

Income Tax Inequities and Retired Teachers

WHY should a fifth of the retired people in our country continue to pay federal income tax on their retirement income while four out of every five retired persons are totally exempted? Upon retirement from teaching you will join the one fifth who pay unless our lawmakers provide a remedy before that time. Congress may face this issue squarely within a month or two—or it may refuse to do so. The decision rests with the Ways and Means Committee of the House of Representatives, since that committee has before it a clear-cut proposal to give the same tax treatment to one comparatively small group of retired people that is now afforded to the great majority who have reached the age of 65 and are retired.

What large groups are presently excluded? Beneficiaries of social security, Railroad Retirement, pensions for active military service and a few others are totally exempt from the federal income tax. In 1937 the Congress specifically excluded from federal income tax payments all pensions received under the Railroad Retirement Act. The specific provision of the law reads:

"No annuity or pension payment shall be assignable or be subject to any tax garnishment attachment or other legal process under any circumstances whatsoever nor shall the payment thereunder be anticipated."

As early as 1935 a ruling of the U. S. Department of the Treasury exempted from the federal income tax retirement incomes of employees of the Interna-

tional Typographical Union. Early in the history of the social security program the Treasury also ruled that all social security benefits shall be exempted from the income tax and need not be reported. Veterans' pensions for active service have not been subject to the income tax since a Treasury ruling on those pensions in 1944.

It is to the great credit of the U. S. Congress and the Treasury Department that both bodies clearly recognized the injustice of levying a federal income tax upon the meager pensions paid to those persons who retire after devoting a lifetime of service in an occupation covered by one of the above retirement plans. On the other hand, it is a serious oversight on the part of our legislators that approximately one out of five of our retired persons over age 65 still must pay the same income tax rate upon their pensions as that levied upon the earned income of our working population. Retired school teachers still pay the federal income tax on their inadequate pensions. Retired firemen and policemen are still taxed on their pension. The 70 year old widow whose only income is from the rental of parts of her home still is subject to federal income tax, although her retirement income from the rental may be the exact equivalent of her neighbor's social security or Railroad Retirement benefits. Approximately one half of all federal employees are under social security and will be exempt when retired. The other half are under Civil Service and

will not be exempt under present policy.

This fact of such a gross inequity in our federal tax policy should be intolerable to the American people. Equal justice under law has long been a guiding principle in our American legislative and judicial theory. This inconsistency should and can be eliminated by the Congress without further delay.

Additional reasons for exempting a portion of all retirement income from the federal income tax can be summed up briefly as follows:

1) Retirement plans in operation today were entered into in a period of much lower wage and price levels. For example, the average annual retirement income of teachers in 1952 was a little over \$1000 for those who started out in such a plan before 1939. There was every prospect that \$1000 a year would provide an acceptable old-age living income. Today, however, that \$1000 pension has fallen in purchasing power to \$522 and still is subject to the federal income tax.

2) The Bureau of Labor Statistics Consumers Price Index for Moderate Income Families in Large Cities shows that living costs have doubled since the 1935-39 period. The current index is something over 190% of the 1935-39 period. It is interesting to note that Congress recognized the effects of this inflation and passed the 1950 and 1952 amendments to the Old Age and Survivors' Insurance legislation approximately doubling the benefits. There has been no corresponding increase of retirement benefits for teachers, policemen, firemen, Civil Service employees and other similar groups whose pensions are subject to the federal taxation at the identical rate of earned income. In fact the average annuity to public school teachers increased only 34.8% between the school year 1939-40 and

1951-52. During that same period the price index advanced 88.6%.

3) Income tax burdens are unreasonably heavy on those retired persons without the special exemption. In 1939 the individual exemption stood at \$1000. The person taxed on \$1800 pension paid \$20 to \$25 income tax. Today, however, the teacher, fireman or policeman under age 65 and retired on an \$1800 pension pays \$206 tax or eight times the amount he would have paid in 1939.

A Proposed Remedy

Several members of the Congress have recognized for many years that this indefensible inequity exists, and that it works a hardship upon those retired persons not having a special exemption from the income tax. Many bills have been introduced to remedy the situation. None has passed.

Early in the present Congress the NEA in cooperation with a number of large national organizations agreed upon certain principles which should be incorporated in an exemption bill to remedy the existing discrimination. After consultation with several members of the Ways and Means Committee and upon the advice of an experienced tax attorney the following principles were agreed upon:

- 1) The bill should apply to *all* retirement income;
- 2) It should not in any way adversely affect those persons who now have an exemption by Act of Congress or by ruling of the Treasury;
- 3) It should encourage the development of public and private retirement plans; and
- 4) It should enable the retired person to supplement his pension by the same amount of current work income as is now permitted social security re-

ipients, namely \$900 without any sacrifice of his exemption benefits.

The Mason Bill

On May 13, 1953 the Hon. Noah M. Mason of Illinois introduced his bill, HR 5180 in the House of Representatives. The Mason Bill is specifically designed to provide a defensible remedy for the existing discrimination. The bill applies to all persons retired under a public or private retirement plan. It does not discriminate against any group: it eliminates existing discrimination. Its cost would not be excessive.

Briefly, the bill operates as follows:

1) It exempts the first \$1500 of retirement income from the federal income tax for those retired persons over age 65.

2) Those actually retired under an established retirement plan would be exempt regardless of age.

3) The \$1500 exemption proposed in HR 5180 is in addition to the present personal exemptions—\$600 if under age 65—\$1200 if over age 65.

4) Retirement income is specifically defined to mean all kinds of income except current earnings.

5) The retired person would be allowed to earn up to \$900 during the year without any loss of his exemption. He would not lose the exemption entirely unless he earned more than \$75 in each of the 12 months of his tax year.

6) The bill does not omit from its benefits any retired individual or group; in fact, it eliminates the discrimination which now exists.

7) Persons with some retirement income presently exempt but less than the floor amount (\$1500 per year) would gain an additional exclusion which would bring them up to the \$1500 floor. Those whose exemption already exceeds \$1500 would remain unaffected by the bill.

The Mason Bill is before the Ways and Means Committee of the House of Representatives. Hearings were held under the chairmanship of Congressman Daniel Reed (R-N.Y.) on August 13. Testimony presented at that time was indisputable proof of the broad support back of the exemption proposal.

Mr. Ward Ashman of Columbus, Ohio, national legislative chairman of the 1,500,000 member National Conference of Public Retirement Systems concluded his testimony with the statement:

"HR 5180 does not create any special tax treatment of any special class, but is merely an equitable tax adjustment in favor of aged individuals who are presently taxed on their retirement income, reducing the disparity in their treatment and the treatment of several million aged who have tax-free retirement incomes by virtue of rulings or special exemption.

"We ask, therefore, that you support HR 5180, which would eliminate much of the present income-tax disparity in treatment of various classes of retired individuals."

More than 30 witnesses testified to urge Congress to face up to its responsibility by passing the Mason Bill and thus granting the same tax exemption to some 20% of our retired people as is now allowed the other 80%.

Teachers and others who hope to see the Congress equalize the tax treatment for all retired people should write to their Congressmen and Senators without delay expressing their personal concern in the remedy proposed by the Mason Bill, HR 5180.

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