

RETIREMENT INCOME CREDIT

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HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 6371

AN ACT TO AMEND SECTION 37 OF THE INTERNAL REVENUE
CODE OF 1954 WITH RESPECT TO THE LIMITATION ON
RETIREMENT INCOME

SEPTEMBER 28, 1962

Printed for the use of the Committee on Finance



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RETIREMENT INCOME CREDIT

FRIDAY, SEPTEMBER 28, 1962

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Long, Douglas, Talmadge, McCarthy, Williams, Carlson, and Curtis.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order. The hearing today is on the bill H.R. 6371, to amend section 37 of the Internal Revenue Code of 1954 with respect to the limitation on retirement income. I submit for the record a copy of the bill to be discussed, as well as a copy of the report received from the Treasury Department and the Bureau of the Budget.

(The bill and reports follow:)

[H.R. 6371, 87th Cong., 1st sess.]

AN ACT To amend section 37 of the Internal Revenue Code of 1954 with respect to the limitation on retirement income

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 37 (d) of the Internal Revenue Code of 1954 (relating to limitation on retirement income) is amended to read as follows:

"(d) LIMITATION ON RETIREMENT INCOME.—For purposes of subsection (a), the amount of retirement income shall not exceed \$1,524 less—

"(1) in the case of any individual, any amount received by the individual as a pension or annuity—

"(A) under title II of the Social Security Act,

"(B) under the Railroad Retirement Acts of 1935 or 1937, or

"(C) otherwise excluded from gross income, and

"(2) in the case of any individual who has not attained age 72 before the close of the taxable year—

"(A) if such individual has not attained age 62 before the close of the taxable year, any amount of earned income (as defined in subsection (g)) in excess of \$900 received by such individual in the taxable year, or

"(B) if such individual has attained age 62 before the close of the taxable year, the sum of (i) one-half the amount of earned income received by such individual in the taxable year in excess of \$1,200 but not in excess of \$1,700, and (ii) the amount of earned income so received in excess of \$1,700."

SEC. 2. The amendment made by the first section of this Act shall apply only to taxable years ending after the date of the enactment of this Act.

Passed the House of Representatives August 23, 1961.

Attest:

RALPH R. ROBERTS, Clerk.

TREASURY DEPARTMENT,
Washington, May 14, 1962.

HON. HARRY F. BYRD,
Chairman Committee on Finance,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: This is in response to a request for the views of this Department on H.R. 6371, to amend section 37 of the Internal Revenue Code of 1954 with respect to the limitation on retirement income.

The retirement income credit was designed, in effect, to give those who have retirement income a tax exemption similar to that received by social security beneficiaries, whose benefits are not considered part of their gross income and are therefore tax exempt. To achieve this purpose, Congress enacted section 37 of the Internal Revenue Code of 1954. This measure allows a retired individual a tax credit, computed at the first bracket rate of 20 percent, on the amount of his otherwise taxable retirement income up to a maximum of \$1,200. The \$1,200 maximum was selected to correspond, roughly, to the maximum primary social security benefit which could be paid at the time. To prevent the duplication of relief, amounts received from nontaxable pensions and annuities, including social security benefits, must be subtracted from the maximum figure before computing the credit. The credit may not exceed the tax liability of the individual.

The retirement income credit, like the social security program, was intended for the benefit of retired persons. Section 37 as first enacted contained essentially the same test of retirement as was then employed for the purpose of social security. The income eligible for credit in the case of persons under 75 was reduced by the amount of earnings in excess of \$900. Section 37 was amended in 1956 so that the earnings limit for the retirement test would conform to the revised limit adopted in the 1954 amendments to the Social Security Act. The age level at which the earnings limitation ceased to apply was lowered from 75 to 72 years, and the dollar level at which the earnings deduction began to take effect for a person between the ages of 65 and 72 was raised from \$900 to \$1,200. For persons under 65 (who must be retired under a public retirement system to qualify for the credit) the dollar level for the earnings limitation remained \$900. The income eligible for credit was reduced by \$1 for each \$1 of earnings in excess of the limits imposed.

H.R. 6371 is designed to amend the provisions of the retirement income credit to conform to the changes made in recent years by amendments to the Social Security Act. For taxable years ending after its enactment, the bill would increase the maximum amount of income eligible for credit from \$1,200 to \$1,524. The new figure is the annual equivalent of the maximum primary social security benefit of \$127 a month established in the 1958 amendments to the Social Security Act.

The bill would also liberalize the present earnings limitation. As a result, people between the ages of 65 and 72 would no longer lose \$1 of income eligible for the credit for each dollar of earnings in excess of \$1,200; rather they would lose \$1 for every \$2 of earnings in excess of \$1,200 but not in excess of \$1,700. Earnings in excess of \$1,700 would continue to reduce the income eligible for the credit on a dollar-for-dollar basis.

The new liberalized earnings limitation described above would also apply to individuals between the ages of 62 and 72 who are retired on a pension received from a public retirement system. Individuals under 62 who are retired on such pensions would not be eligible for the liberalized earnings limitation; instead they would continue to be the subject to the limitation under the present law which reduces the amount of their retirement income eligible for the credit on a dollar-for-dollar basis for any earned income in excess of \$900.

It is estimated that the enactment of this bill would cause a revenue loss of \$40 million.

In the words of the House report accompanying H.R. 6371, Congress designed the retirement income credit, "to give those who have retirement income, but do not receive tax-exempt benefit payments, a tax exemption of approximately the same size as that received by social security beneficiaries." However, as the level of social security benefits increases, it is necessary to examine the adequacy of the method selected for achieving this objective.

The maximum primary social security benefit of \$1,524 is not a proper benchmark for the purpose of the retirement income credit, since it does not represent the amount received by the average social security beneficiary. Virtually no one under the social security system today receive the maximum primary

benefit. In fact, at the end of 1960, the average social security benefit received by retired-worker families was only \$1,014. Because the social security primary benefit amount is based upon the maximum earnings base of \$4,800 that was established in 1958, very few persons will even become eligible for the maximum benefit before 1963. Even when the \$1,524 benefit becomes possible, the average level of benefits will, of course, be far below that amount.

Thus, under the provisions of H.R. 6371, individuals with sufficient retirement income would be able to exempt from tax a sum greater than the non-taxable benefits received by practically all social security beneficiaries. Moreover, married couples would be able to claim a double credit, provided both qualified, which would raise their income eligible for credit to \$3,048. Data are not available on social security benefits received by married couples where each spouse is receiving benefits based on his own earnings. However, in 1960 the sum of the average benefits received by eligible male and female workers amount to \$1,676—considerably less than the \$3,048 possible credit base under the bill.

The full benefits provided under H.R. 6371 would be available to only a limited number of taxpayers with substantial retirement incomes. According to the 1960 Census of Population, there were 16.6 million people aged 65 or over in that year. Only 46 percent of these, an estimated 7.7 million filed tax returns in 1960; of those filing returns an estimated 3.8 million or 49 percent filed non-taxable returns. Only 3.6 percent of the people 65 or over, an estimated 593,000 persons, claimed the retirement income credit on taxable 1960 returns. For the 273,000 older persons currently claiming the credit on nontaxable returns a larger base for credit would, of course, be of no value. It is estimated that increasing the credit under provisions of the bill would benefit only between 100,000 and 150,000 aged persons.

While the bill would not aid those with low retirement incomes, it would help those with large retirement incomes. A married couple able to use a double credit could reduce their tax bill by as much as an additional \$129.60 under the provisions of this bill. This would raise to \$7,000 the amount such a couple could receive free of tax if they are both over 65 and their earnings entirely from dividends. Few persons 65 or over have incomes of this magnitude; the median 1960 income for families with a head 65 years of age or over was only \$2,897.

The bill would also benefit persons who must now reduce their base for credit as a consequence of their substantial earnings. It would provide persons earning more than \$1,200 but less than \$2,974 with a greater tax credit for their retirement income than they now receive. This effect appears to be inconsistent with the retirement objective of the credit.

The bill would also benefit persons now receiving social security or railroad retirement benefits in addition to their other retirement income. An increase in the limit from which the amount of such tax-exempt receipts must be subtracted would leave more income eligible for credit than these people may now claim. This effect appears to be inconsistent with the basic intent of the credit, which is to eliminate tax discrimination in favor of persons with social security and other nontaxable pension and annuity income. Furthermore, only a few of the more than 11 million social security and railroad retirement beneficiaries would be able to take advantage of the increased base for credit.

The provisions of H.R. 6371 would give a tax advantage to persons with otherwise taxable retirement income that would be substantially larger than the tax benefits received by the average retired worker receiving social security benefits. This advantage would not be available to the vast majority of retired workers, but only to the relatively small number with substantial retirement income, or with retirement income in addition either to earned income or non-taxable pension or annuity income.

The income and tax status of retired persons and the elderly has been affected in recent years by significant changes in social security, other public retirement programs, and expanding private pension and retirement plans. In the case of social security alone, there have been four major changes made since 1954—in 1956, 1958, 1960, and 1961. The rapidity with which these changes have occurred suggests the desirability of a complete reexamination of the practice of tying provisions of the Internal Revenue Code to the Social Security Act.

As you know, the President has directed the Treasury to undertake the research and preparation of a comprehensive tax reform program. A major aspect of this program will be a broadened and more equitable tax base and reconsideration of the rate structure. We believe that the problem that H.R. 6371

attempts to meet should be considered in connection with such a general tax program. This would permit consideration of the problem in the light of a general examination of issues in both the area of pension and retirement income and the tax treatment of the elderly. Accordingly, the Department recommends that legislation dealing with the retirement income credit be deferred until it can be considered in the perspective of the entire tax reform program. The Treasury Department, therefore, does not favor the enactment of H.R. 6371.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 1, 1961.

HON. HARRY F. BYRD,
*Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter of August 28, 1961, requesting the views of the Bureau of the Budget on H.R. 6371, a bill to amend section 37 of the Internal Revenue Code of 1954 with respect to the limitation on retirement income.

The Treasury Department, in a report being made to your committee on this bill, opposes its enactment for the reasons stated therein.

The Bureau of the Budget concurs with the views contained in that report and opposes the enactment of H.R. 6371.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

The CHAIRMAN. The Chairman submits for the record the following statements favoring enactment of H.R. 6371:

Mr. Glenn R. Simcox, president of the National Association of Retired Civil Employees as well as one submitted by Mr. W. H. Rutherford in behalf of local chapter 703;

Mr. W. S. Angus, president of Dade County Retired Teachers Association;

Mr. Frank J. Wilson, president of the U.S. Treasury Agents Association;

Mr. Jerome J. Keating, president of the National Association of Letters Carriers; and

Mr. John C. Kabachus, secretary-treasurer, International Association of Fire Fighters.

(The statements referred to follow:)

STATEMENT BY GLENN R. SIMCOX, PRESIDENT, NATIONAL ASSOCIATION OF
RETIRED CIVIL EMPLOYEES

My name is Glenn R. Simcox, and I am president of the National Association of Retired Civil Employees. Our association has over 104,000 members who are receiving annuities from the civil service retirement fund as retired Government employees or survivors of deceased employees. In behalf of our members and 500,000 other civil service annuitants, I appear this morning in support of H.R. 6371, which would increase the retirement income credit under Federal income tax laws from a base of \$1,200 to a base of \$1,524.

Under present income tax laws, an employee retired under the social security retirement system receives an individual annuity up to \$127 per month entirely exempt from Federal income tax. A railroad employee, retired under the railroad retirement system, can receive an individual annuity up to \$205 per month, entirely exempt from Federal income tax. Employees retired under the civil

service retirement system may receive larger annuities but no portion of any such annuity is exempt from Federal income tax. Under present law, however, he can claim a retirement income credit on up to \$100 per month of his retirement annuity. This results in what we believe to be unintended discrimination against civil service annuitants in the matter of Federal income tax, on a nationwide basis. The retired railway mail clerk finds that he must pay a tax on most of his annuity while his former companions, the railway engineers, the firemen, the conductors, and the brakemen receive their railroad retirement annuities free of any tax liability. The retired letter carrier observes that he must pay tax on all over \$1,200 of his annuity while his neighbor, the retired bank messenger, receives his social security annuity entirely exempt from taxes. The retired Federal scientist has a heavy tax burden on his annuity but the retired scientist, who worked for a Government contractor, receives his social security annuity tax free. The retired bank president receives a tax-free social security annuity, while the retired bureau chief from the Treasury Department has to pay tax on his annuity. These examples are multiplied many times in actual experience in every community of the United States.

H.R. 6371 would correct a large part of this discrimination. It would raise the Federal retirement income credit to equal the tax-free annuity possible to an individual under the social security retirement system.

We urge this committee and the Senate to join with the House of Representatives in approval of H.R. 6371 to modify this discrimination against those who devoted long and loyal careers to the service of the Government of the United States.

NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES,
CHAPTER No. 703,

Benicia, Calif., February 24, 1962.

HON. MR. BYRD,
*Senator from Virginia, Chairman of the Senate Finance Committee,
Washington, D.C.*

DEAR SENATOR BYRD: As representatives of chapter No. 703, National Association of Retired Civil Service Employees, we note that H.R. No. 6371, by Representative Hon. Wilbur D. Mills, of Arkansas, has passed the House and is now pending before the Senate Committee on Finance, of which we understand you are the chairman.

In regard to this legislation, we urge you to give this bill your early consideration, and that the outcome will be favorable.

H.R. No. 6371, as you know, is very vital to many retirees across the Nation, who due to increases in costs of living, and fixed annuities, need this substantial help, by providing a larger income tax credit, and more liberalization to correspond with benefits now being enjoyed by social security annuitants.

Request for this letter was authorized by members of this chapter No. 703, in regular session, February 20, 1962.

Sincerely yours,

W. H. RUTHERFORD,
Chairman, Legislative Committee.

DADE COUNTY RETIRED TEACHERS ASSOCIATION,
Miami, Fla., January 10, 1962.

HON. HARRY FLOOD BYRD,
*Chairman, U.S. Senate, Committee of Finance,
Washington, D.C.*

DEAR SENATOR BYRD: The Dade County Retired Teachers Association, affiliated with the National Retired Teachers Association, is very much interested in promoting legislation that will give Federal tax relief on retirement income.

An increased base for retirement credit is needed and recommended. Retired persons with fixed incomes are hit by the high cost of living and the increased medical costs. The bill, H.R. 6371, introduced by Representative Wilbur Mills, Chairman of the House Ways and Means Committee, was passed by the

House on September 27, 1961. This bill would increase the income tax credit for retired persons, including teachers.

In behalf of the retired teachers, will you please give serious consideration to this bill?

Sincerely yours,

OLGA D. BENSON,
Legislative Chairman, Dade County Retired Teachers Association.
W. S. ANGUS,
President, Dade County Retired Teachers Association.
ERA MAE FUER,
Director, Florida Retired Teachers Association.

WASHINGTON, D.C., September 26, 1962.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.:

The U.S. Treasury Agents Association strongly urge your competent committee to favorably report H.R. 6371 on Friday and we respectfully request your efficient efforts to persuade the policy committee to allow the Senate to vote on this well-warranted and overdue legislation to help senior citizens. Thank you for your past cooperation in assisting deserving aged retirees and senior citizens. We express extremely high regards for the vigorous sincere members of the Finance Committee and the hard-working staff. In order to save time of your committee we submit above for the record.

FRANK J. WILSON, *President.*

STATEMENT OF JEROME J. KEATING, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

My name is Jerome J. Keating. I am president of the National Association of Letter Carriers. We have approximately 160,000 members, of whom almost 13,000 are retired. I should like to add that there are tens of thousands of other former members of the National Association of Letter Carriers who are retired but who, because of the financial hardships caused by too-low annuities, find it economically impossible to keep up their membership with us.

I appreciate this opportunity of placing the National Association of Letter Carriers on record as supporting wholeheartedly H.R. 6371, the very wholesome bill which Representative Wilbur D. Mills introduced in the House of Representatives on April 17, 1961.

Our support is based on two grounds.

The first is one of common humanity. As you, Mr. Chairman, know, and as all the other members of this committee know, the annuities being paid retired letter carriers today are inadequate in the extreme. Even when—and if—the current legislation concerning retirement annuities is passed, the amount of money being paid to retired postal employees who have spent their careers in level 4 of the postal field services will be far from generous. Therefore, any tax relief that these deserving people may get will be greatly appreciated.

I do not want to belabor this point, because it is obvious to anyone who has studied the situation at all. Suffice it to say that the average annuity for all Federal employees on the retirement rolls today works out at \$167 a month.

The second ground on which I wish to base this statement is that of equity. As you gentlemen know, a railroad employee, retired under the railroad retirement system, can receive an individual annuity up to \$205 per month exempt from Federal income tax. A Federal employee, retired under the social security retirement system, can receive an individual annuity up to \$205 per month entirely free from Federal income tax.

But postal employees—and all others who are retired under the civil service retirement system—can claim a retirement income credit only on up to \$100 per month of his retirement annuity. Although his annuity is severely limited by law, he receives no special consideration from the law. No portion of a postal employee's annuity is free from Federal income tax.

This is, in our opinion, an unintended discrimination against retired postal employees resulting from the fact that different laws were passed by different Congresses in different years with little interrelation among them.

A retired letter carrier must pay tax on every dollar over the first \$1,200 of his annuity, for instance, while his next door neighbor, who receives a social security annuity, could be receiving that amount entirely exempt from taxes. This is an obvious inequity, and I think H.R. 6371 will go a long way toward correcting it. It would raise the Federal retirement income credit to a base of \$1,524 so it would equal the tax-free annuity possible to an individual under the social security retirement system.

I think this is eminently fair and justified. It is our sincere wish that this committee, and the Senate as a whole, will join with the House of Representatives in equalizing this situation for those who have served their Government so faithfully in the postal service, and in other branches of the Government under civil service jurisdiction.

STATEMENT OF JOHN C. KABACHUS, SECRETARY-TREASURER, INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

The International Association of Fire Fighters, representing municipal, State, and Federal fire fighters throughout the country, urges the Senate Finance Committee and the Senate of the United States to approve H.R. 6371. We ask the prompt approval of this bill by this committee, which has had this bill pending before its committee for over 1 year.

This bill would reestablish the type of equity written into the 1954 Internal Revenue Code for the treatment of retirement income. This bill would, by revising the retirement income credit provisions, just bring these provisions into line with the changes which have occurred in the Social Security Act since 1954.

Long before the enactment of social security by the U.S. Congress, firefighters have depended upon public administered retirement plans to meet the particular problems posed by their profession. The enactment of social security did not meet the needs of the professional firefighter, and he asked to be excluded, retaining those plans which had been developed through the years.

Now the firefighters of America are not asking for any special treatment. They are just asking that the same tax treatment be granted to them and to other retirees as is available to those receiving benefits under the Social Security Act. This is not a new principle, but one which the Congress had already ratified 8 years ago. Our members are retiring today—September 1962—and in this year they desire the same treatment as is afforded the other citizens of our Nation. This equality of treatment would be granted if the Senate passed H.R. 6371 for the President's signature before the adjournment of the 87th Congress.

This bill would not grant great sums of money to the individual retired firefighter. It would increase the maximum tax credit based on eligible retirement incomes by \$64.80. However, to a firefighter who is dependent upon his meager pension for sustaining himself through his years of retirement, this is an important boon to meet his ever-increasing bills.

For those few firefighters who would still be able to work in some part time occupation upon reaching retirement, they would have those earnings treated in the same way as such earnings would affect social security income. Thus, H.R. 6371 would reduce the retirement income credit by half a dollar for every dollar of earnings between \$1,200 and \$1,700 a year. For income above \$1,700, there will still be the dollar per dollar reduction. Also, H.R. 6371 would apply the earning criteria to firefighters at the age of 62 rather than at age 65, maintaining the present \$900 level for those below age 62. This reduction to age 62 in applying the earnings test is only equitable, as it is now possible for men to retire at this age under the social security program.

In the waning days of the 87th Congress, it is very important that this bill be favorably acted upon by this Congress. It was originally introduced by the chairman of the House Ways and Means Committee who is familiar with both the Social Security Act and the Internal Revenue Code. The House had given this bill its considered judgment and did make some necessary adjustments in the original bill.

The bill has been before this committee now for a full year. Similar bills to revise the limitation on retirement income credit have been introduced both in the House and Senate during the 87th Congress. At this late date, it is no longer judicious to speak of the advantages and disadvantages of these various bills, but to consider H.R. 6371 in its present form and recognize that immediate

passage there would alleviate in this year 1962 the inequities which have arisen due to the disparity of treatment of income from social security and from other pension sources—disparities due to those changes in the Social Security Act which the Congress has recognized as necessary to keep up with the domestic economic situation. Now it is necessary that this already long overdue adjustment in the Internal Revenue Code also be made so that these pensioners may receive equal treatment in this year 1962.

We also urge the committee chairman that he bring to the attention of the full Senate for its consideration prior to adjournment this bill which still would be able to bring equity to all retired taxpayers in the year 1962.

The immediate action of the U.S. Senate upon this bill is imperative. It had been acted upon last August by the House of Representatives. Presently it works a continued hardship upon our retired members, and it continues to be an inequity which has been brought about by the failure of the Internal Revenue provisions to keep pace with changes in the Social Security Act.

Senator CARLSON. Mr. Chairman, before hearing the first witness, I just wish to state that we have with us today from Kansas, Miss Hazel Shamleffer, a very outstanding retired teacher, and she is here in behalf of the teachers' association.

The CHAIRMAN. The first witness is the Honorable Stanley S. Surrey, Assistant Secretary of the Treasury. Please have a seat Mr. Surrey.

STATEMENT OF STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY

Mr. SURREY. Mr. Chairman, the Treasury welcomes this opportunity to present its views on H.R. 6371. This bill grants tax reduction to people retired on otherwise taxable income by increasing the retirement income credit. The Treasury is very much aware of the financial problems encountered by older people retired on limited incomes. We also recognize that the problem of equalizing the tax treatment of individuals retired on exempt social security benefits and individuals retired on other forms of retirement income is an important one. However, the liberalization in the tax credit for retirement income proposed by H.R. 6371 does not constitute an adequate solution to this problem. The bill will give little or no benefits to low-income retired people. Instead the benefits would be concentrated heavily among those with highest retirement incomes. Moreover, the bill, as a practical matter, would not achieve equality of treatment among retired persons.

LEGISLATIVE BACKGROUND

Retirement benefits received under the social security program and the railroad retirement program are excluded from adjusted gross income under present law. The ruling which established this procedure with respect to social security benefits was issued in 1941 when benefits were smaller and personal exemptions for taxpayer and spouse considerably higher than they are today.

In 1954 the Congress adopted the retirement income credit. The provisions of this credit were made to parallel in many important respects provisions applicable to benefits paid under the social security program. The Internal Revenue Code grants the retired individual a credit against his tax liability equal to the tax computed at the first bracket rate of 20 percent on the amount of his retirement

income up to \$1,200. In 1954 \$1,200 was roughly equivalent to the maximum primary social security benefit. For persons aged 65 or over, retirement income is defined to include rent, interest, dividends, pensions, and annuities. Government employees and military personnel, regardless of age, may apply the credit to income from public retirement systems.

In computing the credit, the amount of retirement income up to \$1,200 received by an individual must be reduced by the amount of his social security or railroad retirement benefits. Congress also provided substantially the same retirement test for the credit as was then employed for social security purposes.¹

PROVISIONS OF H.R. 6371

H.R. 6371 would amend the provisions of the retirement income credit to reflect changes made in recent years by amendments to the Social Security Act. The most important change would increase the maximum amount of income eligible for the credit from \$1,200 to \$1,524. The new figure is the annual equivalent of the maximum primary social security benefit (\$127 a month) established in the 1958 amendments to the Social Security Act.

The bill would also change the present earnings test for retirement. Under present law, for people between 65 and 72, the base for the credit is reduced dollar for dollar for earnings in excess of \$1,200. Under the bill, such retired persons would only lose \$1 of their credit base for every \$2 of earnings between \$1,200 and \$1,700. Earnings in excess of \$1,700 would continue to reduce the income eligible for the credit on a dollar-for-dollar basis.

The test described above would apply to retired Government employees 65 and over on the same basis as other retired individuals of this age. In addition, however, this test would apply to Government employees between the ages of 62 and 65 who are retired on a pension received from a public retirement system. The present test for retired Government employees under 65 years of age reduces the amount of retirement income eligible for the credit on a dollar-for-dollar basis for earned income in excess of \$900.

SHORTCOMINGS OF THE BILL

The maximum primary social security benefit is not an adequate guideline

In its report accompanying H.R. 6371, the Committee on Ways and Means stated:

The retirement income credit under present law is designed to give those who have retirement income but do not receive tax-exempt social security or similar types of tax-exempt benefit payments a tax exemption of approximately the same size as that received by social security beneficiaries.

In this regard, however, we do not feel that the maximum primary social security benefit is a proper benchmark for the retirement income credit. The maximum benefit is by no means representative of the

¹ Under the original legislation, an individual was permitted to earn \$900 a year as an employee or in self-employment without affecting his eligibility for the credit. However, the amount of income on which the credit is based was reduced by \$1 for every \$1 of earnings in excess of \$900. An individual was not eligible for any credit, therefore, if his wages equaled or exceeded \$2,100. The earnings test for retirement was waived in the original legislation for those who had reached 75 years of age.

general level of social security benefits. Virtually no one currently receives the maximum benefit. At present it is estimated that only about 25 retired individuals receive maximum benefit of \$1,524. At the end of 1960 the average annual social security benefit was only \$959 for a retired man and \$715 for a retired woman. These average benefits are far below the \$1,524 base for the credit established by H.R. 6371.²

In fact, the \$1,524 base for the credit, which would be available under the bill to a single person, even exceeds the average social security benefits received by a retired worker and his wife. The latter benefits, which amount to 1½ times the primary social security benefit, averaged \$1,487 at the end of 1960. The bill would raise the base for the retirement income credit to \$3,048 where both husband and wife are entitled to the tax credit. While this is the legal maximum for social security benefits for a husband and wife both entitled to the maximum primary benefit, we are aware of no couples actually receiving this amount.

The bill would benefit primarily persons with above average retirement incomes

In evaluating H.R. 6371 it must be remembered that present tax law contains a number of provisions designed to meet the special needs of people living on retirement incomes. A person who has reached the age of 65 may claim an additional \$600 exemption on his tax return. If the taxpayer's spouse is also 65, he may claim an additional exemption for her as well. Persons 65 and over receive a more liberal medical expense deduction than other taxpayers. Social security and railroad retirement benefits paid to retired persons are tax exempt.

As a result of these provisions, taxpayers 65 and over may now receive considerable amounts of income free of tax. Because of the additional exemption, the retirement income credit, and the standard deduction, it is possible under present law for a single person 65 or over to receive \$2,667 without paying tax. A person under 65 with the same income would have to pay a tax of \$360. If H.R. 6371 were enacted, a single person 65 years of age would have no tax to pay on a retirement income of \$3,027 (\$3,500 if the income comes from dividends) while a younger person would have a tax bill of \$425. These differentials are just as marked for married couples. A married couple both age 65 and both eligible for the retired income credit can receive an income of \$5,333 at present without paying tax. A younger married couple with the same income must pay a tax of \$720. Under H.R. 6371, a retired couple would be able to receive \$6,053 free of tax while a younger couple would have to pay tax of \$855 on the same income. These examples indicate that existing provisions for retired taxpayers relieve most of those with low incomes of tax.

An increase in the retirement income credit as provided in H.R. 6371 would be of primary benefit to retired persons with relatively substantial incomes. A man and his wife both eligible for the retirement income credit could reduce their tax bill by \$129 under this

² Not only is the average level of social security benefits far below \$1,524 but under present law it will remain so for many years. To receive the maximum monthly benefit of \$127 a retired worker must have received \$4,800 in every year used to compute his average monthly earnings. Prior to 1958, however, the base for social security wage deductions was less than \$4,800 a year. Thus only in exceptional cases can anyone receive the maximum primary benefit at the present time.

bill. If their income were entirely from dividends, this would raise to \$7,000 the amount such a couple could receive free of tax. This implies that the individual's holdings of stock amounted to about \$150,000. Few persons 65 or over have incomes and assets of these magnitudes. The median income in 1960 for families in which the head of the household had reached 65 was \$2,897.

According to the 1960 Census of Population, there are 16.6 million persons in the 65 or over age group. Less than one-half of these persons, 7.7 million, filed 1960 income tax returns. Less than one-quarter, 3.9 million, filed taxable returns. Most persons in this age group—12.7 million out of 16.6 million—are thus nontaxable under present law and would not benefit from further liberalizations. Furthermore, only a small part of those who now file taxable returns would be in position to take advantage of the provisions in H.R. 6371. In 1960 an estimated 452,000 persons 65 or over claimed a retirement income credit on taxable returns. This figure represents only 2.6 percent of those in the population who are 65 or more years of age.

Moreover, the bill would provide benefits to individuals who receive social security benefits in addition to their other retirement income. At present social security benefits must be subtracted from the \$1,200 limit from which the credit is computed. If the limit were raised to \$1,524, these persons would have a larger retirement income credit. This appears to be inconsistent with the basic purpose of the credit, which is to eliminate tax discrimination in favor of persons with social security or other nontaxable pension and annuity income.

CONCLUSION

The income and tax status of retired persons and aged persons generally has been affected in recent years by significant changes in social security, other public retirement programs, and private pension and retirement plans. In the case of social security alone there have been four major changes since 1954. The rapidity with which these changes have occurred suggest the desirability of a reexamination of the practice of linking provisions of the Internal Revenue Code to provisions of the Social Security Act.

H.R. 6371 would involve an estimated revenue loss of \$40 million a year. The chief issue that the bill raises is why this tax reduction should be provided now to a relatively small group of retired people who already receive favorable tax treatment. Individuals generally are not receiving tax reductions at this time. The bill is advanced on the ground that the maximum amount of social security benefits has been increased. Actually, however, only about 25 individuals of the millions of social security beneficiaries receive the maximum social security benefits.

Senator DOUGLAS. Mr. Surrey, do I understand you correctly, there are only 25 people in the country who get the maximum social security benefits?

Mr. SURREY. That is our understanding from HEW; yes, sir.

Moreover, and this is a most significant fact, the change in social security benefits has not in any way altered the economic position of people eligible for the retirement income credit.

As you know, the Treasury, at the direction of the President, is preparing a comprehensive tax reform program for presentation to

the next session of the Congress. Major aspects of this program will be a reduction of income tax rates and the development of a more equitable tax base. The Department recommends that legislation dealing with the retirement income credit be deferred until it can be considered in the perspective of the tax reform program. The Treasury Department is therefore opposed to the enactment of H.R. 6371.

The CHAIRMAN. Thank you very much, Mr. Surrey.

Mr. Surrey, why is it only 25 individuals of the millions of social security beneficiaries receive the maximum social security benefits?

Mr. SURREY. The reason, as I understand it, Senator, is that under the tests required to receive the maximum, it is virtually impossible for people to get up to the maximum without a considerable period of time having elapsed.

The CHAIRMAN. What is the maximum?

Mr. SURREY. The maximum social security benefits?

The CHAIRMAN. Yes.

Mr. SURREY. \$127 a month.

The CHAIRMAN. \$127.

There are certainly a good many people receiving more than that, aren't there? I thought it was \$178 a month?

Mr. SURREY. \$127 is the maximum primary benefit for one person.

Now, as we understand it there are only about 25 people receiving that today.

The CHAIRMAN. A man and wife can get as much as \$178, can't they?

Mr. SURREY. That is correct.

The CHAIRMAN. It is right funny that only 25 out of all the millions of people on the rolls are receiving the maximum primary benefit amount.

Mr. SURREY. Largely this is because the bases upon which the maximum is computed turns on a \$4,800 base that has only recently been instituted. It would take a considerable period of time before people retiring at age 65 will have had enough years at the \$4,800 base.

The CHAIRMAN. How many millions are on the social security now drawing benefits?

Mr. SURREY. About 12 million.

The CHAIRMAN. Twelve million.

Senator Douglas.

Senator DOUGLAS. No questions.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. No questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Surrey, when was this retirement credit enacted?

Mr. SURREY. 1954.

Senator CURTIS. At that time, after its enactment, if an individual under social security had a social security benefit plus income that totaled say, \$3,000, and we will assume it is a single individual so we don't get into a problem of dependents, and if another individual had no social security benefits, but had retirement income as defined in the act, had an exact amount of income of \$3,000, would the result of the 1954 act cause him to pay the same tax, as the first mentioned one?

Mr. SURREY. Retirement income. Then the person receiving social security benefits would be required to subtract the amount of the benefits from \$1,200 and his retirement income credit would be equal only to the difference.

The result would be that those two persons would be in the same position.

Senator CURTIS. In my hypothetical case I am assuming the same deductions and the same, whether they are medical or what not, and no dependents, so that each has \$3,000, following the 1954 act, but with one of them part of that \$3,000 was made up of the maximum or near maximum of social security.

After the passage of that act they would pay the same amount of tax, would they not?

Mr. SURREY. That is right.

Senator CURTIS. Now, in your statement that only 25 people, aged people get the maximum, that is because the \$4,800 base hasn't run 5 years, isn't that right?

Mr. SURREY. That is right.

Senator CURTIS. But some of them are getting the near maximum?

Mr. SURREY. Well, yes, it will range along the average. I gave the figures for the average benefits. The average benefits were about—let me just get the exact figure here.

Senator CURTIS. Because we do not tax people on the average.

Mr. SURREY. No, but it will range from the average on up. But there will be very few who come anywhere near the retirement income credit amount. In other words, the amount of retirement income credit is largely in excess of social security benefits.

Senator CURTIS. It isn't for a couple, is it?

Mr. SURREY. Yes. The average benefit for a couple is—

Senator CURTIS. I realize that.

Mr. SURREY. \$1,487.

Senator CURTIS. Yes, but there are a lot of people getting \$40 a month and so on.

Mr. SURREY. \$40 a month—

Senator CURTIS. Social security, so what I mean the average doesn't answer a question very much, the average retirement income doesn't amount to very much. But we will take the case of one of those 25, and that is just a time lag in there.

If one of those 25 drawing the maximum social security benefits, plus their other income is \$3,000, and somebody else, similarly situated, has retirement income as defined of \$3,000 they will not pay the same tax, will they, if this bill is not passed?

Mr. SURREY. That is correct.

Senator CURTIS. Now, railroad retirement, how is that treated in the computation?

Mr. SURREY. That is treated the same as social security payments. The amount of railroad retirement payments will average higher than social security payments.

Senator CURTIS. A retired civil service person for the purpose of the retirement income credit, the civil service annuity is retirement income, isn't it?

Mr. SURREY. Yes.

Senator CURTIS. I remember well when this was enacted. Civil service retirement is taxable income?

Mr. SURREY. All retirement benefits other than railroad retirement and social security are taxable.

Senator CURTIS. Railroad retirement is made tax free by statute.

Mr. SURREY. By statute.

Senator CURTIS. And social security is made tax free by ruling. The purpose of this was to equalize the tax burden between retired people regardless of where the retirement income came from.

Is there any way that you could amend this House bill which could take care of the fact that you haven't yet reached the maximum that will be reached to any great extent?

Mr. SURREY. I wouldn't be in a position to suggest a particular amendment now.

Your question really leads to one of the basic reasons why we think this bill should not be passed. In connection with a broad tax reform program, we are considering with HEW what would be the best way to deal with the situation which you have presented, and we think it takes more study than has been given to the matter. The question, which is a troublesome question as you present it, is one that should be considered in the perspective of a broad program, one that takes account of reductions in rates and other changes. For that reason, we are studying the matter with HEW so we will be in position to make recommendations to the Congress at the next session to deal with this situation.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions, Senator Talmadge?

Senator TALMADGE. No questions.

The CHAIRMAN. Thank you very much, Mr. Surrey.

The next witness is Mr. Leonard J. Calhoun who represents the American Association of Retired Persons, the National Conference of Police Associations, the National Conference on Public Employee Retirement Systems, the National Council on Teachers Retirement, the National Fraternal Order of Police, and the National Retired Teachers Association.

Proceed, Mr. Calhoun.

STATEMENT OF LEONARD J. CALHOUN, REPRESENTING AMERICAN ASSOCIATION OF RETIRED PERSONS, NATIONAL CONFERENCE OF POLICE ASSOCIATIONS, NATIONAL CONFERENCE OF PUBLIC EMPLOYEE RETIREMENT SYSTEMS, NATIONAL COUNCIL ON TEACHER RETIREMENT, NATIONAL FRATERNAL ORDER OF POLICE, AND NATIONAL RETIRED TEACHERS ASSOCIATION

Mr. CALHOUN. Mr. Chairman, and members of the committee, my name is Leonard Calhoun.

In appreciation of the necessarily limited time for presentation of the views of proponents of H.R. 6371, six organizations in lieu of separately appearing have requested that I present their common viewpoint.

These organizations, Mr. Chairman, are the ones that you have just listed.

Their intended spokesmen are, with one exception, here. We hope that the time situation will permit their later individual introductions to the committee.

In any event, they stand ready to answer questions respecting the special problems and interests of their respective memberships.

In thus supporting this corrective legislation of H.R. 6371, some of these organizations have sacrificed, in view of the situation, their views with respect to what they consider would be appropriate liberalizations. The common decision of all those for whom I speak is, in the interest of speedy relief, to support H.R. 6371 in its present form.

As you are aware, H.R. 6371 was reported out unanimously by the Ways and Means Committee after Treasury had had its full say, and thereafter passed by the House without even the formality of a recorded vote.

Though admittedly it may be carrying coals to Newcastle, may I call to your attention that in enacting section 37 in the 1954 code, which H.R. 6371 merely brings up to date, you thereby implemented your decision to remove an inequity and create a parity in income tax treatment between tax-exempt retirement income received under social security, railroad retirement, and nonexempt retirement income otherwise received.

In framing section 37, you properly required a substantial qualifying work requirement to insure that the benefits of the section are limited to persons who had substantial work—a minimum period of 10 years.

You likewise enacted an equivalent postretirement earnings test in defining retirement. Furthermore, the total retirement benefit tax exemption under section 37 was limited to an amount equal to the exemption for maximum primary social security benefits.

As a matter of fact, it was set a little higher than any benefits then payable.

I should say approximate amount equal to the exemption for maximum primary social security benefits.

And instead of an exemption like social security, which affects taxes on the basis of taxpayer's top bracket, you provided a tax credit computed at first bracket income tax rates.

Furthermore, the individual's otherwise retirement income under section 37 is reduced by an amount equal to tax-exempt income such as is received, under social security railroad retirement, or certain other tax exempt receipts.

In summary, section 37 is in principle and provision a most carefully limited substitute for the maximum primary social security benefit exemption for persons not otherwise obtaining this exemption with respect to their retirement income.

To preserve this principle of equating income tax treatment of retirement income, Congress in 1956 properly recognized in amending section 37 changes in social security provisions which had a counterpart in section 37. To again preserve this equating principle and follow the 1956 precedent, H.R. 6371 does no more and no less than to again change counterpart section 37 provisions to conform with social security retirement age, postretirement earnings, and maximum primary benefit provisions which, as recently amended, constitute present social security law.

The only opposition to this proposal, insofar as we know, has been expressed by Treasury. Its basis is the same as when its views were unanimously rejected by members of the Ways and Means Committee and disregarded in connection with the passage of H.R. 6371 by the House.

I shall only briefly analyze the bases of Treasury opposition to H.R. 6371 in supporting our position that the Ways and Means Committee and the House properly brushed this opposition aside and in so doing set an appropriate precedent for similar action by your committee and the Senate.

And I might mention that our statement was written before Mr. Surrey's statement today, and in previous Treasury statements there are some little variances, as well as some omissions today, of previous details.

Analysis fails to show a supportable basis for the Treasury's position that action on H.R. 6371 be deferred "until it can be considered in the perspective" of a prospective tax reform program. Certainly this tax reform program will do nothing about the primary social security benefit ceiling, retirement age, or postretirement earnings provisions, the counterparts of which in section 37 would be conformed by the pending bill.

Granting that changes in personal exemptions, dividends tax rates, and various deductions, may be recommended as part of the tax reform, none of these are directed to the relations between section 37 retirement income provisions and old age and survivors counterpart benefit provisions, and certainly none of these would be thwarted in any way by enactment of the pending bill.

Treasury's further argument is in substance that section 37 is wrong in principle, saying among other things that the rapidity in social security changes—

suggests the desirability of a complete reexamination of the practice of tying provisions of the Internal Revenue Code to the Social Security Act.

We do not know what the tax form bill could be expected to propose respecting the various social security taxes provisions in the code, including the rather extensive provisions respecting the Federal unemployment taxes.

Nor is it clear how it could be expected to avoid the automatic tie-in of the maximum income tax exemptions for income from social security with the maximum size of benefits provided under social security. Certainly we do not see any reason for rejecting the continuance of the principle of conforming section 37 with their counterpart provisions in the social security law.

The Treasury has further urged that—

while the bill would not aid those with low retirement incomes, it would help those with large retirement incomes.

The incorrectness of Treasury's assumption that the bill does not aid those with low retirement incomes can be demonstrated by an example which is rather typical of the difficult situation currently confronting many with modest retirement incomes. To supplement these incomes the recipients often undertake part-time postretirement work.

Here is an example:

The retirement income of a retired teacher is \$85 per month. I would hardly suppose that Treasury would consider this a high retire-

ment income. To live comfortably she engages in part-time work. She can earn \$150 per month. But present section 37 would reduce her annual retirement income eligible for tax credit from \$1,020 to \$420 because of her current \$1,800 earnings. Under the bill her retirement income eligible for tax credit would be increased to \$670. This would mean that under the bill she would have \$50 more in retirement income credit than under present law. This change would give her the same treatment for earnings after retirement that she would have had had she retired under social security.

If we assume that with this change in section 37, that is now pending before your committee, she elects to earn \$150 instead of \$100 per month, she, the Treasury, and the economy will all be winners.

Earning \$1,200 she would pay no taxes as her \$1,020 retirement income would be eligible for first bracket rate tax credit. Earning \$1,800 she would have \$600 more income from work and \$350 less of her retirement income eligible for tax credit.

But her income taxes would be increased from zero to \$132 so the Treasury would gain because of the amendment, while her net income would be increased \$468.

No one can say how many elections will be made to earn over \$1,200 in view of your adopting the pending bill and again conforming the earnings test with the now liberalized social security test.

But obviously the cost, if any, of your doing so is inconsequential and the principles involved are important. Thus we cannot understand the Treasury's further objection that doing so would in some way be "inconsistent with the retirement objective of the tax credit."

A further objection is made that—

H.R. 6371 would give a tax advantage to persons with otherwise taxable retirement income larger than the average retired worker receiving social security benefits.

Note that Treasury does not say that the average person receiving otherwise taxable retirement income has a tax advantage under section 37 over the average person receiving the same amount under social security. Instead the comparison is between persons receiving the maximum retirement income eligible for tax credits under section 37 and the average of all persons receiving social security benefits.

The mathematical fact, of course, is that some persons have the maximum tax credit or exemption allowable from social security or other retirement income, while others have no practical tax advantage at all because other exemptions, exclusions, and deductions as applied to their income have them tax free, and that still others fall between these extremes. The amendments merely restore section 37 to its purpose of equating all with retirement income. The proposition for limiting the section 37 maximum to the constantly varying social security average, which reflects minimum, maximum, and in-between benefits is both impractical and contrary both to social security and tax principles.

Now, let us examine the amendment to which Treasury's most vigorous objections are directed—the increase in the retirement income ceiling from \$1,200 to \$1,524 to conform with the present social security primary benefit ceiling.

In the most extreme case this would mean an additional tax credit of \$64.80. Treasury estimates that this benefit would accrue to between 100,000 and 150,000 persons. The extent they would benefit

depends on the extent they have retirement income above \$1,200 and up to the new \$1,524 ceiling. If we multiply 100,000 by \$64.80, this would produce a cost of only \$6,480,000 for this feature of the bill. However, under section 37, just as under social security, many of those who benefit at all from an increased ceiling will benefit by only a relatively small amount. If we assume that the average taxpayer receiving any of this extra credit will benefit by \$50 even with the outside Treasury estimated number of 150,000, the cost figure thus produced would be \$7,500,000.

I would like at this point to point out Mr. Surrey's statement with respect to only 25 currently receiving the maximum benefit. As Mr. Surrey knows, we are on the threshold of hundreds of thousands of people coming in with maximum or near benefits as they begin retirement with five or more years taxes on the \$4,800 wage. I was glad to hear Mr. Curtis' question as to the numbers with near maximum benefits. The only figure I can give offhand is that at the end of 1960, which gave them only a short period of \$4,500 wage base, some 16,000 were receiving \$120 maximum or better. A figure of 25 is certainly most misleading. I think if you will inquire I think you will find that the estimated numbers with between \$120 and \$127 will be at least 100,000 people in a relatively short time.

(The following was later received for the record.)

HARTER, CALHOUN & WILLIAMS,
Washington, D.C., October 10, 1962.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the course of my recent testimony on H.R. 6371 before your committee, question was raised as to the numbers who may be expected to shortly receive the maximum \$127 per month old-age-insurance primary benefits.

To supply this information I enclose herewith a letter just received from the Chief, Actuarial Branch, Bureau of Old-Age and Survivors Insurance.

For reasons pointed out in my testimony, near-maximum benefits may be expected for a much larger number than his estimate of 20,000 persons who will receive \$127 per month by the end of 1963 and 150,000 by the end of 1964.

Very truly yours,

LEONARD J. CALHOUN.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
BUREAU OF OLD-AGE AND SURVIVORS INSURANCE,
Baltimore, Md., October 9, 1962.

MR. LEONARD J. CALHOUN,
Harter, Calhoun & Williams,
Washington, D.C.

DEAR MR. CALHOUN: This is in response to your recent telephone request for an estimate of the number of workers who will receive an old-age insurance benefit of \$127 in the short run future.

I would guess that perhaps 20,000 persons would be receiving a monthly old-age benefit of \$127 at the end of December 1963, and perhaps 150,000 persons would be receiving \$127 at the end of December 1964.

Sincerely yours,

LAWRENCE ALPERN,
Chief, Actuarial Branch.

MR. CALHOUN. Here we are right on the threshold of a veritable deluge of benefits ranging from between \$100 and \$127. The pending will legislate for the future. Whether the present number is large or small is certainly not an issue in this legislation.

We have the issue as to whether in all equity and good conscience the same treatment under tax laws should apply, with the same maximum retirement income recognized whether under social security or from other sources. The issue is not how many persons will be immediately affected by increasing this maximum, or how many of these are teachers, public servants, self employed, or in other occupations, or what percentage are under social security.

It certainly is true that you do not achieve equity by equating averages of one group with maximums of another—the maximum tax credit for some with the average social security benefit of others. Instead, what this committee did and the Congress did in 1954 was to give everyone with retirement income who meets qualifying work and other conditions comparable to social security to have this retirement income treated similarly taxwise—limited to the amount of the maximum primary social security benefit. This applies a general rule on an individual basis.

Of course, there are a relatively few at the present time receiving maximum retirement income tax credits or receiving maximum social security tax exemption.

Maximum and near maximum benefits are going to become more and more under social security and more and more people are going to retire receiving those benefits, so there will be less and less costs in providing the equalizing treatment of the pending.

I don't want to emphasize dollars or numbers of people because the question presented is one of principle.

Consider now a further stated objection that the bill would also benefit persons now receiving social security and railroad retirement benefits in addition to their other retirement income.

Gentlemen, that point was correctly decided when section 37 was originally drafted. The only fair treatment for people getting benefits under social security and benefits under some other system or retirement income from other source is to apply the maximum ceiling, deduct the social security or other tax exempt benefit, and make the amount left over usable for retirement income tax credit. That is fair. It applies to everyone and certainly represents a practical approach in solving the problem of appropriately minimizing tax inequities.

Thus the present law and the pending amendments reduce the amount of retirement income eligible for tax credits by the amount of their tax exempt retirement income under these and other programs providing tax exempt income. It is the only fair method and Treasury and your joint staff fully recognized this in drafting section 37.

It would be most inequitable to deny all section 37 retirement income credit to an individual on the basis that a few dollars of it come from social security.

If time permitted we should be happy to present a more detailed analysis of the principles, purposes, and practical operations of section 37 and the reasons why these, in equity and good conscience and in the public interest, require the adoption of H.R. 6371.

I might say in this connection that the whole issue H.R. 6371 is whether you are to continue or depart from the principles that you established in 1954 of equating people whose retirement income is not at all exempt or is partly exempt, with those whose retirement income

is from railroad retirement or social security and is automatically exempt.

This bill would continue these principles. Unless this bill is adopted you are increasingly affording only second-class treatment to those with retirement income from sources other than social security and railroad retirement.

We feel confident that this will not be done. In view of this committee's long experience and great competence in the field there is no need for our statement to go into further details. We hope you will promptly report out this bill.

On behalf of all the organizations I have named, thank you for this opportunity to be heard in support of this more important and equitable legislation.

The CHAIRMAN. Thank you very much, Mr. Calhoun.

Any questions?

Senator CURTIS. Just one question.

The CHAIRMAN. Senator Curtis.

Senator CURTIS. The number of our aged people receiving social security, the portion of those over 65 is rapidly increasing, isn't it?

Mr. CALHOUN. Yes, they are growing by leaps and bounds.

Senator CURTIS. The number that are receiving either the maximum benefit or a high benefit are increasing, are they not?

Mr. CALHOUN. Yes, sir, they, too, will grow tremendously.

Senator CURTIS. And this tax credit is not an additional credit, but an equalizing credit so the overall cost, if you can use that term, of the retirement credit is going to be a declining one.

Mr. CALHOUN. Yes, sir; it certainly will.

Senator CURTIS. Unless, of course, which will not happen, that social security benefits be made taxable.

Mr. CALHOUN. That is correct. And, Senator, I think that you might bear this in mind, that under this bill it continues the principle that has always existed that there is only first bracket credit allowed these people, while under social security the tax adjustment comes off of the top bracket, whatever it may be.

The principle is to equalize people so they will be as well off under social security or not under social security. This bill does no more and no less to bring up to date its provisions implementing its basic principles.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Calhoun.

Any further questions?

Thank you very much, sir.

Senator DOUGLAS. I would request permission to insert in the record this letter from Mr. Surrey, which letter is dated September 24, 1962.

The CHAIRMAN. Without objection.

(The letter referred to follows.)

TREASURY DEPARTMENT,
Washington, September 24, 1962.

HON. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOUGLAS: This is in reference to your telegram of September 19 in regard to the Treasury's estimate of the revenue loss involved in H.R. 6371.

As you know, this bill liberalizes the tax credit for retirement income in several respects. It would increase the maximum amount of income eligible for credit from \$1,200 to \$1,524. It would also liberalize the present earnings limita-

tion so that people between the ages of 65 and 72 would no longer lose \$1 of income eligible for the credit for each dollar of earnings in excess of \$1,200. Instead they would lose \$1 for every \$2 of earnings in excess of \$1,200 but not in excess of \$1,700. Earnings in excess of \$1,700 would continue to reduce the income eligible for the credit on a dollar-for-dollar basis. For example, for a taxpayer with \$1,700 of earnings, the maximum amount of income eligible for the credit would be reduced by \$500 under present law and by \$250 under the bill.

The new liberalized earnings limitation described above would also apply to individuals between the ages of 62 and 72 who are retired on a pension received from a public retirement system.

The Treasury Department has previously estimated that H.R. 6371 would involve a revenue loss of \$40 million a year and benefit between 100,000 and 150,000 aged persons. We have rechecked our estimates and find that the \$40 million estimated loss is correct. However, we now find that the bill would benefit between 400,000 and 500,000 persons. These estimates are based in the first instance on 1954 Statistics of Income showing the latest available information on the effect of earnings and social security benefits in reducing the tax credit for retirement income. The figures were brought up to current levels on the basis of annual Statistics of Income data showing the number of taxpayers taking the tax credit and the amount of the credit in the various income classes. About three-fourths of the revenue loss resulting under the bill is attributable to the increase to \$1,524 in the amount of income eligible for the credit. The liberalized earnings limitation accounts for the remaining one-fourth of the revenue loss.

I hope this information will be helpful to you.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

The CHAIRMAN. The committee will go into the other room in executive session.

(Whereupon, at 10 a.m., the committee went into executive session.)

