

pension, but, only if he lives to the prescribed retirement age. Should he die before that time, he will receive little or nothing. The vesting provision is, in effect, no different from the conditions of the OAI program. Yet, apparently, no one has argued that the employer's contribution under that program be considered taxable income to the employee.

Contributions by employees to pension funds are taxed to the employee and this may be considered proper, although it seems to differ from the treatment proposed in this paper for employee contributions under OAI. However, employee contributions under pension plans customarily belong irrevocably to the employee and will be returned to him even if he should die before retirement. They are, in effect, a form of savings. This arrangement differs significantly from that existing under OAI. It should also be noted that unlike OAI where financing is shared equally by employers and employees, financing of private pension plans by employee contributions is the exception rather than the rule.

Only the tax treatment of pension funds remains. The preference here would depend on one's philosophy of business taxation. Earnings of proprietorships are imputed to owners and taxed. A part of corporate profits is usually neither paid to stockholders nor imputed to them, and so the corporate income tax is levied as an indirect way of reaching the increased net worth of the stockholder. In the case of pension funds, the beneficiaries of increased net worth will be those contributors who live to retirement; but, they have no present tangible claim, and, hence, no increase in net worth. Nor will they have a claim until they retire, and even then the amount will depend on how long they live. Viewing the situation from another standpoint, we already grant to life insurance companies, savings and loan associations, and the OSDI fund, a low rate of tax, or no tax at all, on earnings. Thus, the definition of income and the treatment of similar savings institutions both argue for low rates or a zero rate of tax on the earnings of pension funds.

The document prepared by the subcommittee notes that the existing tax treatment of pension plans is often supported by comparing it with the tax favor given by the deferral of tax on unrealized asset appreciation. The present writer reaches the same conclusion that the existing tax treatment of pension plans is justified, but on entirely different grounds. The comparison cited is, in fact, a weak foundation on which to base the taxation of pension plans. In the first place, many economists would argue that increases in asset value provide a basis for taxation, whether or not they are realized. But, second and more important, increases in asset values are forms of saving, while pension plans do not provide saving, but, insurance. The difference between the two is significant.

In sum, the argument that pension plans and similar deferred compensation arrangements receive tax preference and provide the aged with a tax-forgiveness or tax-deferral subsidy is not valid. Given the concept of income that underlies our income tax, and given the tax treatment of OAI benefits, railroad retirement benefits, and most other retirement plans, pension plans are not receiving more favorable or preferential treatment. There would seem to be no tax subsidy to this form of old-age income.