

4. DOUBLE EXEMPTION

Taxpayers over age 65 are allowed a double exemption when computing their taxes. Since a double exemption is given to only a few other taxpayers; i.e., those who are blind and those students who have adjusted gross income but are also dependents, it may be argued that this provision constitutes tax preference for the aged.

While taxpayers over age 65 find their after-tax income increased because of this provision, this gain is subject to the general criticism previously cited: The benefit goes to those persons over 65 who have income high enough to be taxable, and the value of the benefit and the revenue lost to the Government vary directly with the taxpayer's marginal tax bracket—the greatest tax saving going to those whose incomes are the highest.

In 1960 there were 6,668,000 additional \$600 exemptions taken because of age (10, pp. 11, 95). This amounts to over \$4 billion of income that may have escaped tax. How much revenue is lost by the extra exemption depends on the marginal tax rates of those taking the exemption; in 1959 Wilbur J. Cohen estimated the cost at \$600 million (2, p. 542). The figure is doubtless higher now because of the increase in the number of persons over age 65 and the rise in annual average incomes.

The extra exemption was added in 1948 because, according to the Senate report on the revenue bill, the rise in prices that occurred during the war and in the postwar period and the increase in taxes during the war imposed a burden on older persons which they could not offset by accepting full-time jobs at prevailing high wages. Since high prices and high taxes apply to all persons without regard to age, higher exemptions might well have been granted to all persons. If the concern were over the fixed income aspect of the problem, favorable treatment could be given to all who held such securities as bonds, savings accounts, life insurance, and fixed pensions and annuities, and not to those who owned homes, real estate, or common stocks. But, this opens a Pandora's box of requests for tax treatment reflecting the effects of price level changes on all assets.

A natural sympathy extends to those who are old and it may be that society believes they deserve to receive more income before they are required to pay tax. This means, however, that younger persons with the same income will pay a higher tax, even though their problems may be equally or more serious, but different, revolving around educating their children, buying a home, financing a business, or providing for their old age. One economist has noted that it is entirely possible that the young can outearn the old.

The President has proposed that the additional exemption for persons over age 65 be discontinued and that in its place be substituted a special exemption that is much higher, being approximately equal to the present extra exemption, the additional standard deduction related to the exemption, and the maximum primary social security benefit, which is now exempt from tax (8, pp. 198–207). This proposal will exempt a man and his wife, both age 65, from any income tax until their income exceeds \$5,777. A younger worker with a wife and the same income from wages and using a standard deduction would pay \$810 in income tax and \$254 in social security tax. Even if the