

The inclusion of OASDI benefits in taxable income would raise two questions: (1) The need for recognition of past social security tax contributions paid out of taxable income, and (2) the possible (perhaps, undoubted) vigorous dissatisfaction with the taxation of a benefit that has been received for some time on a tax-free basis. As to the first question, we should observe that, as indicated by actuarial note No. 20, June 1965, of the Social Security Administration, the employee tax contributions (without interest) for those going on old-age benefits in very recent years have been, for random samples, no more than 6 percent of the prospective benefit payments. Hence, a reasonable order of equity would be achieved by, say, including benefits in taxable income only after they have been in receipt for 1 year. The vast majority of present recipients would already have received tax-free benefits in excess of their tax contributions paid from taxable income. As to the second question, an increase in benefits, as indicated above, would generally serve as an offset to the effect of inclusion of benefits in taxable income, except, perhaps, for those in the higher income brackets who would have no legitimate cause for complaint in view of the undeserved tax bargain they have been enjoying.

SPREADING OF INCOME FROM SECOND CAREERS

The income spreading considered in the foregoing discussion has related generally to spreading the income of pre-age 65 years to the post-age 65 years. There is need, however, for positive encouragement of productive employment after age 65 and also for the opportunity for persons who have reached age 65 and desire to embark on second careers, to spread earned income into later years to level out income and to serve as an offset to the erosion of inflation. The following proposal, which the writer has not seen proposed before, deserves serious consideration as a means of implementing these objectives:

On the basis of the principles of the Self-Employed Individuals Tax Retirement Act, permit a person over age 65 to defer income tax on a substantial part of earned income plus an amount equal to, say, 20 percent of retirement income derived from employment prior to age 65. (If social security benefits should become includable in taxable income, 100 percent of such benefits, not denied by the retirement test, should be available for tax deferment.) Taxation of investment income with respect to such amounts would also be deferred as under SEITRA. An irrevocable election to defer income a specified period of years should be required, say 5 or 10 years. Income tax (or estate tax) would eventually be paid on such deferred income and investment earnings thereon.

LUMP-SUM SETTLEMENTS AT RETIREMENT

The present law permits lump-sum settlements in lieu of a lifetime retirement income. Such a settlement is taxed as a long-term capital gain under employer-employee plans provided, generally, that 100 percent of the pension value is taken. So far as serving the end of providing old-age life income, the law is deficient on two counts: First, it is wasteful in that it virtually compels the cancellation of all re-