pensions are not included in taxable income under the personal income tax, a rise in the amount of his pension has also increased the value of its tax exemption to the individual pensioner, particularly where there has been no increase in the amount of per capita exemptions applicable to the general population under the personal income tax.

As there is an increase in the percentage of the population that receives or will ultimately receive old-age pensions, the importance of the tax treatment of pensions also rises. Where old-age pensions (other than those financed exclusively from employee contributions) remain completely exempt from income taxation, a social policy decision to redistribute incomes between generations rather than between income classes may be implied. The weight of this implied decision may be greatest where the method of financing an old-age pension system has undergone substantial structural changes, as has happened in many countries during the postwar period. Particularly, where the share of the total pension cost covered by employer contributions or by government subsidies continues to rise substantially, the amount escaping annually from taxation as a result of an exemption of old-age pensions from the income tax may reach a level that would eventually reduce its effectiveness.

Notes and Brief Reports

State Income-Tax Laws on OASDHI Benefits and Contributions*

Most States that levy personal income taxes follow the Federal tax rule of exempting from the tax all benefits under the old-age, survivors, disability, and health insurance (OASDHI) program. In addition, a majority of these States follow the Federal rule of not permitting the amount of the employee's social security contributions to be deducted from income subject to tax.

Among the 37 States[1] with personal income-tax laws, only Mississippi does not exclude OASDHI benefits from the State income tax.

Thirteen States have no personal income-tax laws; these States are Connecticut, Florida, Illinois, Maine, Michigan, Nevada, Ohio, Pennsylvania, Rhode Island, South Dakota, Texas, Washington, and Wyoming.

Some States, with or without personal income-tax laws, have empowered one or more of their cities to levy an income tax, typically ranging from ½ of 1 percent to 1 percent of gross earnings. The several city income-tax laws on which information was available have followed the Federal tax rule, commonly by adopting the definition of "taxable income" as computed under the Federal Internal Revenue Code.

The States show greater variation in their tax treatment of social security contributions than in their treatment of benefits. Thirty-one States, including Mississippi, require the social security contributions to be included in the amount of income subject to tax. Six States permit these contributions to be deducted from the amount of income that is subject to tax. Iowa distinguishes between the contributions of the self-employed and those made by employed persons: the contributions of employees, but not those of the self-employed, are deductible.

In the 31 States that do not permit deduction of contributions from income subject to State income tax, employees and self-employed persons will contribute to the OASDHI program in 1966 an estimated $6.6 billion from earnings. Although it is subject to State income tax, not all of the $6.6 billion will actually be taxed. In some instances, an individual's income (including all or part of his contribution to social security) after exemptions, deductions, losses, etc., may fall below the level at which income is taxable by the State. In Mississippi, for example, with personal exemptions at $5,000 for a single person and $7,000 for a married person, workers with incomes below these amounts will not have to pay State income tax at all, and, of course, the amount of OASDHI contributions represented in such lower incomes also will not be taxed by the State.

* Prepared by Warren J. Baker, Program Studies Branch, Division of Program and Long-Range Studies. See also the *Bulletin* for September 1959, page 20.

[1] New Hampshire and Tennessee, which levy a personal income or excise tax only on interest and dividend income, are excluded from this analysis.

Exemptions in other States typically are smaller—and nearer to the Federal exemption of $600 for a single person. In California, for example, the personal exemption for a single person is $1,500, and in Maryland it is $800.

Employees and self-employed persons will contribute in 1966 an estimated $1.3 billion from earnings in the six States that permit OASDHI contributions to be deducted from income subject to State income tax. Not all of this amount, of course, will be effective in reducing workers' State income tax. If no tax is due from a worker because of exemptions, deductions, losses, or low income, the potential deduction for contributions to OASDHI may not have been of any tax advantage to him.

The 37 States with personal income-tax laws are grouped below in four categories, according to their treatment of OASDHI benefits and employee contributions.

Benefits not taxable

Contributions not deductible:

Alaska	Nebraska[1]
Arizona	New Jersey[2]
Arkansas	New Mexico
California	New York
Colorado	North Carolina
Delaware	North Dakota
District of Columbia	Oklahoma
Georgia	Oregon
Hawaii	Puerto Rico
Idaho	South Carolina
Indiana	Utah
Kentucky	Vermont
Maryland	Virginia
Minnesota	West Virginia
Montana	Wisconsin

Contributions deductible:

Alabama	Louisiana
Iowa[3]	Massachusetts
Kansas	Missouri

Benefits taxable

Contributions not deductible:
Mississippi[4]

Contributions deductible:
None

1 Nebraska income-tax law is effective Jan. 1, 1967. Net income will be Federal taxable income based on Internal Revenue Code in effect on Jan. 1, 1965.

2 The New Jersey income-tax law is the Emergency Transportation Tax Act, popularly known as Commuters Income Tax. The personal income tax is imposed upon individuals who are New York residents deriving income from New Jersey sources and upon New Jersey residents deriving income from New York sources. Individuals *not* deriving income from such "source States" are not taxed.

3 Employee contributions are deductible; those made by the self-employed are not deductible.

4 OASDHI benefits are taxable; railroad retirement benefits are wholly nontaxable.

OASDI Benefits, Prices, and Wages: A Comparison*

The recent rise in price levels has aroused new interest in protecting the OASDI beneficiary against the loss in value of the benefit awarded him at retirement. There is also considerable interest in the relationship of benefits to economic indicators that reflect the increased productivity and living standards of the Nation—the wage level, for example.

Two sets of data are provided here that relate benefits to prices and to wages. These data are useful in evaluating: (1) The experience of past retirees in relation to price and wage levels and (2) the overall progress of the program since its beginning in adapting to the long-term rise in earnings.

The data indicate that the benefits of workers who retired since 1954 have barely kept pace with the level of prices. The finding is significant since that group includes the great majority of those now on the rolls—about nine-tenths of the total. Workers who retired in the period from 1940 through 1953 were generally receiving benefits in 1965 that provided somewhat greater purchasing power than their original benefit award. The data also show that the increase in benefits to persons on the rolls has lagged substantially behind wage levels, indicating that beneficiaries generally have not shared in the rising standard of living of the working population.

MAINTAINING THE VALUE OF BENEFITS

Tables 1 and 2 present data indicating the extent to which the purchasing power of retired workers has been maintained since their benefits were awarded or, more specifically, the extent to which legislative increases in benefits, provided from time to time to persons on the rolls, have offset the rising cost of living.

These tables show, for four selected years—1940, 1950, 1954, and 1959—the average benefit awarded, the benefit payable in later years with its reflection of statutory benefit increases, and

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