

equity grounds favor taxing that portion of social security and railroad retirement pension income which is not a return of the employee's contributions; they disagree as to the proper tax treatment of social security and railroad survivor and disability benefits. This paper presents some crude estimates of the effects of substituting the present tax treatment provisions for a representative set of "proper" provisions. This "proper" set of provisions exempts disability benefits and 10 percent of retirement and survivor benefits; this 10 percent is assumed to be a return of employee contributions. The remainder of retirement and survivor benefits is not exempt from taxation. This concession decreases Federal revenue by \$0.8 billion and is regressive from zero to 0.50–0.74 in the welfare scale and progressive above 0.50; the net benefit is regressive from zero to 0.50–0.74 and progressive above 0.50.

Under present tax law, employer contributions to qualified private pensions are deducted from employer taxable income and are not included in employee taxable income. In addition, the investment income of private pension trust funds is not taxable. The distributional effects of these tax concessions or removing these concessions are quite uncertain. This paper does not present any distributional estimates for these tax concessions.

Taxpayers and spouses aged 65 or over receive additional \$600 Federal income tax exemptions. The retirement income credit also decreases Federal personal income tax revenues. All taxpayers may deduct medical expenses in excess of 3 percent of adjusted gross income. In 1960 and 1961, however, aged taxpayers were not subject to this limitation and could deduct expenses in full up to certain maximums, a provision that was repealed after the passage of medicare. Aged taxpayers receive virtually all of these three tax benefits, which in the year studied amounted to \$850 million. Of the total, age exemptions accounted for 69 percent, with the retirement credit (13 percent) and medical deductions (17 percent) making up the remainder. The combined benefit is regressive from \$0 to \$2,000–\$2,999, progressive from \$2,000–\$2,999 to \$8,000–\$9,999 and regressive above \$8,000. For aged taxpayers the combined benefit is regressive from \$0 to \$2,000–\$2,999 and progressive above \$2,000.

TABLE 8.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF BENEFITS, BY AGI INTERVALS AND TYPE OF BENEFIT, 1960-61 AVERAGES
[In percent]

Adjusted gross income intervals	Age exemption	Retirement credit	Medical deduction
All returns:			
\$1,000 to \$1,999.....	10.4	4.5	0
\$1,000 to \$2,999.....	27.7	18.8	1.4
\$1,000 to \$3,999.....	40.9	36.7	4.1
\$1,000 to \$4,999.....	52.6	52.8	7.5
\$1,000 to \$5,999.....	60.9	60.8	10.9
\$1,000 to \$7,999.....	72.3	75.1	17.0
\$1,000 to \$9,999.....	78.2	82.2	20.4
\$1,000 to \$14,999.....	85.8	91.1	27.9
\$1,000 and over.....	99.9	100.0	100.0

For each income class between \$1,000 and \$5,000 the combined net benefit is positive; for all other classes it is negative. The net benefit is regressive under \$3,000 and progressive above \$2,000. For nonaged