

to the accepted standards of either vertical or horizontal equity and several writers have proposed that the benefits be included in taxable income.

The proper tax treatment of amounts paid as worker's contributions is not so widely agreed on as the tax treatment of benefits. A stronger case can be built if one combines the generally accepted definition of income supported by most economists, that income is the algebraic sum of changes in net worth plus consumption, with the treatment of insurance as proposed by Vickery. His point is that insurance against a future loss of income is analogous to a business expense and should be deductible under a personal income tax. Thus, the contribution made under OAI could be viewed as a legitimate expense of guaranteeing future income under given contingencies and should not be a part of adjusted gross income. The later payment of benefits would then be taxable. For the individual the system would involve a deferral of tax from the time when the contribution was made until the time when benefits were received. But since the OAI program is operated on the basis that contributions should approximately equal benefits in each year, there would be no deferral of adjusted gross income for the Treasury.

The proposed tax treatment would result in a much larger tax base because all benefits would be included in adjusted gross income while only contributions by employees and self-employed persons are now included. However, because those who receive benefits are likely to have lower income at the time of receipt, the tax rates and total taxes collected could be lower. In 1957, Munts estimated that the taxation of benefits and the tax exemption of contributions would produce a net revenue decline of about \$300 to \$400 million.

Under most private pension plans employers, and sometimes employees, contribute to a fund to provide pensions to workers when they retire. The tax treatment of payments into the funds largely parallels that of OAI but the treatment of benefits differs. Employee contributions are included in the employees taxable income; employer contributions are generally excluded; earnings of the pension funds are generally not taxable. Benefit payments are considered in part a return of previously taxed contributions, which are not taxed, and in part a payment from contributions of the employer and the earnings of the pension funds, which are taxable. It is the exemption from present tax accorded to contributions by employers and the exemption of earnings of pension funds that are considered tax favor. Yet two arguments may be offered to support the present treatment: One on the basis of definition of income and one on the comparison with treatment of similar payments.

Payments by employers into a pension fund are customarily required by an agreement between employer and employees. These payments cannot be recaptured by the employer until all obligations of the fund are met. The payments would appear then to be legitimate costs of doing business paid to the fund and properly deductible to the employer, although Surrey argues that these conditions are not sufficient. Surrey holds out the possibility that employer contributions could be held deductible for the employer but considered as income to the employee but that this treatment would apply only where the employee receives a vested interest in the fund. However,