

younger family included two children, the taxes would be \$301 and \$254, respectively. Obviously this preferred treatment of the elderly is of considerable aid to them. In fact, under the President's proposal preferential treatment may continue until the income of the elderly couple reaches \$15,200. There would seem to be some question as to the desirability of extending tax preferences to persons at this level of income just because they are 65 or older.

The proposed new exemption is intended to benefit only low- and middle-income taxpayers and is designed to disappear as incomes rise. A simpler and more understandable way to achieve the same result would be to increase the progressivity of the tax rates. If it is honestly felt that a certain minimum sum is needed to support the taxpayer over 65 and that all income over that amount should be taxed, the deduction should apply to all taxpayers over 65 and not just to those with relatively low or modest incomes.

The disappearing exemption also creates a tax rate anomaly in that over the income range where it disappears, the tax rate is suddenly doubled. Not only is the extra dollar of income taxed, but, since a dollar of deduction is lost, a second dollar appears in the tax base.

To summarize, both the existing and proposed extra exemptions must be supported with arguments as to why the needs of the elderly exceed those of the young. If there are such needs, they might better be handled as special deductions, as is done with the medical expense deduction. The benefits, estimated at \$600 million in 1959, go to only those older persons whose incomes are high enough to make them taxable, and the tax saving is again greater for those in higher income brackets. In 1964 over 600,000 tax returns of persons over 65 showed adjusted gross income over \$10,000 and for this group tax benefits were the largest (11, p. 89).

5. RETIREMENT INCOME CREDIT

The retirement income credit is one of those provisions that arose because of the most-favored-taxpayer philosophy. Social security and railroad retirement benefits were exempt from tax, but other forms of retirement income were not. Hence, the Internal Revenue Code was changed, in 1954, to allow the taxpayer a credit at the minimum tax rate on other forms of retirement income up to an amount roughly comparable to the maximum primary social security benefit.

Here is a provision whose cost and distribution can be readily determined.

TABLE III.—RETIREMENT INCOME CREDIT, 1964

Adjusted gross income	Number of returns	Amount of credit (thousand)	Average per return
Under \$1,000 to \$5,000.....	714,187	\$67,119	\$93.98
\$5,000 to \$10,000.....	358,317	55,364	157.30
\$10,000 to \$50,000.....	209,911	33,693	160.51
\$50,000 to \$1,000,000 plus.....	17,687	2,897	163.79
Total.....	1,300,102	160,073	

Source: Statistics of Income, Individual, 1964, p. 90.