to make up for the loss in revenue, a family making less than $2,000 must pay $1. Those in the lowest income brackets receive no benefit from the tax exemption of OAI benefits, but they will help make up the tax loss.

The amount of revenue lost by the nontaxability of retirement insurance benefits was estimated by Muntz, in 1957, to be between $400 and $500 million (3, pp. 355–356). At that time these benefits were 5.7 bil-