

Health and Welfare

A large variety of direct expenditures and transfer payments contribute to health and welfare of families and individuals, both currently and in later years. A considerable number of special tax provisions serve related ends.

Provisions relating to the aged, blind, and disabled.—Individual taxpayers age 65 and over may claim two personal exemptions of \$600 and a second \$100 minimum standard deduction (while persons under age 65 may claim only one of each). The revenue cost of these additional items is \$500 million.

Aged recipients of old age, survivors, and health benefits under the OASDHI program and of railroad retirement benefits are not required to include such benefits in computing tax liability. This revenue cost is \$525 million.¹

Individuals over age 65 may claim a tax credit of up to \$228.60 (15 percent of \$1,524) for a single person or \$342.90 (15 percent of \$2,286) for a married couple based on retirement income from all sources except social security, railroad retirement, or other tax-exempt benefits. In effect, the provision permits taxpayers with taxable retirement income a tax benefit approximately comparable to that accorded recipients of social security and similar tax-exempt benefit payments. The revenue cost is \$200 million.

The combined revenue cost of these three provisions is \$2.3 billion. Because of the effect of the interrelationship of the three provisions on the tax base, the combined cost exceeds the sum of the three provisions taken separately, since the absence of one provision would increase the residual significance of the others.

The blind qualify for two \$600 personal exemptions and an extra \$100 minimum standard deduction.

"Sick pay" exclusions.—Certain payments financed by an employer in lieu of wages during periods of employee injury or sickness are excluded from the employee's income.

Exclusion of unemployment insurance benefits.—Benefits paid by State unemployment insurance plans are financed by a tax on wages paid by the employer and deductible by him, but these benefits are excluded from the employee's income.

Exclusion of workmen's compensation benefits.—Benefits paid under workmen's compensation are excluded from employee's income. These payments are primarily intended to replace earnings lost due to a work-related injury or illness, although some small part of the total payments is compensation for physical loss, such as an eye or an arm. As in the case of unemployment insurance, the benefits are financed by the employer's contributions and are deductible by him.

Exclusion of public assistance.—Public assistance payments are excluded from taxable income.

Exclusion for employee pensions.—Employer contributions to qualified employee pension and annuity plans are deductible by the employer. Income earned by these plans on their investments is not taxable. When an employee retires and is paid a pension or annuity, only part of the amount received is taxable to the employee. He does not pay taxes on the percentage of the benefit purchased by his contributions excluding from the percentage income earned on his contributions.

The revenue cost of the exclusion of investment income earned by all private pension funds, based on the corporate tax rate is \$1.9 billion. The revenue cost of deduction of the total amount contributed by employers to these qualified plans, based on the corporate tax rate, is \$3.4 billion.

The revenue cost, based on the individual income tax rates applicable to employees, is \$0.7 billion as respects the investment income and \$1.4 billion as respects the employers' contributions.

The greater the extent to which the benefits are vested, the more relevant is the use of the individual tax rate in estimating the revenue cost. Taking this vesting into account, the revenue cost of the treatment of pension plans can be put at \$3 billion.

¹ This revenue estimate is based on treatment comparable to other pensions and regards one quarter of the benefits as approximately the cost of employee contribution.