

Given the exemption of certain forms of retirement income, the retirement income credit may be justified to some extent on grounds of horizontal equity. However, the provision applies only to investment income, is reduced if the taxpayer has wage income, and is completely eliminated if his wage income is as much as \$3,000. Thus, it is not all income of the aged that benefits from this provision but only certain forms. Further, wage income suffers relative to retirement income not only by being taxable but also by reducing the tax credit. In effect, a tax rate from one and a half to two times as high as normal is imposed on this limited amount of wage income between \$1,200 and \$3,000 for single persons over 65.

If social security benefits are made taxable, as has been proposed above, the justification for the retirement income credit disappears. If social security benefits continue nontaxable, support on grounds of equity for a retirement income credit will depend on whether one thinks this form of income should be treated like tax-exempt social security benefits or like taxable wages. In a period of relatively full employment, there would seem to be little reason for taxing labor income more heavily than nonlabor income; and even in a period of unemployment a better policy might be to increase effective demand rather than to encourage people to leave the labor force.

The President's proposals also include an elimination of the retirement income credit, on the grounds that it is a complicated provision and that it discriminates against wage income, but the proposal includes a larger exemption to offset the abandonment of the credit. The increased exemption has been discussed earlier in this paper.

The retirement income credit has two advantages most other tax measures lack: it is not so expensive in total, constituting less than 10 percent of the total tax benefits to those over 65, and the value of the benefit does not increase as the taxpayer's marginal tax rate rises.

However, the discrimination against wage income and the fact that almost 50 percent of the benefits go to persons with more than \$6,000 adjusted gross income indicate that the same sum could be spent more effectively if the goal is to assure minimum incomes for the aged.

6. CONCLUSIONS

The tax measures that have been discussed do not exhaust the forms in which preference is given to older persons. There are or have been other provisions that give liberal medical deductions, reduce the property tax on homes of the elderly, and postpone the payment of tax on a gain from the sale of a residence, but these are minor factors in the total tax picture. The tax measures that have been discussed at length, and the tax treatment of closely related forms of income such as that from self-employment retirement plans, military retirement benefits, civil service retirement benefits, etc., are the source of most of the tax benefits.

These measures gave rise to an estimated \$2.3 billion in tax reductions which, according to Treasury figures, were distributed among the elderly approximately as follows:

About 40 percent of this population had too little income to be taxable, even without the tax preference, and so received no benefit;