

APPENDIX II

THEORETICAL BENEFIT OF DEFERRED TAXATION

A. ILLUSTRATION OF EFFECT OF DIFFERENT RATES OF TAX AND TIMING OF TAX WITH RESPECT TO CONTRIBUTIONS AND INVESTMENT INCOME.

Case	Tax rate and timing		Annual contribution to produce \$1,200, net—	
	Contributions	Investment income	For 25 yr.	For 40 yr.
I(a).....	18.5 percent; current.....	18.5 percent; current before and after age 65.	\$413. 50	\$195. 00
I.....	do.....	18.5 percent; current before age 65; 7½ percent, current after age 65.	400. 50	188. 50
II(a).....	do.....	18.5 percent; deferred after age 65.	396. 00	178. 00
II.....	do.....	7½ percent; deferred after age 65.	369. 50	163. 50
III(a).....	18.5 percent; deferred after age 65.	18.5 percent; deferred after age 65.	353. 50	155. 00
III.....	7½ percent; deferred after age 65.	7½ percent; deferred after age 65.	311. 50	136. 50

B. FORMULAS

Case I(a):

$$X(0.815)\bar{S}_{\bar{n}/(3.26\%)}=Y\bar{a}_{65}^{(4\%)}$$

where

$$Y-0.185\left(Y-\frac{X(0.815)\bar{S}_{\bar{n}/(3.26\%)}}{e_{65}}\right)=1,200.$$

Case I:

$$X(0.815)\bar{S}_{\bar{n}/(3.26\%)}=Y\bar{a}_{65}^{(4\%)}$$

where

$$Y-0.075\left(Y-\frac{X(0.815)\bar{S}_{\bar{n}/(3.26\%)}}{e_{65}}\right)=1,200.$$

(Corrected formula for case I of appendix B of Cabinet committee report.)

Case II(a):

$$X(0.815)\bar{S}_{\bar{n}/(4\%)}=Y\bar{a}_{65}^{(4\%)}$$

where

$$Y-0.185\left(Y-\frac{X(0.815)(n)}{e_{65}}\right)=1,200.$$

Case II:

$$X(0.815)\bar{S}_{\bar{n}/(4\%)}=Y\bar{a}_{65}^{(4\%)}$$

where

$$Y-0.075\left(Y-\frac{X(0.815)(n)}{e_{65}}\right)=1,200.$$

(This formula for case II, as shown in the appendix B of the report, is incorrectly stated therein although it was correctly applied.)

Case III(a):

$$X\bar{S}_{\bar{n}/(4\%)}=\frac{1,200}{0.815}\bar{a}_{65}^{(4\%)}.$$