

vesting does not customarily mean that the employee is assured a payment from the fund. Should he die before retirement, he will receive little or nothing. Contributions by employees to pension funds are taxed to the employee and this may be considered proper. Employee contribution under pension plans customarily belong irrevocably to the employee and will be returned to him even if he should die before retirement. They are, in effect, a form of savings.

With respect to the taxation of pension fund income, the beneficiaries of increased net worth will be those contributors who live to retirement; but they have no present tangible claim and, hence, no increase in net worth. Nor will they have a claim until they retire and, even then, the amount will depend on how long they live. The argument that pension plans and similar deferred compensation arrangements receive tax preference and provide the aged with a tax forgiveness or tax deferral subsidy is not valid. Given the concept of income that underlies our income tax and given the tax treatment of OAI benefits, railroad retirement benefits, and most retirement plans, pension plans are not receiving more favorable or preferential treatment. There would seem to be no tax subsidy to this form of old-age income.

Taxpayers over age 65 are allowed a double exemption when computing their taxes. While taxpayers over age 65 find their after-tax income increased because of this provision, this gain is subject to the general criticism previously cited: the benefit goes to those persons over 65 who have income high enough to be taxable and the value of the benefit and the revenue loss to the Government vary directly with the taxpayers marginal tax rate—the greatest tax saving going to those whose incomes are the highest. A natural sympathy extends to those who are old and it may be that society believes they deserve to receive more income before they are required to pay tax. This means, however, that younger persons with the same income will pay a higher tax, even though their problems may be equally or more serious, but different, revolving around educating their children, buying a home, financing a business, or providing for their old age. Both the existing and proposed extra exemptions must be supported with arguments as to why the needs of the elderly exceed those of the young. If there are such needs, they might better be handled as special deductions as is done with the medical expense deductions.

The retirement income credit is one of those provisions that arose because of the most-favored-taxpayer philosophy. Given the exemption of certain forms of retirement income, the retirement income credit may be justified to some extent on grounds of horizontal equity. However, the provision applies only to investment income, is reduced if the taxpayer has wage income, and is completely eliminated if his wage income is as much as \$3,000. Thus, it is not all income of the aged that benefits from this provision but only certain forms. Further, wage income suffers relative to retirement income not only by being taxable but also by reducing the tax credit. In effect, a tax rate from  $1\frac{1}{2}$  to 2 times as high as normal is imposed on this limited amount of wage income between \$1,200 and \$3,000 for single persons over 65. In a period of relatively full employment, there would seem to be little reason for taxing labor income more heavily than nonlabor