[COMMITTEE PRINT]

DIGEST OF TESTIMONY PRESENTED AND STATEMENTS SUBMITTED TO THE COMMITTEE ON WAYS AND MEANS WITH RESPECT TO TITLE V OF H.R. 5710 RELATING TO THE TAX TREATMENT OF THE ELDERLY

PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

BY THE STAFF OF

THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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ADMINISTRATION'S PROPOSAL

Generally, the President's proposal, concerning persons who have attained the age of 65, would provide a special exemption of $2,300 for all single taxpayers and a special exemption of $4,000 to a married couple where both are over the age of 65. These special exemptions would be reduced on a dollar-for-dollar basis for the amount of yearly income over $5,600 for single people and over $11,200 for married couples. However, the exemptions would not be reduced below an amount equal to one-third of any social security or railroad retirement benefits included in income. Also, the minimum income limit for filing a return would be raised from $1,200 to $2,800. These provisions would be substituted for the present exclusions for social security and railroad retirement benefits, the retirement income credit, and the extra $600 personal exemption.

Under existing law, persons under the age of 65 need not include any social security or railroad retirement benefits in income subject to tax and, in addition, those persons receiving a pension under a public retirement system are eligible for the retirement income credit. Under the administration's proposal, there would be substituted for these preferences a special deduction equal to the lesser of either the actual amount of benefits received or $1,600. The $1,600 would be reduced on a dollar-for-dollar basis to the extent that income received exceeds $5,600 for single persons or exceeds $11,200 for married couples. This special deduction also would not be reduced below an amount equal to one-third of any social security or railroad retirement benefits included in income.

I. GENERAL SUPPORT OF TITLE V

The following organizations and individuals generally support title V of H.R. 5710:

National Urban League, Whitney M. Young, executive director, page 1297.

National Association for the Advancement of Colored People, Roy Wilkens, national director, page 1298.

National Federation of the Blind, John F. Nagle, chief, Washington, D.C., page 1811.

Norman M. Arkawy, attorney, page 2437.

John K. Dyer, Jr., actuary, page 2438.

II. SUGGESTED AMENDMENTS

The following witnesses would support Title V if suggested modifications are made:

American Association of Retired Persons and National Retired Teachers Association, William C. Fitch, executive director, page 1249.

International Association of Fire Fighters, Leonard B. Kershner, member of the legislative committee, page 1486.

National Conference of Public Employee Retirement Systems, Jack E. Kennedy, president, page 1253.

National Council on Teacher Retirement of the National Education Association, Frank M. Jackson, president, page 1251.

Recommendations concerning persons under age 65

(1) Increase the special deduction to $1,800 and to 1½ times that amount for married couples filing a joint return. This would keep the special deduction in line with the maximum amount of social security benefits payable under current proposals.

(2) Raise the cutback levels to $6,000 and $12,000. Combined with the first recommendation this would offset the argument that "some people in a group should get tax relief only on the condition that others in the same group pay for it."

(3) Set a minimum filing requirement for those under 65, as proposed for those over age 65.

(4) Treat the special deductions for those under age 65 the same as the special exemption proposed for those over age 65. Those *over* age 65 may figure their 10 percent standard deduction on adjusted gross income *before* the exemption is deducted. For those under age 65, the special deduction is deducted in arriving at adjusted gross income and then the 10 percent standard deduction is taken. This puts those under age 65 at a disadvantage.

Recommendations concerning persons over age 65

(1) Raise the maximum special exemption for individuals to $2,400 and for married couples to $4,800.

(2) Raise the cutback levels to $6,000 for individuals and to $12,000 for married couples. The reasons for these two recommendations are the same as stated in recommendations 1 and 2 under the heading "Recommendations concerning persons under age 65."

(3) Set the minimum below which the special exemption may not be reduced at one-third of the special exemption rather than one-third of social security benefits. This is a fairer proposition and simpler than using the social security benefit as a base.

(4) Raise to $1,800 the amount of income an elderly parent may receive before the taxpayer supporting him loses his dependency exemption. This amount reflects proposed increases in social security benefits.

National Association of Retired Civil Employees, Clarence M. Tarr, president, page 1616.

Favors the proposal if the following contended discriminations are removed:

(1) Social security and railroad retirement income would receive at least a one-third exemption from income subject to tax, while for civil service retirement income this exemption is not available. [Civil service retirees, however, recover their actual costs.]

(2) Persons with income in the upper brackets will carry a higher increase in the tax burden than those with income in the lower brackets.

(3) The proposed additional exemption has not been provided for all taxpayers over 65 regardless of income.

III. OPPOSITION TO INCLUDING SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS AS INCOME

American Federation of Labor & Congress of Industrial Organizations, George Meany, president, page 586.

American Federation of Teachers, Carl J. Megal, page 1485.

Brotherhood of Locomotive Engineers, P. S. Heath, grand chief engineer, page 2127.

John D. Dingell, Representative (Michigan), page 1898.

Government Employees Council, AFL–CIO (statement submitted for record, no official listed), page 2261.

Louis B. Green, CPA, page 2254.

Norris O. Johnson, professor of economics at New College, page 2067.

National Association of Postal Supervisors, Daniel Jaspan, legislative representative, page 1264.

National Small Business Association, Carl A. Beck, president, page 2090.

New York City Central Labor Council, New York Hotel & Motel Trades Council, and the New York Labor-Management Council of Health & Welfare Plans, Walter J. Sheerin, executive director of the New York Labor-Management Council of Health & Welfare Plans, page 1627.

Claude Pepper, Representative (Florida), page 1969.

Frederic A. Powers, CPA, page 2429.

Retired Officers Association, James W. Chapman, legislative counsel, page 2214.

Senior Citizens Golden Ring Council, Gerald M. Flynn, administrator of the Long Island Trainman's Health & Welfare Program, page 1075.

Edmond L. Somers, page 2440.

It was stated that "adoption of this feature will result in double taxation—once during the working years when contributions to the social security fund are considered as taxable income—and then after retirement on the pension purchased by the contributions made during the working years."

IV. OPPOSITION TO CUTTING BACK THE SPECIAL EXEMPTION

National Association of Manufacturers (statement submitted for record, no official listed), page 2087.

National Association of Postal Supervisors, Daniel Jaspan, legislative representative, page 1264.

These organizations contend that this proposal is unfair inasmuch as it provides relatively smaller benefits for retirees with larger incomes.

V. OPPOSITION TO TITLE V GENERALLY

American Life Convention & Life Insurance Association of America, George W. Young, senior vice president, Connecticut General Life Insurance Co. of Hartford, page 1223.

Commerce and Industry Association of New York, Arthur M. Arnold, tax counsel, page 1864.

Council of State Chambers of Commerce, Paul P. Henkel, manager of payroll taxes of Union Carbide Corp., page 1311.

William D. Loucks, Jr., attorney, page 2433.

National Association of Manufacturers (statement submitted for record, no official listed), page 2087.

It was suggested that—

(1) Decreasing of the tax burden on the lower income retirees is no justification for increasing the tax burden on retirees with higher incomes.

(2) The proposal would introduce a greater complexity than now exists.

Chamber of Commerce of the United States of America, Roscoe L. Egger, Jr., member of the taxation committee, page 1347.

The chamber of commerce suggested that the present system of taxing the elderly should be retained because—

(1) The exclusions of social security and railroad retirement benefits from taxation provides equality of treatment and uniform economic value of the benefits to all recipients alike;

(2) The fact that retirement income credit is complicated stems from a deliberate attempt to produce essentially the same general level of tax burden regardless of the nature of the retirement income;

(3) The argument against the present system that the retirement income credit provides a greater benefit to those in the higher income tax brackets than to those in the lower brackets is unjustified for the reason that the dollar amount of the credit is the same for everybody;

(4) Regarding the general complexity of the system, the principal complications arise because of the attempt to maintain consistency between this system and the social security benefits in general; and

(5) It would be difficult to envision a method of providing a more uniform and equal means of giving recognition to the need for tax relief of the elderly.

The administration's proposal is opposed mainly on the grounds that—

(1) It does not eliminate discrimination;

(2) It would probably be more complex than the present system;

(3) It would change the character of the present program from one of "social insurance" to that of a "welfare program";

(4) It would make for a more steeply graduated rate structure because of a decrease in taxes imposed at lower levels and an increase in taxes imposed at the middle and higher income levels.

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