

employer contributions) would in many cases be difficult if not impossible" (p. 431) and "in many cases it would be very difficult to allocate the employer's contributions or the property income to the beneficiaries." (p. 435). Yet, U.S. Government officials, in seeking to demonstrate the benefit of deferred taxation to employees, start with the premise that such allocations could be made. Appearing before the Subcommittee on Fiscal Policy in May 1966, Assistant Secretary of the Treasury Stanley S. Surrey, in the following words, spoke of "deferring" an employee's "tax liability" thus clearly implying that a current tax liability did exist initially but was deferred by specific provisions of the law:

A pension or profit-sharing plan is a part of the employment contract. Often the plan terms are negotiated in collective bargaining. Whether or not negotiated, they clearly affect the wage rate. From the employer's standpoint, this is part of the labor cost. From the standpoint of the employee, pension or profit-sharing benefits are an element in comparing total compensation between different employments.

The development of pension and profit-sharing plans has without question been aided by favorable tax treatment, which has the *effect of lowering the tax liability* when compensation is paid in this manner. The tax advantage given to these plans is the basis of the provisions in present law imposing certain qualifying conditions on a pension or profit-sharing plan. Since the provisions applicable to pension and profit-sharing plans are substantially similar, I shall simply refer to pension plans.

* * * Under qualified employer-financed plans, the employees are not currently taxable either on the amounts contributed by employers to the plans or on the investment income of the pension fund. The *employee's tax liability* for these amounts is *deferred* until he retires and receives benefits from the plan, at which time his effective tax rates are apt to be lower.

* * * Since the employer's contributions and investment income are not taxable as current income to the employee under qualified plans, even where the pension rights are vested, tax deferment represents tax savings to employees. It creates opportunities to obtain more liberal pensions than if the employee received *equivalent wages in lieu of contributions and had to finance their own pensions*.⁶ [Emphasis added.]

Mr. Surrey's argument rests on an unreal assumption that, under private plans as they, in fact, exist today, it is feasible and possible to identify an "equivalent wage." If Mr. Surrey's approach is valid for private qualified plans, it is equally valid for the plans covering Federal, State, and local government employees. The members of the civil service retirement plan "enjoy" the same kind of alleged deferment of tax liability as he attributes to persons covered by private

⁶ "Private Pension Plans," hearings before Subcommittee on Fiscal Policy of the Joint Economic Committee, May 1966, pp. 412-413.