

INCOME TAX OVERPAYMENTS BY THE ELDERLY

HEARING
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
NINETY-FIRST CONGRESS
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INCOME TAX OVERPAYMENTS BY THE ELDERLY

WEDNESDAY, APRIL 15, 1970

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The special committee met at 9:30 a.m., pursuant to call, in the caucus room, Senate Office Building, Senator Harrison A. Williams, Jr., presiding.

Present: Senators Williams, Moss, Young of Ohio, and Fannin.

Staff members present: William Oriol, staff director; John Guy Miller, minority staff director; David Affeldt, Val Halamandaris, professional staff, and Elaine Mallette, assistant clerk.

OPENING STATEMENT BY SENATOR HARRISON A. WILLIAMS, JR., CHAIRMAN

The CHAIRMAN. The hearing of the Senate Special Committee on Aging will begin.

I have a prepared statement that I would like to submit for the record. If there is no objection, it is so ordered.

Payment of taxes—even under the best of conditions—is usually an unpleasant chore.

This year the preparation of the return was a further agonizing experience for millions because of the so-called “simplified” Form 1040—the form used by most individual taxpayers.

Many persons have already asked themselves, “Simplified for Whom?” The answer appears to be, “For the Internal Revenue Service.”

For example, Zachary Scheer, a member of the accounting firm of J. K. Lasser & Co., said:

“The new form was designed to work nicely in the Government’s computers. It did the job, but the designers forgot about the individual taxpayer.”

A recent Washington Post editorial, entitled “Income Tax Blues,” began by saying:

If there is no mass demonstration against the Internal Revenue Service as income tax day approaches this week, it will be only because long-suffering taxpayers all over the land are too exhausted to mount one. Filling out Form 1040 has been the worst ordeal in years. Especially those taxpayers who were accustomed to filling out the short 1040A punch-card form in previous years must have climbed up the wall and across the ceiling over the complexities inflicted upon them this year.

Particularly disturbing for the Senate Special Committee on Aging are reports that perhaps one-half of all retired persons receiving pensions or annuities are paying more taxes than they should because they misunderstand the complicated and intricate provisions in our present tax system. This is an intolerable situation and, if true, must be rectified at once. Since a substantial percentage of these individuals live on limited incomes, they can ill afford to make these costly errors.

Another recent survey involving returns filed by civil service annuitants revealed that 75 percent were filled out improperly. Moreover, it is quite obvious that most of them were not attempting to cheat the IRS, since two-thirds of those reporting incorrectly paid too much taxes.

Older taxpayers—those 65 and over—file about 9 percent of all returns. According to the latest data available, nearly 6.6 million tax returns were filed by older Americans for taxable year 1967. Their total tax liability for that year amounted to \$6.1 billion, for an average of about \$932 per tax return filed. Approximately 2.4 million returns had additional tax due at the time of filing, amounting to more than \$1.5 billion. Another 2.4 million returns were entitled to refunds, but the total amount was less than one-half of the payments owed at the time of filing.

About 3 million of the returns filed took itemized deductions; another 2.5 million used the minimum standard deduction, and approximately 900,000 employed the 10-percent standard deduction.

Several provisions in the Internal Revenue Code are designed ostensibly to provide tax relief for the overburdened elderly taxpayer, such as the 15-percent retirement income credit, the exclusion from income of all or part of a gain from the sale of a personal residence, the exclusion from income of an individual's investment in an annuity or pension, the medical expense deduction, the minimum standard deduction, and the double personal exemption deduction because of age.

A LABYRINTH OF PROCEDURES

However, in order to take advantage of these tax benefits, there is a virtual labyrinth of procedures, calculations, and schedules, statements, and forms to complete. Perhaps the most striking example is the retirement income credit, which requires an entire separate page of Form 1040—with accompanying instructions on the back—in order to compute the credit.

It is estimated that about one-third of those eligible for the credit may not be claiming it because of its complexity. For instance, a typical example presented in the IRS publication entitled "Your Federal Income Tax" would require 16 steps and 5 form changes for an elderly taxpayer to compute his credit.

Time and time again the IRS has told taxpayers that the Federal Government wants no citizen to pay more taxes than is due. Every taxpayer should be entitled to all exemptions, deductions, and credits voted by Congress in order to assure fair treatment for all individuals. Yet, the complexity of the schedule for the retirement income credit has deterred several hundred thousand elderly taxpayers from reducing their taxes as legally authorized in the Internal Revenue Code.

For many older Americans, the new form also operates as a "second surtax"—this one paid to tax accountants and others who must be called in to prepare the form. One of our witnesses today will be Henry W. Block, who is president of the Nation's largest tax service. In the April 11 edition of *Business Week*, it was estimated that the number of processed returns handled by the more than 4,300 H. & R. Block offices would jump from 5.3 million last year to more than 7 million this year, nearly a 33-percent increase.

The complexities in our tax system are not only difficult for the elderly to understand but also for renowned experts. At a recent conference in New York, Assistant Secretary of the Treasury Edwin J. Cohen, who will be a witness this morning, told an audience of tax experts that he doubted one-fourth of them, including himself, could readily calculate the taxable portion of a widow's contributory pension. If one of the most brilliant tax minds in the country would have difficulty with this computation, it is no wonder that an untrained elderly widow is completely befuddled.

For these reasons, the Committee on Aging felt compelled to call this urgent hearing. Although our focus will be on problems encountered by older persons, the scope of the hearing will be important for all individuals who file income tax returns.

In addition, consideration of the complexities of the current form can provide a useful forum for making improvements in the future to simplify much of the gobbledygook required for completion of the return. Last year Congress passed the Tax Reform Act, which probably makes the most far-reaching changes in our tax structures since the adoption of the 16th amendment in 1913. Although the new law will help close many glaring loopholes, most of the new provisions are expressed in complicated legalistic language, not readily understood by most individuals. Consequently, the frustrations of the present income tax year may be mild in comparison to what is in store for the unsuspecting taxpayers next year.

Therefore, this date is more than symbolic. By discussing these present problems with appropriate Federal officials and other persons with specialized expertise one year before the next tax deadline, we can hope for far-reaching improvements before the new forms are printed.

In 1969 we made a significant step toward a more equitable tax system with the enactment of the Tax Reform Act. The next logical step, it seems to me, is to make it more readily understandable and workable.

With this in mind, the committee will seek answers to basic dollars and cents questions affecting the elderly and other taxpayers:

Why do many senior citizens overpay their income taxes?

What can be done to help them?

What can be done to simplify the Form 1040?

Would it be possible to return to the punch-card Form 1040A or some other similar form?

What innovative methods are being considered to make tax-paying easier and less burdensome?

I have a fact sheet I would like to submit for the appendix of the record. This was prepared by a member of the committee staff and is titled "Troublesome Provisions in the Internal Revenue Code for Elderly Taxpayers." If there is no objection it is so ordered.

(See app. 1, p. 57.)

Before hearing the witnesses, I would like to make a few comments. First, I think it is shocking and intolerable that perhaps one-half of all retired persons receiving pensions or annuities are paying more taxes than they should and yet that is what one newspaper report says is happening.

In addition, a recent survey on returns filed by civil service annuities showed that 75 percent of their returns were filled out improperly, but they weren't trying to cheat anyone and, on the contrary, two-thirds of the mistakes were made by people who overpaid.

Congress has passed several bills intended to provide tax relief for the elderly, who certainly need it. Older Americans are trying to make fixed income go a long way. They deserve such tax breaks as medical expense deductions and 15 percent retirement income credit.

"CONFUSED BEYOND ALL UNDERSTANDING"

What good are these provisions if tax form 1040 camouflages them or confuses the taxpayer beyond all understanding? I think it is wrong when an entire page of instructions and spaces for computations is needed just to figure out the retirement income tax credit.

It is wrong when perhaps one-third of those eligible for that credit may not be claiming it because of its complexity. And it is infuriating, even if it is reassuring, when a renowned authority in the field tells us, as Assistant Secretary of the Treasury Cohen told us recently, that he himself would have trouble in calculating the taxable portion of a widow's contributory pension. It is just too complicated even for the experts.

With a great sense of urgency, therefore, we called this hearing. Our focus, because we are the Committee on Aging, would necessarily be on older Americans, but the goal is to help all of those long-suffering taxpayers who in this year suffered more than ever because of new forms and inadequate instructions.

The date for this hearing is more than symbolic. IRS is receiving notice 1 solid year in advance that improvements are needed. We need new forms. We need fairer treatment for taxpayers of all ages. We need a clear signal from the IRS that our protests will be heard.

I would like to turn to my colleague, Senator Moss.

STATEMENT OF HON. FRANK E. MOSS, U.S. SENATOR FROM UTAH

Senator Moss: Thank you, Mr. Chairman.

I appreciate the opportunity to sit with the committee this morning as we hear the problems of the elderly related to the adoption of new income tax form for 1969 by IRS.

Like many other of my fellow Americans, I have this year, more than ever, fretted over the preparation of my Federal income tax return and as I did so I thought of Alice in Wonderland and got "curiouser and curiouser" as to why filing an income tax return has become such an insufferable burden.

For with the implementation of the new income tax form this year and the arrival of the new Tax Reform Act next year, it seems that we have now established a veritable Alice in Wonderland with our

tax system. In fact, literary historians aside, I feel that Alice was really written about how our tax system today appears to many of our citizens, since who can deny that its complexities are "enough to try the patience of an oyster."

On February 17, 1970, I wrote to the Commissioner of Internal Revenue, Mr. Randolph Thrower, questioning, among other things, the effectiveness of the new form and whether its introduction had actually resulted in the reduction of any costs. My letter to the Commissioner was an effort to ascertain the reasons for the abolition of the short card form 1040A, for, to my knowledge, this card form had been very well received. In fact, it is difficult for me to imagine a more simple tax form or one more susceptible to quick audit.

I ended my letter stating:

I hope that you will not pause in your efforts to devise a reporting system that will greatly improve the inadequacies of the present forms so that the average American may once again feel that the paying of his taxes is a privilege and not a most burdensome chore.

I received a reply from Mr. Brisbin, the Assistant Commissioner of Planning and Research, of the Internal Revenue Service, which I feel was quite unresponsive in that it maintains that the change in the forms was implemented with the intent of saving money for the taxpayers since "tens of thousands of 1040A taxpayers had inadvertently overpaid their taxes by using the card form."

It also quotes Commissioner Thower's comments from a television interview in which we both appeared and in which he states:

When we send people 1040A's and they use them, and they're missing deductions, credits and exclusions that you can't reflect on a 1040A, then we're doing them an injustice.

I do appreciate these excellent motives on the part of IRS, but I suggest that their remedial efforts have been wide of the mark and, in fact, have substantially increased the burdens of America's taxpayers. What is true for Americans in general is true in an accelerated sense for our elderly.

Where many Americans have difficulty understanding the instructions on their income tax forms, the problems are more severe for our citizens of advanced age, many of whom have reduced reading ability caused by failing eyesight as well as perhaps a diminished capacity for comprehension.

What especially puzzled me was his comment:

Actually the differences between the new and old forms are being exaggerated.

Mr. Commissioner, I say it is some exaggeration when 18 million more people this year have to pay someone else to prepare their returns for them.

It is some exaggeration when on March 9, 1970, the Washington Post reported that H. & R. Block executive gleefully exclaimed, "The Government opened the gates by eliminating the short form. Our market just got flooded with 21 million more customers." It is some exaggeration when noted commentator, Harry Reasoner, said on March 31, 1970, program of "60 Minutes" that the new form is the toughest ever and although he considers himself fairly intelligent, he was unable to fill out one for a 19-year-old girl. And, finally, it is some exaggeration

when in a recent editorial, dated April 11, 1970, the Washington Post declared :

Filling our Form 1040 has been the worst ordeal in years. Especially those taxpayers who were accustomed to filling out the short 1040A punch card form in previous years must have climbed up the wall and across the ceiling over the complexities inflicted upon them this year.

After this reply to me from Assistant Commissioner Brisbin, I must admit that I once again had to return to Alice since I was reminded of the conversation that took place at the Mad Hatter's tea party when he asked, "Have you guessed the riddle yet?" "No, I give up," said Alice. "What's the answer?" "I haven't the slightest idea," replied the Hatter.

And, of course, in answer to the complaints of anguished taxpayers, the anticipated reply was received. On April 10, 1970, it was reported on Metromedia news that the Internal Revenue Service had decreed that the same forms will be used again next year since it feels that the "bugs" in the system can be worked out by then. But, of course, no comment is made as to what will be done if the "bugs" aren't worked out at that time.

THE BROAD PICTURE: NOT BRIGHT

Likewise, even looking at the broader picture of tax planning and policy, the outlook isn't much brighter.

While I admit to congressional responsibility for tax legislation, no one will deny the fact that we are not exclusively a tax legislative body and we do rely on the expertise of the executive branch for some guidance in matters within their jurisdiction. For example, when money is appropriated for the National Aeronautic and Space Administration, we feel fairly certain that it will be spent on space programs and not in studying the feasibility of digging a tunnel to China.

Similarly, when money is appropriated for the Treasury Department in general, and IRS in particular, it is hoped and anticipated that they will research, develop, and forward for approval and discussion those plans that they feel will promote an equitable and feasible tax policy and reporting system that will meet the needs of the majority of our taxpayers. However, the Washington Post stated in that same editorial of April 11, 1970 :

The Treasury seems always to be working on another tax simplification plan, but there is little ground for hope that it will turn out to be anything more than another "Lawyers and Accountants Relief Act".

Furthermore, it must be emphasized that the criticism of the new tax provisions are not limited to those who, like myself, are relatively unsophisticated in the labyrinth called the Internal Revenue Code. In introducing an article by John P. Manwell, the Journal of Taxation in its March 1970 edition stated :

The complexity and scope of the new law provisions affecting an individual's tax planning are staggering.

In fact, Mr. Manwell, who is a lawyer and also a subcommittee chairman of the legislative drafting committee of the ABA tax section, refers to the low-income allowance computation and says :

That anyone could have dreamed up such a sophisticated formula merely as a two-year transitional provision is incredible, even without considering the problem of communicating it to low-income taxpayers (or any else, for that matter).

Thus, it is really ironic that the provisions of the Internal Revenue Code which are designed for the elderly and the poor are among the most complex of the tax laws. I refer to such items as the retirement income credit which requires the multiple computation of annuities; the computation of gain upon the sale of a residence by a citizen over 65; and, what might be worst of all, the computation for the low-income allowance.

For how Alice would have laughed if she realized that the first thing a poor person must do to see if he can qualify for the low-income allowance would be to take part of her welfare check and pay it over to a lawyer or accountant to determine whether she is eligible for the benefits prescribed by such a plan.

In conclusion, gentlemen, it is my belief that if we can Vietnamize our commitment in Southeast Asia, we can surely Americanize our tax policy and bring it back to the American people. There is no indication that the danger of a "taxpayer's revolt" has lessened and it is about time that something positive be done about it. For, as Justice Holmes aptly stated, in part, many years ago, "The power to tax is the power to destroy," and the events of the past few years only fortify my belief that the formulation and administration of the tax laws in this country is far too important a matter to be left entirely in the hands of lawyers and accountants.

Mr. Chairman, that concludes my opening statement. I feel very strongly that we have a matter here of great importance and I hope the record will be able to bring some light on some of the questions that I have posed.

The CHAIRMAN. Senator Young?

STATEMENT OF HON. STEPHEN M. YOUNG, U.S. SENATOR FROM OHIO

Senator YOUNG. Mr. Chairman, very definitely I share the concern of Chairman Williams and Senator Moss and of those who are gathered here. I am gravely concerned over the plight of the elderly and the neglect and the income tax problems that have come home and hitting all of us as of this day.

May I say, Mr. Chairman, and I regret this very much, but you know we mentioned we should divide ourselves into different parts because it happens that at 10 o'clock this morning there is a meeting of the Subcommittee of the Rivers and Harbors and Flood Control Subcommittee in room 5302 of the New Senate Office Building and it happens that I am chairman of that subcommittee, so the best I can probably do this morning, and I shall certainly do it, I am taking with me the statements of the witnesses here. I wanted very much to hear the Assistant Secretary of the Treasury, Mr. Cohen, and I wanted, of course, also to hear the testimony of Mr. Thrower, the Commissioner of Internal Revenue. But the best I can do this morning is to take their statements with me and later in the day, when the transcript of the entire proceedings of this committee session is typed, I will read that, of course, at my first opportunity, which may come this afternoon, and I intend to read the statements that are to be given very shortly, including the statements of the other witnesses here.

If my subcommittee session is completed before noon, I will come back here in person. But this is a very serious matter, a matter of great concern, and I think, Chairman Williams, you are rendering a fine public service in arranging this program and this hearing for this day.

The CHAIRMAN. Thank you very much, Senator Young. We certainly appreciate and understand your problem of conflict in time and scheduling.

Senator Fannin?

STATEMENT OF HON. PAUL J. FANNIN, U.S. SENATOR FROM ARIZONA

Senator FANNIN. Thank you, Mr. Chairman.

Certainly I share the concern of the other members that we have a very serious problem. I will not make the remarks at the present time. I would like to have the privilege of entering my remarks into the record, at this point, to save time this morning.

I do have an income tax return with me that was given to me by a lady that is a housewife, a widow, elderly person, and she stated that it was just like a crossword puzzle to her, only a very difficult crossword puzzle, and as time goes on we will discuss this form with the members.

Mr. Chairman, in its continuing investigation into the special and unique problems facing our senior citizens, no more timely or universal problem could be inquired into than that of our income tax system as it affects the elderly. Mindful of the economic needs of our retired people who are faced with the difficult proposition of meeting the increased cost of living with fixed incomes, we recently enacted legislation in several areas to help these individuals, through increased tax benefits and increased incomes. If, on the heels of these efforts, we find that through a needlessly complicated tax system and tax form, they are not going to be able to avail themselves of these increased benefits, then certainly we should inquire into the reasons why they are not and direct our attention toward eliminating these barriers.

The payment of income taxes represents sacrifices for everyone. To those in the middle-income brackets, they represent personal deprivation. For those on fixed and lower incomes, they often present serious problems. For these people to pay \$1 over their legal requirement is a cruel waste. If the reports of widespread overpayments by the elderly are true, then it is up to the Federal Government to take the necessary steps, either legislatively or administratively, to correct this situation.

The testimony of the excellent witnesses scheduled to appear before our committee this morning will, I am sure, reveal the nature and extent of this problem and, I would hope, suggest possible corrective measures for our consideration.

The CHAIRMAN. Very good. We have our work set up for us this morning. Fortunately we begin with two gentlemen who come to us with a great deal of knowledge and experience in the tax field, a very close friend of the Special Committee on Aging, Mr. Ira Funston, who

has been the organizer of programs of tax assistance to older people. With him is Mr. Othie G. Burk, vice president of the National Association of Retired Civil Employees.

Gentlemen, we certainly welcome you to this committee and we need your help. Mr. Funston, do you want to take over from here?

STATEMENT OF C. IRA FUNSTON, TAX ASSISTANCE BY THE ELDERLY FOR THE ELDERLY, ACCOMPANIED BY OTHIE G. BURK, VICE PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES

Mr. FUNSTON. Thank you very much.

Being one of the older people, I might say that we need your help and I know that we are going to get it.

About 2 years ago at a meeting of a discussion group of older men, which I am the leader and moderator for, I discovered to my consternation that of the 15 men then in the group and all above average intelligence, far above average intelligence, fully half or more were paying more income tax than they should pay. In this group we discuss everything that comes up, and around April we began to discuss the tax.

I was simply stunned to find that fully half of them had never heard of the retirement income credit. I will say that isn't true this year, because I think more publicity has been given to it. Fully half of them had heard of it, but had thrown up their hands in disgust and horror, and had resolved the question by saying, "We have already taken that."

They confused it with the fact that they paid no tax on their annuities while they were getting the money that they had paid in, and to them that was retirement income credit. As a result of this meeting, we applied for refunds and we received them.

So I note if these intelligent men were having so much difficulty with their tax, and that was before this particular form, although the retirement income credit form has always been complicated, that there must be millions of others who were having even greater problems because they did not have the ability and the knowledge that these gentlemen had.

TAX ASSISTANCE FOR ELDERLY

So I approached the Internal Revenue Service and suggested that we attempt to form a unit, that I would get up a corps of older people who would form a unit to help other older people with their income tax returns and I asked that the Internal Revenue Service assist us by giving our volunteers training.

I am very happy to say that they have extended us every cooperation. The first year we did this locally. We had four men who helped 75 people. Fully half of them were paying too much. I didn't find a single person that had underpaid his tax, because we asked them all to bring in their returns for the previous year. I didn't find a single one that was underpaying, but they were overpaying their taxes.

Then I approached Internal Revenue—or rather, I don't know who did it, but the thing came up in our discussions that this should be done on a national basis. So this year for the first time we tried it on a national basis. We do not yet know the results, because we don't know how many places have undertaken it.

We do know that it has been tried in a number of States, a number of Far Western States, States on the eastern seaboard, some of the Southern States, and I am sure that it was productive of results. I am sure that it helped the older people who needed help and did a great deal for the volunteers who were helping them.

In our own efforts we have found a number of things. We have found, first of all, that the retirement income credit was out of date. Maybe I had better discuss that a little bit later in a minute or two when I point out some things on the form.

We found out that the need for this service was simply tremendous. I don't know how many people had been making errors. We found out that even some people did not know that they were entitled to two exemptions when they reached the age of 65. It is almost incredible.

But we found it. We also confirmed that most of the older, which we already knew, that most of the older people who pay income taxes have incomes that have been sharply reduced by reason of their retirement. Very few people retire with a magnificent income. In most cases I would think that the income was down to 50 percent or below.

We found also that there were many, many people who did not have the relief given by the retirement income credit because they had no retirement income. They had a minimum of social security. Some of them may be of the average probably \$800 or \$900 or \$1,000. But they didn't have the retirement income credit.

They did have earned income. They had to go out by the sweat of their brow and earn about \$3,000 or \$4,000 a year and they had no credit at all. So I have concluded that in addition to a retirement income credit, there ought to be an earned income credit because these people have to go out and not only earn their living, but spend money getting to work, spend extra money on clothes, lunches, carfares, and so forth.

RETIREMENT INCOME CREDIT PROBLEM

I have drafted here the simplest return with the retirement income credit that I could think of. I have prepared a small form, or drafted a form where a man has interest of \$1,120. That sounds like a lot of interest, but you would be amazed at the people who saved a little money over the years and I think we are doing quite a bit to penalize them.

He had a retirement income, an annuity of \$3,000 or total income of \$4,120. I haven't put down any deductions. I think maybe, if I have them here, we might give the members of the committee some of these tax computation sheets and retirement income credit form.

I have prepared an itemization of deductions for sickness expenses, but not in this case. That is also a difficult thing and a thing that works an injustice for many people.

The CHAIRMAN. Do you want us to follow this as you are going through?

Mr. FUNSTON. I think if you can follow it, it would be very fine.

The CHAIRMAN. Are these papers for this example?

Mr. FUNSTON. I haven't written them in, but there are very few figures and if you gentlemen could write in the couple of figures that I have, I think I can trace the retirement income credit and show you just what we have to do.

The CHAIRMAN. What do we have behind us on the blownup form?

Mr. FUNSTON. That is a blownup form and I can do it on there.

The CHAIRMAN. Why don't you come here and we can all follow it as you stand beside the blownup form.

Mr. FUNSTON. I will be glad to do that. One reason I didn't, to be frank with you, I wanted to show you the difficulties that an old man with cataracts has in jumping from line to line on the typical form that may not exist there.

The CHAIRMAN. This is the same form, isn't it? We can get the point.

Mr. FUNSTON. We will take the retirement income credit. If this is a separate return, use column B only. This is column B.

If it is a joint return, you use A for the wife and B for the husband. It is a joint return, you have to come down here and fill this out, and all the way down.

Then you have an alternative form which you have to figure out to see which gives you the better break. But you have to fill out the whole page.

But let's don't try to confuse the whole thing. This is a man 65 and his wife is dead. He is a widower. It says here, "Did you receive any income in excess of \$600 in each of any calendar years before 1969?" That is easy to answer, yes.

Now, the taxpayer under 65 has to include retirement from a Government annuity. Only a Government annuity. If the taxpayer is over 65, you include the Government annuity, interest, rents, and I think that is about all. But there is a different rule between 60 and 65. So a man trying to read that with fine print, an old man such as I am, can really have a headache. So you write in here \$4,120. That is his retirement income. That is \$3,000 and \$1,120 interest. That is \$4,120.

His credit is not based on that. His credit is based on \$1,524, which is written into the law. Why is that written into the law? Because at that time that was about the maximum that a person could get under social security. It is more today.

The purpose of this retirement income credit was to give people who didn't have full social security or had no social security the same tax break that social security annuitants receive. So it couldn't exceed the amount that a social security annuitant received.

That is out of date and should be brought up, because \$1,524 is no longer the maximum and it goes up, and, of course, it went up some more this month.

NEEDED: UPDATED CREDIT

The first thing I would call to the attention of you gentlemen is the need for legislation updating that retirement income credit.

To find out what credit the man has, you take the \$1,524 and you deduct what he received as social security. So here I said he received in my hypothetical case \$1,000. He had no earned income. I didn't want to complicate it. It is reduced further by earned income even though he has paid taxes on that; if he had any, he would have to pay an income tax on that. But if he had it, it would be reduced further.

But to take a simple case, he only had \$1,000 social security so that left him \$524. You add this, the total of a thousand and you get down here the total. Then you take the balance which is subtracted, \$524. Now you have to go back. It says here "line 5," which is this line, and it is hard. If you haven't the form, you can't keep these lines straight. You have to jump back and forth.

So far you haven't got to the first part of it. "Line 5 or line 1, whichever is smaller." Line 1 here was the total retirement income, which happened to be \$4,000. So line 1 is smaller. Line 1 is \$524.

Now if you add that, you are supposed to add in column A, but there is nothing in column A. You add column B and you get \$524.

I haven't gone down below and we will take that later, but that is an alternative break that gives a break to many married couples where both are over 65. The tentative credit, as you take 15 percent of the \$524, 15 percent of line 7A, see if you can follow that on your form; 15 percent of line 7A or 15 percent of line 7B, whichever is the smaller.

The CHAIRMAN. "Whichever is greater," it says here.

Mr. FUNSTON. "Whichever is greater." So it is 15 percent tentative credit, 15 percent of \$524, which I figured to be—229 is the maximum credit. If he had no social security it would be 229. But his credit would be \$79, because he has a \$1,000 social security, which he deducted. So his credit would be \$79.

The amount of tax shown on schedule T, line 6. We haven't got to line 7. I am doing it as the man would try to do it for himself. This is schedule R and we naturally presume R comes before T. So you have to take the tax on schedule T, line 6.

I took a very easy case. This could be complicated, but here is the tax computation. His adjusted gross income was the same thing, \$4,140, and I used the simplified table and found out that his tax, according to the tables, was \$407. So we put \$407 up here where it says "note under 1"—\$407 is the tax and we don't have to go to this because he took no deductions.

You don't have to do this. You don't even have to bother the number of exemptions, because the table we used is a table that has one, two, three, four numbering systems. So we put down the amount of the tax. Then we put down the amount of the tax under 6.

Then we have to come back over here to schedule R again where it says, "amount of tax shown on schedule T, line 6." The question really is, what should you do? Should you go back and finish R or should you continue to finish T?

Let's see. It makes no difference because if we try to finish it, we will find a reference down below R. You can't finish one before going to the other, because you jump back and forth.

Let's go down this one then. Enter the amount of tax on schedule T. Here is something which I daresay doesn't appear and most the older people do not have, credit claim for foreign taxes or tax-free covenant bonds.

The answer 99 out of 100 would be "none." because they have no tax-free covenant bonds and no foreign taxes. So the answer is "none." Then you subtract line 10 from line 9. Line 10 was the amount of the tax and you subtract it from the tax-free covenant bonds. So the tax was \$207.

The tax-free covenant bonds being nothing, the next line would be \$407 again.

One thing you are going to notice is that 99 cases out of 100, the tentative credit is the final credit. Why many of these questions appear below I do not know and I do not know why the amount of the tax has to be on the credit when you figure out on the other but it is there.

COMPLICATED FORM TRANSFERS

Now you subtract line 10 from line 9. We have done that. That is \$407. Now you enter here on schedule T the amount on line 11 or line 8, whichever is greater. So you go to schedule T, line 7, and you have to enter the amount from R.

I don't think I am making this plain, but I am letting you know the difficulty of going back and forth from these forms and it is a nightmare. Then you come down to the tax surcharge.

This man has a small tax surcharge of \$33. So you add 12 and 13. If line 10 is greater than line 9, 9 is the amount of tax on schedule T, 6, which is the gross tax, \$407. So if line 10 is greater than line 9, that is less. You have to give credit for foreign tax.

I hope I am not taking too much time.

The CHAIRMAN. Oh, no, you are not. It is getting closer to filing time. This is the day.

"THEY OBJECT TO THE FORM"

Mr. FUNSTON. Somebody said that they thought that nobody objected to paying taxes, but that they object to the form.

I will make this short.

If line 10 is greater than line 9, insert excess here. Then you add lines 12 and 13. You add the tax on the surcharge. Then you take line 15 from line 14, which is hard for me to follow.

If line 10 is greater than line 9, enter the excess here. Line 10 is not greater, but the amount of the tax is greater. Then if line 10 is greater, subtract line 15 from line 14.

Well, it has nothing to do with the credit. Line 15 is the line that has to do with this. If line 10 is greater than line 9, enter the excess here. On this thing it is \$112, and what relevancy it has to the tax, I do not know.

But then we see we haven't finished. We have to come back here and finish another computation and it is a jigsaw back and forth with the form unless you cover it with a ruler or something like that.

You have great difficulty in determining it. So most people do not know how to figure this out.

Last year as a result of some publicity that our program had—this year, at the early part of the year, people brought in these retirement income credit forms to us. They knew about it and Internal Revenue did send them out to everybody this year.

In previous years I think they assumed most of the people didn't get them and you had to ask for it. But while I haven't given you necessarily just exactly how it is done, and not in completely accurate detail, but it is enough of a nightmare for you to understand.

The point I made before is that suppose this man had \$3,000 and had \$4,000 in earned income. Suppose he went to work, so he earned \$4,000. That is not retirement income. He has \$1,000 social security.

If he were over 72, he could earn the \$4,000 and keep it. So he would have \$4,000, which would be completely taxable with no credit at all simply because he wasn't fortunate enough to work for the U.S. Government or fortunate enough to work for an employer who had a private pension plan.

All he had was earned income. I think that the committee might investigate this. I haven't thought it out, but I think that there probably

should be something for this poor fellow because we have found more hardship cases among those people than the others, although there were plenty under the others.

I would urge the updating of the retirement income credit because it is unrealistic today. It should be more than \$1,524.

I suppose I have taken up enough time. You have other witnesses. I am here available for questions. I will say that this unit that we had this year in Washington alone handled 113 cases. How many we will handle through the country, I don't know.

The CHAIRMAN. Could I ask you one or two questions while you are there, Mr. Funston?

What is the role of schedule T in this tax computation?

Mr. FUNSTON. That is a computation sheet.

The CHAIRMAN. Is the figure at the end of Schedule T the tax the taxpayer is going to pay?

Mr. FUNSTON. That is right.

The CHAIRMAN. So every taxpayer has to be able to use schedule T?

Mr. FUNSTON. If it is a simple form, he can execute it from the table without any retirement income credit. He doesn't have to bother with schedule T. But in prior years, the first sheet of the form included the computation and also included a summary of functions.

This year it only has the amount of income which you receive and the total of the deductions. It doesn't even have the total of deductions. They go on schedule T and most of us will have to figure out schedule T. You have to figure out R and go back and forth and upside and downside.

CREDITS FOR FOREIGN TAXES

The CHAIRMAN. One of the complicators of R, retirement income credit schedule, it seems to me, is the computation you have to make of foreign taxes, credit claim for foreign taxes or tax-free government bonds.

Mr. FUNSTON. That is one thing that could be simplified.

The CHAIRMAN. I would think so.

Mr. FUNSTON. You could have a separate form for that. Another thing too, you go through a lot of this arithmetic to arrive at the fact that the credit can never be greater than the tax, because when you go through all of this computation, if one is bigger than the other, you will find that if your credit should be \$228.60 and your tax is only \$100, your credit is only \$100. But I should think that could be handled in boldface type that your credit cannot exceed your tax.

LETTERS FROM FRUSTRATED TAXPAYERS

There may be some people who think they are entitled to a refund and I think they ought to be alerted to that, but I don't think you should have to go through the tremendous computation. I will say the Internal Revenue people are conscious of the fact that older people have these problems and have really tried to cooperate and have cooperated with us and have indicated that they are going to start to work right away for next year because next year I think this should be a national thing.

I have two files here of letters which I have received from people, most of them who have problems. Many of them wanted help.

Senator Moss. Is that what is in the brown envelopes?

Mr. FUNSTON. I have two of those and there are just as many over at the office. I am doing some work for the committee and there are just as many over there. I brought those over here. They haven't been answered because it has been impossible. Some of the publicity which went out said to write to me and they have written to me and I have been overwhelmed.

I did answer about half of them, but we have half of them here that will be answered, and it is impossible to give tax help to work a return through the mail. But some of these people say, "Here is a retirement income sheet, here is what I have." And you read it over and you find you have to ask questions and you have this business back and forth through the mail.

NEED FOR FULL-TIME TAX ASSISTANCE

We need a unit of older people, and I say older people because they are the ones that I think older people like to have. And I think it is good for the older people in every community in the country that we can, and I think we need Internal Revenue to give some full-time assistance to a big program during the next tax season so people who can be in every locality who can immediately answer questions and who can immediately line up this thing.

I think if we do that, we can do a great deal to help them. This whole credit can be changed. It might be that instead of giving this credit, you might consider just a blanket function instead of a credit, like the State of Virginia, for example, if you have an annuity, you have a \$2,000 exemption.

Widows are the ones who are really in the most trouble in these forms. They have had no experience with it and I will tell you, I think this is the period when most women really mourn for the loss of their husbands during this particular period because they really are in a pickle and I think more women come to us than men.

Of course, women live longer, too.

Senator Moss. How old are you, Mr. Funston?

Mr. FUNSTON. I am 75.

Senator Moss. You can be my adviser and help me to work on my taxes.

Senator FANNIN. Mr. Funston, I am wondering, have you had outside assistance? For instance, I noted in the State of Arizona that the YMCA in the larger areas does have tax-assistance programs and also financial institutions do.

Mr. FUNSTON. We haven't done that. That is a good idea. I thank you very much for mentioning it, because I think it gives us a lead next year. This year we have the associations for elderly like American Association of Retired People, National Council of Senior Citizens, and Mr. Burk's association, the National Association of Retired Civil Employees.

Mr. Burk is an old hand at this. He has been working tax problems for his membership for many, many years. We have in addition to them some unions and the electrical workers, for example, who have a real program because they have problems. They have a man in charge

of their retirees who tries to find useful things for them to do and things that will interest them, and they have worked out an assistance program.

Next year I think we ought to be able to do it through most of the unions and if we can get this spread around, it will help. Of course, that doesn't mean that the form should not be simplified.

Senator FANNIN. Thank you.

The CHAIRMAN. Thank you very much.

I would like to point out also that Mr. Funston had a very distinguished career in the Department of Labor. He was Assistant Solicitor of the Department of Labor and he has certainly been a boon indeed for our Special Committee on Aging, and all of the people that he has reached personally, and now there is great hope that what he has done personally can be done nationally.

Mr. Othie Burk has accompanied Mr. Funston. Mr. Burk, as I mentioned, is vice president of the National Association of Retired Employees.

Mr. Burk.

STATEMENT OF MR. BURK

Mr. BURK. Thank you, Mr. Chairman and members of the committee.

Senator Williams has already introduced me, so I don't have to tell you who I am. It has been a pleasure for me working this year with Mr. Funston and with particularly the training department of the Internal Revenue Service. They have been most helpful.

As Mr. Funston told you, they started rather late trying to organize this business. In fact, it was so late that we did something that is rarely done. We managed to write a news release to go in our magazine and get it through the public relations department in a matter of less than 48 hours. It was released.

It was in the magazine last December in order for our people across the country to know that such a thing was in the bill. Then we sent out newsletters to all of the leaders of our various chapters. Even so, they did not respond as we would like to have had them respond, because we know this is the problem.

50 PERCENT OF ELDERLY OVERPAY TAXES

Mr. Funston has amply illustrated that there is a problem particularly on these two forms. I join him in estimating that at least 50 percent of our people overpay their taxes because they don't know how to use it for one reason.

The other reason is that sometimes they get into personal contact with somebody in Internal Revenue who has not been properly trained and doesn't know the members, and I have a few cases here that I think illustrate some of the situations.

I came to Washington in July 1968 and began writing articles for our magazine, which is published each month, and goes to all of our members in regard to the problems of their income tax, telling them what they were entitled to and what they should watch and various cautions.

As a result of this, in the spring of 1969 I had a man from Connecticut who met one of my fellow officers, and he said, "Does that fellow Burk down there know anything about these taxes?" He said, "Yes, pretty good." So he wrote the details down. The result was that he changed his 1968 report.

He sent in amended returns for the previous years and he received a refund of more than \$700 that he had overpaid on his income tax.

Also, in the fall of 1968 I had a call from a lady here in Washington, D.C., telling me that the question had come up about her being entitled to retirement income credit. She had gone to Internal Revenue in Washington for somebody to help her. A very fine young gentleman was helping her and she said, "What about retirement income credit?" And he said, "Oh, yes, you can use it."

And he got one form and he tried to fill it out, and he got half-way through and he said, "You can't qualify for this so we can't use it, so your tax is going to be \$275." And she paid it.

But she got worried about his original response and she went back to another young gentleman who was there at another time and he said, "Oh, yes, you can use it," and he got the form out and he didn't even fill it out and he said, "No, I was mistaken, you can't use the retirement income credit."

The fact of the matter is that the only income she had was civil service annuity—no social security, no earned income, no interest income—and the only thing she had was civil service annuity. I said, "Do you have the form the young gentleman started to fill out?" and she said she had.

So she sent it to me. He had gone down through line 7 and from line 7 he didn't know where to go, where you start computing your 15 percent. I completed the form for her in a red pencil and sent her another copy of the form and told her to send in an amended tax form including retirement income credit.

She called me about 2 months later and said that she got her refund. She was very happy. I had a man who came all the way from Tennessee last spring. He said, "Look, I have been retired for about 5 years and I have recovered all that I have put into the retirement fund. Now I have a man at Internal Revenue that tells me that the report I sent in is not correct."

I said, "What is the matter with it?" He said, "My figures are not right." He said, "Since I have recovered all of my contributions, that I am going to have to pay some tax, but there is no way I can avoid it."

I got in touch with the Civil Service Commission and found that what he had reported that he had deposited in the retirement fund was actually \$2 off. But he had actually recovered all of it. He had no other income and he was entitled to retirement income credit and I filed his report for him, filed it properly, signed it as having prepared the form, and he signed it, and he asked me to mail it, which I did.

And he never heard anything about it. This spring this same gentleman was in my office one morning at 8 o'clock for me to file his income tax return again this year. Now obviously there is somebody closer to his home that can do an adequate job. There are many people, but it should not be so complicated that he cannot do it himself and this is our major problem.

I had a call yesterday from a lady who says, "I am past 87 years old, my husband is past 95, and he is incapacitated and my daughter has been making my income tax return and she doesn't know a thing about it. I think I am entitled to retirement income credit or something."

I asked her a few questions and I said, "Why don't you have your daughter call me? You can either call me at the office or call me at home."

So in about 30 minutes I had a call from a gentleman and he said, "I am the son-in-law of Mrs. So-and-So, I have been doing their tax returns." He also said, "Are they entitled to some kind of a credit?" I said, "From the information she gave me, they are entitled to use the retirement income credit." He said, "He has been retired for ages. He recovered everything he put in the fund many years ago," and he said, "I have a business here. I fill out the forms for my business, but I just fill out the form that is involved with it."

I said, "Do you have the forms that tell me how much these people have in the way of income?" Actually it amounted to about, as I recall, \$4,800 of their income for these two old people, and he had computed it all to go into the trouble to figure out their itemized deductions, which actually in his case was unnecessary if he had known about the retirement income credit.

"SCHEDULE R AND SCHEDULE T"

He had done all of that. He had given the proper allowances because of their age and they still had \$124 of tax according to his computation. I said to him, "Do you have the schedule R and schedule T?" "No, but I will see if I can find it."

He left and went to his desk and got schedule R and schedule T. I went through the rigmarole over the telephone that Mr. Funston just demonstrated to you going from the one form to the other.

I said, "Now on the tax computation you have put the amount of money that they have received in line 1. You have put their itemized deductions. You have the remainder. You have given \$2,400 for their personal exemptions. You still have the remainder of \$800-some, as I recall, but the tax is \$124 on line 6.

Now in retirement income credit you put the same amount you had on line 1 over on line 1B of your schedule R, and they have no social security, so they are entitled to the full \$1,524 in column B. Actually you could go to the alternative and use both and they would have \$343.80, but they don't need that much. So let's go with column B.

So I worked out just the column B for the husband. All of this back and forth and back and forth and back and forth for this gentleman over the telephone. They, too, are entitled to go back with an amended tax return for the past 3 years, because they have not used retirement income credit.

I, too, as Mr. Funston tells you, have written hundreds of letters about questions concerning income taxes this year. I have in a few cases actually had enough information from the people involved that I could take one of these forms and fill it out and send it to them through the mail and say, "Look, this is what you have to do."

But again we have the problem, as has been demonstrated and has been on the TV a few times, that even the front part of the form causes

us some trouble because of this line for adjustment. People do not understand what the adjustments are.

An old gentleman in his late 70's in Florida turned his return in and it was incorrect. Internal Revenue said he owed so much more money and he wrote to us and wanted to know why. So I had to go through all of this explanation that when he used the tax table, his double exemption was included in it.

He had so many exemptions and it was taken care of in the tax table that he did not take the \$1,200 off over here and then go to the tax table and he has to use the tax table off of the proper amount.

But I explained that he could use retirement income credit and reduce his tax, because he didn't do this to begin with.

NEEDED: SIMPLIFIED FORMS

So I again join with Mr. Funston that we need simpler tax forms. The Evening Star last night had an article by Theodore Switzell, who has been before this committee a number of times, and he remarks on this same thing that people all across the country are having problems with this particular item.

I agree with Mr. Funston's suggestion. They apparently have not had much trouble with the listing of dividends and the allowable exclusion of dividends over the many years, because they continue to use it year after year. I think it will be far simpler if the Congress would pass a law saying that when a person is 62 or 65, or perhaps at any age if they draw a public, Federal, or State annuity, that they will be entitled to an exclusion of a specific amount from income taxes.

All they would have to do, then, would be to list the amount of their annuity and list the amount of their exclusion and you could do it all on one line, as they have it on the front of the forms today.

The CHAIRMAN. Why do you pick out only those annuitants? You have limited the group of annuitants who would have exclusions.

Mr. BURK. The only reason I have limited the group of annuitants is at the present time the two big public annuitant systems that are completely exempt from tax are social security and railroad retirement.

I submit to you that anybody who is under Federal annuity system or State annuity system is also on a public annuity system as differentiated from a private annuity system.

I would have no objection of putting all annuity systems on it personally, but I do say that everybody who is on a public retirement system is deserving of exactly the same kind of treatment under the public law.

Senator Moss. What is your position on this new form 1040, that we have to deal with this year? We have been over the retirement income question and I think we have pretty well got the answer to that one.

Mr. BURK. The problem is that for the people who were under the civil service retirement system, and these are the people I am primarily concerned with. Those people have not been able to use the card form because they could not take any credit for retirement income if they were among those people with annuities.

Now, if this thing could be simplified to where we don't have to have all of this whole page to figure out that they can have an exclusion, then I would much prefer even a shorter form than we have on page 1.

Admittedly, this is going to make problems for Internal Revenue to work out. They are not going to do it overnight.

I would say this, that their cooperation with us has been excellent. I have no criticism of anything for IRS in the way of cooperation. They have done everything they could to help us and we hope that we will be able to do something to help them by getting information to our people early next year and having more people involved to helping to come to a solution to this problem.

Senator Moss. If IRS had this recommended deduction that you have talked about, then we could readily go back to the simple 1040.

Mr. BURK. We could go back to the simpler form if we could have a set exclusion from taxation. We could readily go back to a simpler form, yes.

The CHAIRMAN. Mr. Burk from your experience, could you estimate what percentage of older people are overpaying because of errors and confusion in filling out their forms?

Mr. BURK. It would have to be strictly an estimate and I would estimate it is above 50 percent. I would like to call your attention to this fact, that the people who prepare tax returns have different bases on which they work. I have had people in my office this spring who have paid C.P.A.'s from \$40 to \$60 to fill out their tax return and they still had questions about it.

\$50 TO PREPARE A FORM

I have had people write to me and had people in my office who are paying as much as \$50 for somebody to fill out their tax return, a lawyer. I know that if you go to one of the people who are in the commercial business, such as H & R Block, for whom I worked a couple of years, they will charge according to forms that they have to fill out.

I had a gentleman in my office yesterday who is 75 years old. They worked his tax out for him last year and charged him \$15. They would have had to charge him more than \$15 this year with all of the forms that are involved and he doesn't have the money to pay. He doesn't even have the money to pay the taxes that are due to the Government, let alone pay somebody to figure out how much he owes them.

He really has a problem and I hope they will manage to solve it. But these people who are getting along in years, as Mr. Funston mentioned, that have problems of eyesight, perhaps they might even have, as Senator Williams said, a problem of comprehension and when you get to the point where your tax experts will argue as to whether it is black or whether it is white, then these people who are supposedly dealing with these things have no possible way of coming to an accurate conclusion.

This, I think, is our major problem.

Senator Moss. The elderly people as a group, of course, do not have high incomes and what sort of amounts are we generally talking about that you find these problems coming up?

Mr. BURK. You will find these problems coming up all the way from \$3,800 up to \$7,800 or \$8,000.

Senator Moss. They are pretty well in that bracket.

Mr. BURK. Pretty well within that bracket. I think it would be very interesting if IRS could go back to all of the schedule R's that they have received this year and perhaps all they had in retirement income credit on part 5 of schedule B last year and the years before and tell us what percentage of people were involved with this foreign tax credit or with investment credit.

I think they could perhaps find out that you had such a smaller percentage that it wasn't worth putting on there. In my experience I have never had one that was involved with that.

I would say that I made well over 2,000 tax returns and I have never had a single one that was involved with this particular question.

The CHAIRMAN. They have two parts of that: Foreign tax or tax-free covenant bonds. What are tax-free covenant bonds? Are those municipal bonds? What are tax-free covenant bonds, gentlemen?

Mr. BURK. I have never had a good answer on that particular part of it. But down in the lower part, they talk about foreign tax credit and investment credit. Down on the lines farther down where you are figuring out, I think lines 14 and 15 on your schedule R.

SPECIAL PROBLEMS FOR WIDOWS

Senator Moss. What particular problems do the widows have? I think Mr. Funston said the widows have greater problems than other older people.

Mr. BURK. The problem is that they have never made an income tax to begin with. Their husband has always made it. They know nothing about what they are entitled to one way or the other, and if somebody says it is this way and one of their friends says it ought to be done this way, they take it for the truth and don't investigate, and they overpay and they will overpay for many, many years.

We have a situation in the State tax in Virginia that has been in their law for a number of years. The husband dies and the widow has a completely new basis for recovery in the State of Virginia, which is the only place I know that it applies. But in Virginia they will figure her life expectancy and her annuity at that time and figure this is the new basis which she has to exhaust before any of her annuity becomes taxable, so the widows in Virginia, the majority of them, are paying taxes on annuities every year that they should never pay on until they go beyond their life expectancy.

None of that should be taxable until they go beyond the life expectancy. But the widows in Virginia are paying it because they don't know.

The CHAIRMAN. You know, this is so complicated, it makes you wonder why Mr. Mollenoff wants to see everyone's return.

Mr. BURK. I certainly agree with you.

The CHAIRMAN. When in doubt, overpay. That is the way I have been doing. Give them the benefit.

Senator Moss. I believe that is all I have.

The CHAIRMAN. You gentlemen are going to stay with us while we hear the other witness.

The Commissioner of Internal Revenue Service Mr. Randolph W. Thrower.

We appreciate your being here with us.

**STATEMENT OF RANDOLPH W. THROWER, COMMISSIONER OF
INTERNAL REVENUE**

Mr. THROWER. I am very happy to be here, Mr. Chairman, and along with Assistant Secretary Cohen, I assure you we share your concern about the problems of the elderly as it relates to their observance of the tax responsibility.

I appreciate the committee's invitation to testify because I think our elderly citizens deserve to have their problems explained and to have solutions devised.

I am also glad to have this opportunity to correct some very unfortunate misapprehensions about the tax returns of the elderly. In his letter inviting me to testify, the Chairman said :

In recent months there has been substantial criticism of the new 1040 income tax form, with the most recent revelation being that more than 50 percent of the nation's over-65 taxpayers have overpaid their returns.

With all due respect, I must advise the chairman that he has received incorrect information and I know he will want me to state the facts. The facts are :

1. The new tax forms had nothing whatsoever to do with the errors discovered in tax returns of over-65 taxpayers. No statement made by the Assistant Secretary for Tax Policy, Mr. Cohen, would support this conclusion. Since the new forms are only now being filed, they could hardly have been the basis for Mr. Cohen's statement. The errors in question were found in a 1965 study of selected returns filed by civil service annuitants and were reported to the Treasury at that time.

Furthermore, as I will explain later, the mistakes found in these returns resulted from complexities in the tax laws and cannot be cured by new forms, which is why it was reported to the Treasury.

2. There is no evidence to indicate that 50 percent of the over-65 taxpayers overpay their taxes. This misapprehension arises from a misunderstanding which Assistant Secretary Cohen will clarify.

3. As we will explain, the financial affairs of the elderly tend to be more complex and their tax returns are, on the average, more difficult to prepare than those of younger citizens.

4. The Internal Revenue Service is already active in seeking ways to help annuitants to cope with the statutory requirements relating to pensions and annuities. And this you have encouraged. Mr. Chairman, and we have had the cooperation and it worked with the two previous witnesses, Mr. Funston and Mr. Burk.

5. The Internal Revenue Service is also assisting the Office of Assistant Secretary Cohen in his search for ways to simplify the statutory provisions.

REASONS FOR ABOLISHING SHORT FORM

Before proceeding with the special problems of the aged, I want to set the record straight also about our new income tax forms. For many years we had a short form, form 1040A, which could be crowded onto the two sides of a punch card simply by omitting many income, deduction and credit items which were presumed not to be generally applicable to the average small wage earner.

The rub was that the small, inexperienced wage earner had to understand all of the items that were missing from the 1040A so that he would know when he should or should not use it. The illusion that small wage earners could do this was destroyed when we made special examinations of many of these returns and found that a significant number of users of the short form were overpaying their taxes because the short form did not allow many tax benefits such as itemized deductions, retirement income credit, sick pay exclusion, head of household status, surviving spouse status, and so forth.

The retirement income credit and the sick pay exclusion are of particular importance to the elderly. They were among those who were expected to be benefited by our new form, making all deductions, exclusions, and credits readily available to all taxpayers entitled to them. I cannot imagine anyone who would want to save a few square inches of paper at the cost of depriving these or any taxpayers of their statutory rights under the tax laws.

It has been our experience in our tax assistance centers that we are providing during this filing season assistance to 25 to 30 million taxpayers, which gives us a very broad exposure and does indicate tentatively that we will make more complete surveys that the elderly and other taxpayers who previously had been missing the benefit of credit, deductions and exclusions by using the 1040A, are now becoming familiar with the benefits that they had missed in the past and are taking advantage of them in the returns.

After exhaustive study, the only feasible solution we could find was to consolidate the short form and the regular form 1040. Moreover, we did this by devising a building-block method that would enable a large portion of the taxpayers—nearly half—to complete their returns by filling out a 1-page basic form. This 1-page form differs only in a few lines from the old short form, but the few extra lines assure that the taxpayer can readily claim all of his tax benefits. Since millions of other taxpayers have more complex tax problems, the 1-page form is also designed so that it can be supplemented by whatever special schedules are needed to meet each taxpayer's personal needs.

Today is April 15. By tonight this filing will be completed on these new forms. Although the new form was thoroughly considered and tested before final approval by me, there is no testing like that provided by 100 million taxpayers filing more than 75 million returns on the new forms.

We have already learned much from the millions of taxpayers contacted in our taxpayer service centers. Moreover, the new returns will be carefully scrutinized for defects or ambiguities. In addition, we will be surveying taxpayers to get the benefits of their personal experiences. Out of this, we hope, will come the knowledge necessary to make such modifications as are best designed to facilitate the taxpayers' use of next year's forms, which will have to be printed in the fall.

Of one thing I feel most confident. We will never go back to a so-called short form which deprives taxpayers of their rights and benefits. We would, of course, welcome laws which permitted the use of a short form without loss of benefits.

As Assistant Secretary Cohen will tell you, the Treasury is working on some ideas for simplifying the tax laws. We in the Internal Revenue

Service have strongly encouraged this and are helping him. This is the way to get simpler tax forms with justice to the aged and to all taxpayers.

It seems to us that, pending legislative simplification by the Congress, the best service we can render to the aged is to provide for them the best tax information and assistance that is possible. This is a worthwhile and meaningful directive on which the Internal Revenue Service is actively at work.

Because the Civil Service Commission is one of the very large payers of annuities, we have initiated several pilot projects with it. From these test projects, we hope to develop techniques that can be used throughout the country to help the elderly.

As a first step, the Service and the Commission jointly developed two small pamphlets—one for old-age retirees and one for disability retirees. These have been mailed to all retirees and give them a relatively simple explanation of the tax rules. Of course, these small pamphlets cannot cover the most complex situations. To provide a source for counseling on the more difficult cases, a 200-page comprehensive handbook is in process. This handbook will include all of the voluminous actuarial tables which are necessary to meet statutory requirements. We expect this handbook will be ready in the very near future.

STATEMENTS FOR FEDERAL RETIREES

Of even greater importance to the retired Government employee, the Civil Service Commission has, upon our recommendation, begun furnishing annual statements to annuitants to show the gross amount paid each year. The next step will be to compute the taxable portion and the Commission will begin doing this in as many cases as possible, starting with the statements to cover the year 1971.

Unfortunately, payers of annuities have not always been able to inform annuitants as to the taxable portion of their payments. Recently, we studied 25 of the largest funds and companies, which account for about one-fifth of all the annuities paid in this country, and found only three payers who furnished this information to annuitants. Usually the payers did not have enough information to make individualized adjustments for differing tax statutes.

As we go deeper and deeper into the problems of the aged, it becomes apparent why the tax problems of many elderly are more complex than those of younger taxpayers. Obviously, this is not true of all older citizens. Unfortunately, many of our elders have no tax problems at all for the sad reason that they have little or no income. The old couple living with relatives or dependent on relief usually has no tax problems.

SIX MILLION ELDERLY FILE RETURNS

But there are still over 6 million persons 65 or older who file tax returns. They constitute 9 percent of taxpayers. As Assistant Secretary Cohen will explain, the new tax law should reduce this number in future years.

Let's look at the figures for 1967, the last year for which a detailed analysis is available. In 1967 it was clear that the over-65 taxpayers, on the average, had more difficult returns to prepare than younger tax-

payers. Most young taxpayers had only wage and salary income, which is easy to handle, especially since employers are required to furnish annual statements showing the wages paid and the tax withheld.

It is obvious that many elderly persons are retired or unable to work. The figures show that less than half of the over-65 reported wages, while 94 percent of the under-65 reported wages. On the other hand, look at nonwage income.

Dividends were reported by 30 percent of the aged, by only 7 percent of the under-65. Interest by 78 percent of the aged, 38 percent of the younger.

Business income or loss (including sole proprietorships, partnerships, farm and nonfarm, and so forth) was reported by 11 percent of the elderly, compared to 8 percent for the younger taxpayers. Rental income or loss appeared on 25 percent of the returns of the elderly, but only 7 percent of the younger.

Furthermore, due to high medical expenses and other items, the over-65 found it necessary to itemize their deductions in 47 percent of the returns, compared to 40 percent for others.

In citing these figures, I have saved for last the data on pensions and annuities. As Assistant Secretary Cohen said, this is a very difficult tax area. Yet, 28 percent of the over-65 had to wrestle with this problem in 1967. Obviously, few young people have this problem.

The present problems with pensions and annuities date back to 1954 when Congress enacted new rules designed to provide more equitable treatment of this kind of income. As often happens in tax law, equity sometimes requires a multiplicity of complex formula. If a pension or annuity is paid entirely by the employer, it is fully taxable and there is no problem.

However, if the annuitant contributed to the pension or annuity, then the annuitant or his survivor must face the question of determining what portion is taxable, and the proper timing for reporting it. Some of these cases are reasonably simple, but some are so difficult that only a handful of specialists can provide the answers.

As I said earlier, this is not a forms problem. The schedules for reporting pensions and annuities were not changed from 1968 to 1969, except to change the designation from schedule B to schedule E. Copies of these schedules will be made available to the committee.* As you can see, the schedules look simple. They call for very few entries. The difficulty is in the collection of laws, regulations, court decisions, actuarial tables, and other materials that must be considered before writing down the numbers.

Another complexity for the aged is the retirement income credit. When Congress enacted this in 1954, it surrounded the credit with so many restrictions that it takes a whole page of computations to figure the amount of the benefit. Here again, there is no blame for the new form. The schedule is the same as it was the year before—except for being designated as a separate schedule R instead of being tacked onto the back page of schedule B the year before.

In its desire to be generous to the elderly, the Congress has enacted several other provisions, each of which adds some element of extra complication which is not applicable to the tax return of a young per-

* See schedule B, p. 71, and schedule E, p. 78. For additional forms and schedules, see pp. 65-83.

son. For instance, when an over-65 taxpayer sells his house, whether to move into an apartment or for any other reason, there are special rules. There is a special additional exemption for over-65 taxpayers and spouses in the case of certain pensions, there is a death benefit exclusion.

I can assure you that the Internal Revenue Service takes a very serious interest in the problems of the aged. I appreciate Mr. Funston's and Mr. Burk's endorsement of this.

We meet almost daily with elderly citizens. We are painfully aware of the complexities and frustrations that are involved. And, within the scope of our authority, we are anxious to provide relief and assistance.

One of the things we can do is to provide information. We already have available on request in our district offices pamphlets entitled "Tax Benefits for Older Americans" (publication 554) and "Retirement Income and Retirement Income Credit" (publication 524). In addition, we have three leaflets dealing with civil service annuities for disabled and retired persons. Of course, our standard publications, such as "Your Federal Income Tax," also provide a wealth of helpful information, including a workout of the retirement income schedule.

ASSISTANCE TRAINING PROGRAM

Last fall the Service embarked on a taxpayer assistant training program for the elderly. This program was available on a nationwide basis to local chapters of the various senior citizens' groups. Program participants, who are all unpaid volunteers, provided tax help to other retirees. We are currently evaluating the results of these efforts and will continue to explore methods for providing tax information—on a convenient basis—to the elderly. We anticipate that our efforts will go a long way toward assuring that this group of citizens pay no more tax than is required under the law and with the least inconvenience possible under present laws.

Of course, this program supplements our regular taxpayer assistance activity. Throughout the United States we have a corps of taxpayer service representatives who answer questions by phone and at our offices. This group is augmented heavily during the annual filing season, and furnishes free help to 25 to 30 million taxpayers. Much of this help is concentrated on the aged.

Let me say that we take the greatest interest in this program, particularly for all who may be in any way handicapped. For those foreign-speaking taxpayers with language difficulties we have special attention and programs for working with the blind and for other handicapped. Those who are hospitalized and those who are confined at home also receive assistance.

Let me say parenthetically that we get some pretty nice thank you letters from taxpayers along with the inevitable complaints.

As I indicated before, we are trying to help in another way by investigating the possibilities of getting the annuity payers to calculate the taxable portion of annuities and furnish the information to their annuitants, as the Civil Service Commission is planning to do for retired Government employees.

Meanwhile, we make studies from time to time of the complexities themselves, and assist the office of Assistant Secretary Cohen in his program of seeking simplification.

He will tell you of the fruits of this partnership which resulted in enactment of that part of the Tax Reform Act of 1969 which raises the filing requirements so that millions of the elderly will hereafter be excused from filing tax returns of any kind. Furthermore, the act will stop the withholding of income tax from the wages of occasional and part-time workers, such as the aged, who can certify that they owed no tax for the preceding year and expect to owe no tax for the current year. Previously, many elderly citizens who owed no tax had to file tax returns to get refunds of the withholding tax.

This is the true path to our common goal of easing the tax problems of the elderly. This is also the way to make possible simpler forms and procedures. No one will be happier about this than the Internal Revenue Service.

Since the Assistant Secretary and I have a divided responsibility here and some questions directed to one may fall within the special interest or knowledge of the other, you might wish to hear his statement and then ask questions.

The CHAIRMAN. That is fine. We will proceed that way.

STATEMENT OF EDWIN S. COHEN, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. COHEN. Thank you, Mr. Chairman.

The Treasury welcomes the opportunity to appear before the Special Committee on Aging to discuss the tax treatment of senior citizens.

President Nixon recognized the economic needs of retired persons last year when he proposed to raise social security benefits to overcome the hardship of inflation. The Congress followed this recommendation at the year's end by providing a benefit increase of 15 percent, which is even more than the percentage growth of inflation since the last benefit increase in February 1968.

The President last year also recognized the need to improve equity under the Social Security System. He recommended an increase in the limits on the amounts that can be earned without a reduction of social security benefits. He also recommended an increase in widows' benefits to make them comparable to what their husbands would have received. The Congress is now considering these and other recommended improvements.

This administration is also concerned about the fair distribution of the Federal tax burden, particularly as it applies to the elderly. It is also much concerned with making the tax-reporting requirements as simple and easy to comply with as is possible within an equitable tax structure.

Last year the President recommended enactment of the low-income allowance and other income tax changes designed to raise the tax-free income levels for all taxpayers, including particularly older taxpayers. This goal was implemented in the Tax Reform Act of 1969, which adopted the low-income allowance, increased the personal exemption and increased the standard deduction.

Mr. Chairman, sometime earlier, I believe, reference was made to the complexity of the statutory language of the low-income allowance, although this rather complex language was necessary to phase-in the low-income allowance at a revenue cost that was feasible under present

budgetary constraints, the complexity does not affect individual taxpayers, who never need the statutory provision. The low-income allowance went into operation on January 1, 1970, with no difficulty at all by reducing tax withheld from employees who qualify for the allowance. When it is time to pay 1970 taxes, the taxpayer will not have to complete his tax, for the low-income allowance will be built right into the tables.

When the Tax Reform Act becomes fully effective, a married couple both of whom are over 65 will pay no Federal income tax until their income—exclusive of social security benefits—exceeds \$4,000, an increase of \$1,000 over the 1969 tax-free level of \$3,000. If they receive the maximum social security benefits, their total receipts can reach \$7,615 before they are subject to Federal income tax.

Similarly, a single individual over 65 will be able to have income of \$2,500—exclusive of social security benefits—without tax—up \$900 from the 1969 tax-free level of \$1,600. If he receives maximum social security benefits, his total receipts can reach \$4,877 without tax.

CHANGES IN FILING REQUIREMENTS AND WITHHOLDING

Moreover, as the administration recommended, the Tax Reform Act provides that those who receive gross income below these levels will be relieved entirely of any obligation to file income tax returns. Under the prior law returns were required for a person or couple over 65 if the gross income received exceeded \$1,200.

In addition, as the administration recommended, the act relieves from withholding those employees who certify to their employer that they had no tax liability for the preceding year and expect to have no tax liability in the current year. About a half million persons over 65 continue to work, but are nontaxable because of low taxable incomes. The new relief from withholding will be particularly helpful to these persons because they will not have to file tax returns to recover any tax withheld, as was necessary under prior law.

Because of the changes in the filing requirements and withholding provisions, more than 2 million persons over 65 will be relieved of the need for filing tax returns.

Again, the increase in the standard deduction—from 10 percent of income, with a limit of \$1,000, to 15 percent of income with a limit of \$2,000—will simplify the returns of many elderly persons by eliminating the need for itemizing personal deductions.

\$640 MILLION IN TAX RELIEF UNDER TAX REFORM ACT

It is estimated that persons over 65 will have a 1969 income tax liability of about \$7.3 billion, exclusive of the surcharge. When fully effective, the relief provisions of the Tax Reform Act will reduce this liability by \$640 million (at 1969 income levels), a reduction of about 9 percent. The tax liability of those persons with adjusted gross incomes below \$10,000 will be reduced by more than 25 percent, and that of persons with adjusted gross incomes below \$5,000 will be reduced by more than 54 percent.

I believe, therefore, Mr. Chairman, that the Tax Reform Act of 1969 has made major progress for the benefit of those over 65. Nevertheless, as a part of our Treasury program, we have been reviewing

what further changes in the statute or regulations might be made to achieve additional simplification of the tax laws. Accordingly, I chose this subject as the topic for a speech that I gave in New York City on March 18, 1970, at a dinner honoring Chairman Wilbur D. Mills, of the House Committee on Ways and Means. Chairman Mills, as well as Chairman Russell B. Long, of the Senate Committee on Finance, have on many occasions called for simplification.

In that speech, after reviewing some of the accomplishments of the 1969 act, I made the following statement :

Yet so much more needs to be done. Let me illustrate with a reference to the reporting of pensions and annuities received by retired individuals. More than 6 million persons now receive such payments and the number constantly increases. We have made a survey of the accuracy with which recipients of Federal Civil Service pensions report these amounts on their tax returns. In one study, which included some moderately complicated situations, we found that 75 percent of the tax returns reported these amounts improperly. Not only so—and this is the startling aspect—two-thirds of those reporting incorrectly overstated their taxable income and paid too high a tax.

This statement of mine has been erroneously understood by some persons as a report that 50 percent of the taxpayers over 65 years of age have overpaid their Federal income tax. I did not make such a statement, and I am grateful for this opportunity to make that point clear.

The statement in my speech used pensions and annuities as an illustration of the need for further efforts toward simplification of the tax law. I was referring not to all taxable persons over age 65, but only to those taxpayers who reported taxable receipts from pensions and annuities; and the date of the study to which I referred, in which half of the recipients overpaid their tax, was limited to a sample of persons receiving Federal civil service pensions. Let me explain this further.

1.8 MILLION REPORT PENSIONS AND ANNUITIES

There are some 20 million persons in the United States over age 65. Using the data from 1967 tax returns, the last year for which we have complete statistical data, these persons filed about 6.6 million returns (some are joint returns of married couples). Of these returns, about 3.9 million showed a tax liability and the balance were nontaxable.

Of all these returns (both taxable and nontaxable) about 1.8 million reported some pensions and annuities that constituted taxable income. However, about 700,000 of these tax returns showed no tax liability. Thus only about 1.1 million returns of persons over age 65, which reported income from pensions and annuities, showed a tax liability.

Most private pension plans are financed entirely by employers without any contributions from employees. In such cases, the entire amount of the pension constitutes gross income to the employee and there is no difficulty in the application of the tax law. Available data indicate that almost two-thirds of the persons now receiving pensions made no contributions to the cost of their pensions.

The complications arise mainly where the employee has made contributions to his pension through deductions from his salary, or where he has died and payments are made to his beneficiaries. The Federal civil service system is one in which the employee contributes amounts out of his salary toward his pension, and some rule is needed to prevent

the taxpayer from having to pay tax on the amount that represents the return to him of his own contributions.

It appears from the study of civil service system pensions that I mentioned, which was made in 1965, that recipients of pensions under contributory pension plans have difficulty in determining the taxable portion of their total pension receipts, and we are examining possible simpler methods to enable them to make that determination.

Under the present tax law a further complication is introduced where payments are to be made under the pension plans to the employee's beneficiaries after his death. Among other items the income tax provision allowing exemption of the first \$5,000 of death benefits payable in the aggregate upon the death of an employee causes problems where he leaves more than one beneficiary or there is more than one party paying the death benefits. In such cases the single \$5,000 exemption must be allocated between the payments to be made. We are trying to find means of simplifying the rules where payments are to be made under pension plans after the employee's death.

That, Mr. Chairman, explains the reason for my other remark in that speech about the difficulty which even tax experts would have in determining the taxability of pensions received by a widow of an employee who is under a contributory system because there you have combined both problems—the need for having a rule to permit tax-free return of the contributions made by the employee himself and also the additional complications that occur when equitable adjustments are made by reason of the death of an employee.

Pensions and annuities are complicated matters, involving actuarial principles which relatively few people fully comprehend or are trained to handle. After experimenting with two earlier simpler systems,¹ the Congress in 1954 developed what is essentially the present law in an effort to make the income tax result conform to the actuarial principles involved, and to insure a precise determination of the portion of the pension payment that truly represents income to the recipient.

However, the effort to achieve full precision and equity in this field leads to complications where the employee has contributed to the pension, where amounts are payable after his death, or where other special factors are involved. We in the Treasury are reviewing the matter to see if it is possible to simplify some of the present rules without causing the recipients to pay any more tax than is proper.

In particular, we are seeking means by which the persons who pay out the pensions can more readily inform the payee and the Internal Revenue Service of the taxable portion of the gross payment. At present, particularly where payments are to be made after the death of the employee, this may not be feasible because the taxable portion may depend upon information which the recipient has but which the payor does not have. We are searching for some practical modification of the system so that the payor can more readily assist the recipient and the Service to know the taxable portion of the gross payment.

I should add that these problems are not confined to persons over age 65. In 1967 more than 600,000 taxable returns involving entirely per-

¹ Prior to 1934, annuity payments were deemed to be return of capital and therefore nontaxable until the recipient's contributions were recovered. From 1934 to 1953, the annuitant was taxed on payments up to 3 percent of his total contributions. Any payment in excess was considered return of his costs until the total of his tax-free payments equaled the total of his costs. Then the entire payment was taxable.

sons under age 65 showed taxable pensions and annuities received, as compared with 1.1 million taxable returns involving one or both taxpayers over age 65.

SIMPLIFYING THE RETIREMENT CREDIT

I should also add that we are studying as well the related matter of the retirement income credit. Several proposals in the past have been made for simplifying this provision of the tax law, but none have been adopted by the Congress. The present provision in the tax law, adopted in 1954 as a means of equating those who do not receive adequate social security benefits with those that have nontaxable social security payments, is a rather complex one, requiring a full separate page on the tax return. We are reexamining this provision to see if some simpler solution can be found.

I might say, Mr. Chairman, that when the Tax Reform Act was under consideration by the Ways and Means Committee in the House of Representatives last year, the staff of the Joint Committee on Internal Revenue Taxation and the Treasury Department explored with the committee some of the possibilities of this, but it was concluded that it would take more time than was then available, and I think that it will receive further consideration in the future.

I might answer at this point one or two points that were raised earlier as to the present complexity of the retirement income credit. One reference was made to the foreign tax credit. The law provides that the retirement credit shall not exceed the tax computed after deducting any credit allowed with respect to the foreign tax credit and certain other credits (such as the credit relating to tax withheld at the source on tax-free covenant bonds which is an anachronistic provisions because it only applies to such bonds issued before 1934). This provision is basically designed to avail tax refunds where the same income is subject to more than one credit. About a third of those who claim the foreign tax credit are persons over age 65, because those persons will frequently have investments abroad.

I might also explain that I think the reason why the Congress in the past did not adopt the method of excluding the retirement income from tax as opposed to a credit mechanism was that many individuals over age 65 are wealthy. If you make retirement income nontaxable, the benefit to individual taxpayers will vary according to their tax bracket. If a person is in the 70 percent bracket, he will get a much greater tax reduction from excluding some of his retirement income than a person would get if he is in a lower bracket. Then Congress, when it adopted the Retirement Income Act of 1954, was trying to prevent the higher bracket people from obtaining a greater benefit from the adjustment for retirement income than the lower bracket people which would not be the case if an exclusion mechanism were used.

In concluding my speech of March 18, I said :

I do not despair of further simplification for the great masses of taxpayers. We have begun a new look at the problem in the Treasury and will report to the Congress and to the public. We trust our study will be productive. To the extent complexity must remain, at least we shall have identified the causes so that all will know and be aware of the reasons.

In making this study and preparing this report we shall be pleased to receive suggestions and comments, especially, Mr. Chairman, from the members of this committee.

Thank you.

(See Appendix 2, Item 1, p. 59 for text of speech.)

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

I want to turn to schedule R.

Under item 10, credit claimed for foreign taxes. You just dealt with that, Mr. Cohen. And the other, or credit claimed for foreign taxes or tax-free covenant bonds.

Now, is it an "or" or an "and"? Is it a plus factor or either or?

Mr. COHEN. It would be either one. Here you are making adjustment for whatever credit the taxpayer has claimed for income taxes paid to foreign governments or whatever credit he has claimed in his return for tax paid by the issuer of so-called tax-free covenant bonds. The total of the two.

The CHAIRMAN. All right. Now let's deal with the second credit claim here, or tax-free covenant bonds. Credit claimed.

Mr. COHEN. That provision is an anachronism at this point, I think, Mr. Chairman. It only relates to corporate obligations issued before 1934 where the issuer agreed to pay a portion of the recipient's tax.

Since these bonds may be still outstanding in some small amounts, the law has never been changed and you have to reflect this fact on the tax return. But it is a rare case today, I believe.

The CHAIRMAN. I see. These tax-free covenant bonds are not government bonds?

Mr. COHEN. No they are corporate bonds.

The CHAIRMAN. It says "credit claimed." Where in all of the form provisions here do we find an explanation? Where does he put in his credit claimed? Would that be on schedule T, the computation form?

Mr. COHEN. This is the case in which an individual has paid income tax to a foreign government on some income which is also subject to tax in the United States and the Internal Revenue Code allows him to credit against his American tax under substantial limitations.

The CHAIRMAN. Is that item 13 on schedule T, foreign credit?

Mr. COHEN. It must be on schedule T, but in addition, if you claim a foreign tax credit, you have to file form 1116, and more than 150,000 persons have claimed that credit on their individual income tax returns.

The adjustment is made because some people may pay all of their tax to a foreign country, all of their income might come from within a foreign country and by virtue of the foreign tax credit they would have little or no U.S. tax to pay. In those cases an adjustment should be made in calculating the retirement income credit or otherwise a person would get a higher retirement income credit than would be fair because, in effect, he would not be paying to the United States the tax against which the retirement income credit is claimed.

The CHAIRMAN. I hate to belabor it so long, but this is perhaps some evidence of the great confusion and complexity of these forms for anybody and, of course, we are concerned particularly with the older people. Now I still don't find anywhere where this tax-free covenant bond business goes into the tax computation.

I can see where it is there for retirement income credit, but where does it appear when you finally get down to the last line and you have computed your tax? While the people look that one over, up until this past year, graduating students most in demand were engineers. Last year it shifted to accountants. I can see why.

Mr. THROWER. Senator, we are certainly happy to have any suggestions with respect to preparation of the forms.

The CHAIRMAN. We will get that clarification of tax-free covenant bonds straightened out, because that is a real complicator for retirement credit.

Forms are reviewed by computer, aren't they?

Mr. THROWER. Well, our forms are processed. I would not want to say that each form, that is, each return in full is computerized in the sense that you might have in mind.

The CHAIRMAN. But in your reviewing, in your sampling, whatever your procedures for checking forms, the computer is a vital element, isn't it?

Mr. THROWER. There is no question about that, yes. It is essential in our processing of the 75 or more million tax returns that are filed, yes.

The CHAIRMAN. If somebody overstates his tax-free covenant bond claim, will that computer find it?

Mr. THROWER. It will not, no.

"THERE IS A LOOPHOLE"

The CHAIRMAN. There is a loophole there somewhere.

Mr. THROWER. We investigate returns selectively and at that point would presumably investigate the items and deductions reflected on the return. If there is an overstatement or an understatement of any income, credit, deduction, exclusion or otherwise, that would be adjusted on the audit.

The CHAIRMAN. This is not my area of specialty and I can be less than helpful.

Mr. THROWER. There would be nothing on the face of the form to indicate whether the statement that is set forth as to the amount of the credit, that is, an overstatement or understatement, and there is nothing on the form which indicates that when one claims a deduction, that is an overclaim or an underclaim.

Senator Moss. Mr. Thrower, I think you would agree our tax system depends on voluntary compliance. That is what we have always based it on and we think that is the reason it would be successful, but isn't it implicit in voluntary compliance that there has to be a simple and understandable way for the taxpayer to voluntarily comply in fixing his tax return?

Mr. THROWER. Certainly that is highly desirable an objective and I would heartily endorse that, Senator, yes.

Senator Moss. The thing that concerns me a great deal is conflicting information the public has been receiving. I have looked at my television and John Cameron Swayze is on there saying that is speaking for H. & R. Block and he is telling the viewers that their tax returns are much more complicated this year and they can get the services in

helping them fill out their forms, and then I see you on there, too, saying that the new form is really no more complicated than the 1040A card form and can readily be filled out. There is a sort of a TV credibility gap there.

I wonder if you might explain that to me.

Mr. THROWER. Senator, there is a great deal of commercial advertising on television and I think that we have all learned to accept it as such. I would be sensitive to any statements by a commercial service on television or in newspaper advertising which I thought overstated the situation which created a fright situation, a scare technique in order to stimulate business.

I have no reference, of course, to the particular instance you mentioned, but I will say that we had called to our attention from time to time during this particular season advertisements from a few of the very many concerns that are providing services that we thought inappropriate, and we will make a more complete survey of that because we think in this respect advantage is being taken of the taxpayer.

On the other hand, let me say that we realize the difficulty of adjusting to a new form. If the taxpayers had been accustomed to our present form and we had changed back to a system precisely such as we were previously following, the dual form, there would be great confusion in that, I think even more.

So we realize that it is not an easy undertaking to adapt to a new form in the first year. Consequently we would not have made this major step unless we thought the circumstances compel it. I think some of the testimony that has been brought before you here this morning would illustrate some of the reasons that we thought compel it.

SHORTCOMINGS OF 1040A

Primarily, so far as I was concerned, the overwhelming demand for the change was that many people who had been filing 1040A, and this included the elderly, were not getting the benefit of deductions, exclusions, and credits to which they were entitled. I don't deny that simplicity is lost when one goes to further items of deduction, exclusion, and credit.

In our taxpayer assistance centers these benefits have been our primary concern. This is what I have reported to me and I have talked to many as I visited, and I have asked, are we getting complaints? And I am particularly sensitive to those who have been filing 1040A. I have been advised that a great deal of interest is being expressed by these taxpayers in the benefits that they have heard mentioned that they might have been missing.

What are these benefits? They are primarily itemized deductions, sick pay exclusion, and retirement income credit. So I acknowledge with respect to the returns, we have career people that are dedicated to the very things you have stated and have been working in this area for years and to whom I give the greatest credit, who have worked on these and have tested them fully, in an effort to meet the needs of 100 million taxpayers with all of their different circumstances and conditions and personalities. We learn a lot. And I think we have found that there are modifications which will make it easier for the next year.

Taxpayers next year will have the benefit of this year's return before them and I think the problems of adjustment have, if anything, been less than might reasonably have been anticipated. I have been impressed with the maturity and responsibility and ability of taxpayers. Much has been said about taxpayers not filing returns. That is not so. The most recent figures that I have available here, which run through the week of April 11, indicate that in numbers, total number of returns filed, 3.3 percent ahead of last year. And this is despite the few days that were lost in some areas during the postal strike when people were encouraged not to mail them.

And so far as our refunds, returns claiming refunds and we have encouraged people to file these returns early so we could make the refunds early, this has been the principal thrust of our encouragement to taxpayers to file early. As a result, these are running numerically 9.2 percent ahead of last year and in terms of dollars, 31.7 percent ahead of last year.

Senator Moss. I am glad to hear those figures, but I am reading from an article in the press of yesterday. It quotes Chairman Wilbur Mills of the House Ways and Means Committee saying that this year's forms are excessively complicated and this is a quote :

They are the most complex forms ever used. We have done nothing in the way of tax legislation to make them come out that way.

And this writer for Scripps-Howard says from unofficial evidence, is that in filing our Federal income tax forms this year more Americans made more mistakes and had more trouble understanding directions that at any time since Uncle Sam started collecting income taxes 57 years ago.

What is your reaction to that quote?

Mr. THROWER. My reaction to that is that his reference to mistakes that are made, I think, must depend upon the statistical reports from our service centers. We will have reports on this available when the filing season is completed.

Tentative information which I have received from time to time would not indicate a substantial difference in this respect. I have just been advised by the Assistant Commissioner, Brisbin, that his understanding is that there are fewer errors this year. This was certainly the information that I had received from some service centers that I have visited.

Since it is tentative, I did not want to make that claim, but I think there have been repeated overstatements with respect to difficulties in this year. Reporters, spokesmen, or others have continued to report up until recent days, for example, that there is such a great problem here that returns are not being filed.

As I reported to you, they are ahead numerically. For a few weeks they ran behind and we did announce this and we quickly caught up and I corrected it and yet the statement is made upon reports back in February and have continued to be made despite factual data to the contrary.

Senator Moss. Might it be possible if there are fewer errors it is because more and more people sought outside help in making out their return for them this time?

Mr. THROWER. We will survey this when the filing season is completed. That certainly would be a factor, but I think taxpayers are spending possibly more time and giving more attention to the returns because they are new and I have had the report that they do reflect more careful attention.

I got this from one service center that they do reflect more careful attention and this was not attributed to returns prepared by professional sources.

50 PERCENT OF TAXPAYERS SEEK OUTSIDE HELP

Senator Moss. An article in Business Week indicates that or estimates that 50 percent of all taxpayers sought outside help in preparing their tax returns. Is that desirable or undesirable?

Mr. THROWER. That has been true for 5 years or more, Senator. I know many taxpayers of high income who customarily, and for years, have had professional certified public accountants. If this service can be made available at a low cost to taxpayers and it is conducted in a professional way, there is no imposition upon the taxpayer, and there is a high degree of responsibility in undertaking to assist the taxpayer.

I certainly see no reason why I would criticize availability of it to low-income taxpayers any more than one might criticize its availability to high-income taxpayers.

Senator Moss. I can't agree with you at all. I would expect the taxpayer that had a large tax that he was going to be liable for to want to get help. First of all this would enable him to find areas where he can minimize his tax but now we are talking about people that just have a small amount of tax to pay and instead of being able to work it out and pay it, they presently have to go and pay for consultation and help.

I am quoting from an article in the Washington Post by Peter Benchley, who says and he is quoting an official of H & R Block Co.:

The Government opened the gates by eliminating the short form. Our market just got flooded with 21 million more customers.

If 21 million more people had to pay \$5 to \$50 to have their tax form filled out, it is easy to multiply that and see that it cost the low-income taxpayer maybe \$200 million or some large amount like that.

Mr. THROWER. Senator, I stated that I would take no exception to the availability of these services to low-income taxpayers. One might have many elderly who have a rental income where they must take into account depreciation, which under the law is difficult to compute.

They might have other calculations and if it is done on a professional basis, at a low cost, I won't take exception. At the same time, we undertake to advertise widely that we have services available. We encourage taxpayers to pick up a telephone and call.

I might add that we are now undertaking to introduce a center phone program where any taxpayer in any city or town or hamlet, having availability of the telephone, can pick it up and telephone and get taxpayer service from our assistance center.

Unless the law, Senator, is greatly simplified beyond the present law, many taxpayers will need some assistance as the elderly couple with some rental income figuring depreciation and the like. We encourage them to come into our assistance centers or pick up a telephone and get aid in this respect.

Senator Moss. I asked one of the earlier witnesses the range of taxable income we were talking about, these elderly people we have been discussing, and he said maybe \$3,800 to as high as \$7,800, and a person in that income bracket isn't going to owe a vast amount of tax when he gets it computed out, no matter whether he goes through all of this business or not.

Mr. THROWER. When he gets the benefit of all of his deductions and credit, he is not. He can owe more if he doesn't get these benefits.

Senator Moss. What I question is the great benefit that comes to him by saying, well, you must file this more lengthy form for which you are going to have to employ somebody to advise you rather than having a 1040A where you may not have taken every bit of tax credits you might have done.

As I understand your testimony here earlier, page 4, you said you feel confident we will never go back to the so-called short form which deprives taxpayers of their rights and benefits. Of course, we don't want to see any of them deprived of their rights and benefits, but haven't we just switched it into another place where they have to pay the money?

Mr. THROWER. I think not, Senator, but I wondered from your opening remarks if you were making the recommendation to us that we do go back to a short form under the present laws.

Senator Moss. I fully feel we ought to have an option still where a person could make use of the short form if he wanted to do it.

Mr. THROWER. Senator, he now has that option if he wants to do it. The short form is the 1040. He can use that.

Senator Moss. I am talking about 1040A card form.

Mr. THROWER. If you take the old 1040A and compare it with the new form, you will find a line or two in addition. He can use that form and take none of the deductions or credits that we have had discussed here this morning. He has that choice.

In the past it has been, I am afraid, as a study has indicated, effectively taken away from him where we sent the 1040A to 17 to 18 million taxpayers on the assumption that it was appropriate for them based upon the fact that they had utilized it in past years.

Contrary to the old assumption, we have had a great deal more interest expressed by the elderly in the retirement income credit this year because they are just finding out about it.

Senator Moss. If there is no reason to itemize and using 1040, why do we throw out 1040A? Why can't you have 1040A?

Mr. THROWER. Senator, as I explained, the information required by the old 1040A is confined to our present one-page 1040. The mere fact that this was set out on the front and back of a card, I am sure you are not seeking to preserve that. Effectively that same form is available to one who has no need for the other schedules.

32 MILLION USE SINGLE FORM

We estimate that 32 million people or more will utilize only this single form, but we are in no position to know which of the taxpayers need the additional schedule in order to make the claim for credits and deductions and exclusions that Congress has intended especially for their benefit.

Senator Moss. I don't question your motives at all, but the net result has been that many people who formerly felt they could fill out their income tax return and put it in, have now suddenly felt that they must have help, they must have consultation.

Mr. THROWER. I think, Senator, this has been a psychological development to some extent. It is not entirely to blame because I recognize the difficulty of adjusting to a new style and new form. But this has been said by so many and so many times that it has created a scare psychology. I think this has been unfortunate and I think it has stimulated a lot more business for the commercial services than they had before.

If I am not mistaken, when you were referring to the statement of the gentleman representative of H & R Block—I have a report here—it may be the same one, of April 11, 1970, in the Christian Science Monitor where his statements were along the line of your remarks and he adds:

With respect to the retirement income credit, that it is vastly misunderstood because of the complexity of the new Schedule R.

I think statements like that are very unfortunate because we haven't made any changes in this schedule, the retirement income credit, except for cross references and for a slight change to avoid duplicating the surcharge computation required by Schedule T.

Senator Moss. Mr. Burton K. Wasser is quoted in Business Week as saying, "The new form per se has blown the minds of those who used to use 1040A in the past."

What you are saying about it being a psychological effect may indeed be true or at least in part be true, but the plain fact remains that this has sent large numbers of people for professional help of some kind or some kind of help for which they are paying fees in order to get their form made out.

What I am saying is rather than simplify, whether it be psychological or not, we have created a situation that has made it more difficult for people voluntarily to comply. They are fearful they cannot comply and, therefore, they seek help and what we should have is simplification rather than more complexity.

Mr. THROWER. Senator, I am all for simplification. I think the attention given throughout the year to the new tax bill, caused some taxpayers to look for new legislative provisions in the new forms. Initially when it was contemplated for passage earlier in the year, it had provisions applicable to the year 1969, but when it finally became law, only I believe on December 30, it had very little applicability to 1969.

This introduced some confusion. We would not have undertaken either for ourselves or for the taxpayer the burden of changing the new forms unless for very compelling reasons, some of which I have described. We thought the change was required and among those benefited are the elderly, and I think this is one reason why you are getting more interest expressed this year on the part of low-income elderly people.

Senator Moss. I thank you and I apologize that I am going to have to leave. I have a phone call and I know what they are calling me for and I have to go. I appreciate your testimony and the chairman undoubtedly will have a few more questions, but my misgivings remain and I am sorry we can't have colloquy further on it.

Mr. THROWER. Senator, I know your interest is constructive and I appreciate your expressions and you may be assured that we will be studying this very carefully. We have received many criticisms and we treat them as constructive. We have learned much already and particularly with respect to this area of the aged, as the witnesses indicated, we have been very sensitive for a long period of years.

Senator Moss. Thank you, sir.

Mr. MILLER. Mr. Chairman, resuming Senator Moss' line of questioning, I notice on the instruction sheet of 1040, the point is made that the short form is advisable under certain circumstances. I have a question in a possible response to Senator Moss' inquiry as to whether this might not be put on the tax return form in some way so it is more obvious to the taxpayer, as was the case with 1040A in the past?

Mr. THROWER. Of course, we are very happy to have the suggestion of that sort. When I reviewed this, I looked at the 1040A and at the new form which had been under consideration and had been brought to the point of a decision shortly after I took office.

I looked at the 1040A and I looked at the instructions that were sent in a booklet accompanying the 1040A, and it was apparent that one of the most difficult decisions that any taxpayer had to make was in determining whether or not the 1040A was appropriate to him. I think there were 12 different factors he had to take into consideration and if after finding that the 1040A was not appropriate for him, he had to go downtown and get the 1040 form and consequently, our survey, as you would expect, found that millions of people were not doing this and were losing these benefits.

Mr. MILLER. I expect you have no data on this, but I think it might be interesting to know how many people fill out the income tax without reading the instructions, just take the form. This is the reason I particularly raised the question as to putting this note on the form in some place so that nobody could miss it. You see what I am referring to, Senator Williams.

Mr. THROWER. I say less have done that this year.

Mr. Brisbin has suggested you would be interested in the comment that approximately half of the taxpayers of this country do fill out the tax returns without paid help.

The CHAIRMAN. Does every taxpayer get this instruction?

Mr. THROWER. No.

The CHAIRMAN. This is one that you have to seek out, the instructions that are contained in this Treasury bulletin?

Mr. THROWER. Would you read the number of the form?

The CHAIRMAN. I wondered what the distribution on the definitive instructions are.

Mr. THROWER. This is a part of the tax package sent to every taxpayer and is also available as a separate item, not in the package but to taxpayers who come in to get forms from our office.

The CHAIRMAN. This is sent to every taxpayer?

Mr. THROWER. This information is incorporated within the tax package sent to every taxpayer. Some taxpayers come in to get returns in our offices. We don't have a package made up as such. They, I believe, get a form and they get also these instructions.

The CHAIRMAN. Do you have one of the packages with you that the taxpayer gets?

Mr. THROWER. I will be glad to furnish this for the committee.*

Mr. MILLER. With the 1040A form in the past, the psychological emphasis was to encourage people to use the 1040A sometimes to their disadvantage. As this advice, that they can use part of the 1969 form in much the same way as the old 1040A, is a little bit submerged in the instruction sheet, even though it is a first paragraph, the psychological impact is the other way, is it not? Possibly this encourages people to go to somebody to help when all they need to do is to use the shorter version?

Mr. THROWER. I think that is a suggestion that we will check and be happy to take into account. I have not previously heard this commented upon, but certainly we would not disagree. We could consider blowing this up.

Mr. MILLER. It would be the human tendency to tend to ignore it.

Mr. THROWER. We appreciate that suggestion.

INSTRUCTIONS ON BACK OF FORM

The CHAIRMAN. Now we do have the package now presented and the material in this pamphlet of instructions is put in other form on the back of the tax forms that will be filed. The point was made that when you file, you file with your tax papers all of your instructions, which the point was that you don't have anything to guide you later on if you think you have made a mistake. But your instructions are part of the materials that you file.

Mr. THROWER. Senator, if I may make a personal comment, I think this is a mistake, which is one of those which we will take into account next year.

The CHAIRMAN. My final question was going to be, your observations and comments on the present system, as you have it, and what are the big problems that you see that should be changed?

In a moment I would like to have Mr. Funston to come on and make observations in colloquy with you, if I could. First of all, I wondered if you heard Mr. Burk's estimate of 50 percent of the older people who file make mistakes for one reason or another.

Do you have any way to estimate the accuracy to that statement?

Mr. THROWER. The "50 percent" reference that has been made by a number recently, and I don't know the source of Mr. Burk's information on which he based his judgment, came from a misunderstanding or misreporting of the comments made by Assistant Secretary Cohen.

Beyond that, we have no information from any survey that we have made that any such error as this exists in the returns of persons over 65. I would be happy to make available to the committee what we do have and certainly we are interested in reducing the error rate to the very minimum possible.

Senator, it might well be that it would be worthwhile for us when the filing season is concluded, which will be at midnight, hopefully, that we do survey this area and make some determination based upon sounding out taxpayers as to the experience of the elderly in present reporting.

* See tax forms, p. 65-83.

The CHAIRMAN. I have a copy of the statement appearing in the New York Times of March 17, byline Miss Eileen Shanahan. It says:

The Treasury Department is working on a plan to simplify the tax law provisions covering retired persons with pensions or annuities. As many as half of them may now be overpaying their taxes because the laws are so complicated they misunderstand.

That is an opinion and report in the paper. I will say I have no way to judge the extent of overpayment, the extent of mistakes in filing, but I sure agree with the complication of the procedures here.

Mr. COHEN. I think, Mr. Chairman, that was about the time of the speech that I delivered in New York and I believe Miss Shanahan's comments are related to those receiving pensions and annuities, which is the comment that I made.

The CHAIRMAN. That is right.

Mr. COHEN. To reduce the complication, we are hopeful that some system might be devised whereby the payor of the pension notifies the recipient. However, as I pointed out earlier, the tax question may hinge on information which is not available to the payor as to what the taxable portion is.

Reporting of interest and dividends by the payers— notifying the payees of the amount they receive—has proved extremely helpful. If we can do that with respect to payers of pensions and annuities, we will have improved the situation substantially.

Mr. FUNSTON. I wanted to ask one or two questions because I was very much interested in the statement that the two retirement income forms were the same this year and last year, that there has been no change. Isn't it true that there really have been changes in all references in schedule R to schedule T which were not in the retirement income form last year, because there was no schedule T?

Mr. THROWER. I did not mean to suggest that there were not changes in the designation of schedules and items because the cross-references had to be adjusted. For example, there is a change in the sense that it is not called schedule R in 1968 and I would think that there was a cross-reference in 1968. Is this the cross-reference for the surcharge?

It just wasn't schedule T because we didn't have one, but I assume it would have been somewhere else.

Mr. FUNSTON. What I mean is, I don't mean just the designation of R and T. What I am referring to is this: Isn't it a fact that last year in computing the retirement income credit, you did not have to go through the jigsaw business of going to one schedule and then the other and then crossing back again and coming back again, as you do this year?

Mr. THROWER. I think not in 1967, because you had no surcharge, but as I have just indicated, I think when the surcharge was imposed, you did have to have a reference back and forth. I think this was a misunderstanding. I asked that these schedules be prepared also for 1968 where the committee could make the cross-references and I was told that our form on the retirement income credit was simply an adoption of the 1968 form.

But if it is not, I will modify what I said to that extent.

Mr. COHEN. I have the 1967 form here and it seems to be substantially the same down through line 9, but on line 9 where it refers to schedule T, there was a reference to page 1 of the tax return form. There is just a difference in the reference, but there had to be a reference over to another page, and then the line for the credit for filing foreign taxes is the same.

The difference is with respect to the surcharge which was not in effect for 1967 and that will run out in 1970 and thereafter it will revert to the previous forms and drop out two or three lines when the surcharge expires.

Mr. FUNSTON. As a matter of fact, there are two additions to 1969, at least two items that were not on in 1968, are there not?

Mr. THROWER. I will be willing to supply the record to that extent, Mr. Chairman.

The CHAIRMAN. I didn't follow that. Did you gentlemen agree on something?

Mr. THROWER. I didn't either.

Mr. FUNSTON. I think there are some additions on the forms that are really changes. I am confused right here, but there is one point that you get a filing that doesn't seem to have a figure that is not relevant to the whole thing.

Mr. THROWER. Mr. Chairman, let me say I would certainly be happy to receive Mr. Funston's comment and in particular his suggestions on possible modification of the form. Within the limits of the present law we would be happy to receive those.

TENTATIVE CREDIT SAME AS FINAL CREDIT

Mr. FUNSTON. I would like to say that I have never seen on one of these things where the tentative credit marked about halfway down the form is not the same thing as the final credit, and I wonder why after you get to the tentative credit, you can't really eliminate most of the questions following that, because the tentative credit takes the retirement income, deducts the social security, deducts the earnings, takes 15 percent which is really relatively simple, and that is the credit.

Then you go and ask a lot of things back and forth about the tax, which is amply computed on the other page, and I don't know why it has to be in here at all. Doesn't that really confuse and can't that be simplified?

Mr. THROWER. Senator, we would be happy to take that question and refer it to our technicians here and see what might be done.

The CHAIRMAN. As of midnight tonight, how many Americans should have filed tax forms with the Internal Revenue Service, Commissioner?

Mr. THROWER. Approximately 75 million or more, Senator, returns which would encompass joint returns around a hundred million of taxpayers.

The CHAIRMAN. I will say that this is very important, a most important day. I think this has been a most worthwhile session that we have had this morning, and I appreciate your appearance here.

Mr. THROWER. I think I should say in behalf of the Assistant Secretary that the problems of the elderly with respect to the filing of returns have been no secret. They have not been secret within the Internal Revenue Service.

As indicated, this stimulated a survey on our part, the result of which was reported to the Treasury in 1965 with the hope of some relief being provided legislatively, and further, he and I have worked closely together this year during the past 12 months or more in an effort to provide administratively and through the legislation recommendations which he has described relief for the elderly and we are certainly delighted to have attention called to this problem by this committee, which is of course concerned with all problems of the aged.

Mr. CHAIRMAN. Thank you.

Mr. COHEN. Mr. Chairman, I would like to add a word about tax policy, perhaps to add a little philosophy.

Constantly in the tax law, as in other legislation, the choice arises between a simple solution or one which takes account of varying circumstances and, therefore, is more equitable. Every time Congress enacts another deduction or another credit, it increases the complexity of the law and every one of those provisions has to be reflected somewhere on the tax return form.

I have in past years, even when I was in private practice, worked with very able people in the Service who have to design these forms to get a large statutory provision into one line; it is a most difficult task. Much of the complexity in the forms is the result of complexity on the underlying statutory provisions, and I think we should remember the lessons of this discussion this morning when we come down to future legislative decisions on substantive provisions of the tax law.

The CHAIRMAN. I appreciate that. Thank you very much, gentlemen.

(Subsequent to the hearing, a list of questions was submitted to Mr. Thrower by the chairman, Senator Williams. These questions and answers follow.)

U.S. TREASURY DEPARTMENT,
INTERNAL REVENUE SERVICE,
Washington, D.C., May 13, 1970.

HON. HARRISON A. WILLIAMS, JR.,
Chairman, Special Committee on Aging,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I appreciate very much the courtesies shown to me by you and the Special Committee on Aging, and the opportunity to answer the questions contained in your letter of April 29.

The answers are as follows:

Q. What does the Internal Revenue Service plan to do in order to simplify the Form 1040 for taxable year 1970?

A. The Internal Revenue Service is making a careful study of the returns filed this spring in order to determine how Form 1040 can be clarified and improved within the limitations of the existing statutes. As I explained in my testimony, no real simplification of the forms can be expected without legislative simplification. In fact, it should be noted that, since last year's form, Congress has enacted the Tax Reform Act of 1969 which will require further complexities in the next printing of Form 1040. The Assistant Secretary of the Treasury for Tax Policy, Edwin S. Cohen, informed the Committee of the work his office is doing to develop recommendations for legislative simplification. The Internal Revenue Service is cooperating in his efforts.

Q. News reports indicate that the IRS has commissioned a research firm in New York to conduct a poll regarding taxpayers' attitudes concerning the new Form 1040. When do you expect this survey to be completed? Could you also please have a copy of the report sent to the Committee? What questions will be directed at the elderly?

A. Early this year, in order to assure that the Internal Revenue Service would have reliable information on taxpayer reactions to the new Form, we invited bids from all of the leading survey organizations and eventually contracted with

Crossley Surveys, Inc. to interview a scientific sample of taxpayers to ask them specific questions about various features of both the new and old Forms. Since the survey was directed toward the needs of all taxpayers, the questions were not pointed particularly toward the problems of the elderly. We understand that the interviewing has now been completed and that the contractor is in the process of tabulating the results. This should be completed during the summer, and I will be glad to provide further information at a later date.

Q. What future plans do you have for the Taxpayers Assistance Training Programs for the elderly? As you know, Mr. Funston of this office was instrumental in having that program established. We here are very interested in it.

A. We, in the Internal Revenue Service, plan to incorporate training for the elderly as an integral part of our annual nationwide Taxpayer Education program which is available through our district offices in preparation for each filing period. This decision is based on the success of the program last year and the interim reports that we have received on our efforts during the recent filing period.

Q. In how many cities was this program in operation during 1970?

A. We do not have complete information on the specific number of cities in which the program was offered during the recent filing period. Based on the interim information, however, this training was made available in at least 60 cities.

Q. To what extent has the program helped older persons in preparing their tax returns?

A. Our training is designed, as you know, to prepare retirement organization representatives who, in turn, volunteer assistance to members of their organizations. For example, 24 representatives trained by our San Francisco office assisted approximately 485 elderly taxpayers. At this time, we do not have substantive information on the extent to which the program helped our senior citizens in preparing their tax returns. Some of the items on which volunteer help was provided included retirement income credit, taxability of annuities and payments to retirees, taxability of benefits to survivors, real estate one-time sale, and the like. It is our opinion that training on these and other items should prove of substantial help to the elderly in preparing complete and accurate returns. Informal comments from representatives of the National Association of Retired Civil Employees substantiates this opinion.

As I testified at the hearings, the Internal Revenue Service is very conscious of the problems of the aged and will seek means of alleviating them. If I can be of further assistance to your Committee, I will be glad to do so.

With kind regards,

Sincerely,

(S) RANDOLPH W. THROWER.

The CHAIRMAN. Mr. Henry W. Bloch, president of H & R Block, Inc.

I have to make an apology, Mr. Bloch. We have notice that there is a rollcall vote on a very important matter that I have to go over, but we have an arrangement here that you would proceed with your testimony. I will do my best to get back as soon as I can after this vote.

You will be talking to those who are steeped in all of this and I am sure you have conferred with them before for the record. Is that all right with you?

Mr. BLOCH. That is fine.

Mr. ORIOL. My name is William Oriol. I am a staff member of the committee. Will you proceed please.

STATEMENT OF HENRY W. BLOCH, PRESIDENT, H & R BLOCK, INC.

Mr. BLOCH. Mr. Chairman, members of the Special Senate Committee on Aging:

The subject at hand today, that of income tax overpayments by the elderly, has always been a special interest of mine. Thus, I am de-

lighted to appear here today to have a chance to express my view on the subject. They have been formed over many years of experience in working with our senior citizens on their tax problems, and I sincerely hope this committee finds them useful.

"OVERPAY THEIR TAXES? OF COURSE"

Do our over-65 taxpayers overpay their income taxes? Of course they do. Statistics relating to the extent of those overpayments are much better known to the Treasury, but there can be no doubt that our current laws and reporting forms, as they deal with tax reporting by our elderly citizens, have resulted in confusion, improper reporting, and a widespread failure to take advantage of all the tax-reducing devices available.

Please stop and realize that when a taxpayer reaches age 65 he is suddenly faced with an entirely new set of tax laws which are far too often much more complex than the ones he was familiar with during the preretirement life. I am in complete agreement with the intent of these laws. They were designed to take cognizance of the age, health, and lower earning power of the retired community and, in general, these people needed and deserve a tax break.

The very fact that this committee is investigating tax overpayment by the elderly is evidence enough, however, that we aren't accomplishing what we set out to accomplish. The problem does not lie with the intent of the law, but rather with its implementation. It seems that every time we try to make our tax laws more fair and equitable, we automatically build in complexities in reporting and collecting.

This is true, but perhaps more tolerable, in almost all other phases of our tax laws. But when it is suddenly applied to a taxpayer when he reaches age 65, it causes problems. Being realistic, the preparation of a tax return should be made simpler for the average older person, since his very age tends to limit his abilities. In addition, his reduced income mitigates against his ability to pay a professional for the advice and assistance he needs.

Mr. ORIOL. Mr. Bloch, may I interrupt before you go on to the next item.

You say the problem does not lie with the intent of the law, but rather with its implementation. What part of the implementation are you referring to, the form or something else?

Mr. BLOCH. Let me put it this way. I see two terrific problems that exist when a taxpayer reaches 65. First of all, I believe generally speaking when a person reaches 65, he has performed certain habits that are difficult to change at that age. For example, if he has been preparing his own tax return when he was 30, 40, and 50 and he can do this quite well, in all probability, he is going to continue preparing his own tax return after he reaches age 65.

And further, these people over age 65 need some push to change them. A person 70 or 75 years old is very reluctant to seek out anything unless he is told by some younger person to do this. He is in a habit.

Now, when he hits age 65, he is faced with, generally speaking, a completely new tax return which he is unable to cope with. Now he

has got into the habit of preparing his own tax return. So what is this 65, 70-year-old man going to do? He is going to do it to the best of his ability and the best of his ability is not good enough.

We see it in our own offices. We hire many of these people to prepare tax returns. We hire many ex-Internal Revenue agents that at one time were extremely sharp, but when they become 65 or 70 years old, they lose this sharpness.

Think of the poor average citizen who is not a former Internal Revenue agent. He is faced with a dilemma, so that is why I make that statement I made.

Mr. ORIOL. You say they lose their sharpness? You don't mean that as a general rule or a fact of life, do you?

Mr. BLOCH. Well, I do. Let me give you a way-out sample. My father is 89. He is an attorney. He couldn't begin to fill out his own tax return, yet at one time he filled out many tax returns. This is a way-out example, 89, but let's bring it back.

How about 85? How about 80? Of course a lot of it depends on the individual, but as a general rule, once people turn 65, I do believe their sharpness in some way diminishes.

Mr. ORIOL. We discussed this a long time, but we have much testimony to the contrary. We have the example of Mr. Funston and Mr. Burk today, which I think speaks for itself. I just wanted to make that point.

Mr. BLOCH. I take disagreement with that statement. I would like to take people with ability and have them take a test in preparing a tax return and I can take a 20-year-old boy who knows nothing about taxes and teach him income taxes and inside of 1 month he would be able to beat this older man three or four or five times to one.

There is no doubt about it. We see it happening every day in our office.

Mr. ORIOL. Do you have any evidence indicating a sharp upturn of number of elderly persons who sought the help of your offices?

Mr. BLOCH. I do and I would take another exception with the statement that Mr. Thrower made about the 50 percent of the tax people that prepare their own tax returns. This may be a true statement, but it doesn't cover the telephone cost. We prepare a lot of tax returns, roughly 10 percent of all of the returns prepared today.

We have had a tremendous increase in our business. The increase this year will be more than we prepared 2 years ago, more than all of the returns we prepared, just the increase.

OK, but his statement is not really true because it doesn't reflect the telephone calls we are getting from older citizens asking, "I saw something about a retirement credit form, that I am entitled to take two exemptions, so on." These telephone calls keep our offices tremendously busy and this represents the people that prepare their own returns.

And by far a large majority of these come from people over 65. Shall I continue?

Mr. ORIOL. Would you continue?

Mr. BLOCH. It is in this area that the subject of tax overpayments for the elderly hits home for me. Because of retirement income, pensions, and annuities, special provisions of home sales and the like, the over-65 taxpayer has a more complex tax return than average.

I would like to point out that Commissioner Thrower verified that by saying the percent of these that have dividend income, even self-employed income, is higher than the people under 65 percentagewise.

All of these things are new to him and while they are designed for his benefit, they far too often force him into seeking professional assistance—a service which he may not readily be able to afford. To make matters worse, the increased complexity of his return forces the tax preparer to charge him a higher-than-average fee to get the job done.

Even with these faults in mind, the avenue of professional help today is a much better solution than having an over-65 taxpayer ignore an area of tax saving because he isn't aware of it, or because its calculation is simply beyond his scope by reason of intelligence or vigor.

“SENIOR SHORT FORM” PROPOSED

If we really want to extend tax benefits to our senior citizens, and if we are really concerned that they are not currently taking advantage of the benefits already accorded them, we then need a new type of thinking to solve the problem. The answer is not to keep “adding on” new credits and benefits to an already ponderous set of rules and regulations. That is what we have been doing, and it hasn't worked. Instead, let's think in terms of a sweeping simplification to meet the needs of the great majority of our senior citizens.

What I am about to propose, however, is to extend benefits only where those benefits are needed. In the entire category of over-65's, there is a sizable group who are well-to-do or wealthy. To them the complexities of our double-exemptions and retirement income provisions are not quite so bewildering. These people can afford tax advice. They have had it for years. They also have the education and the experience to deal with the complexities of tax reporting.

The intent of our laws with regard to the elderly was to ease the tax burden on the less fortunate so that they would more readily be self-supporting, happier, and more productive. And that's where my proposed simplification is aimed, and the higher income group should continue past age 65 without being allowed a change in the type of tax return they must file.

With this exception in mind, I would propose that an extremely simple tax form be developed for use by the lower income group of our senior citizens. Yes, I mean a “Senior Short Form.”

I was in complete accord with the Treasury when the old 1040A short form was abolished, because its ease of preparation encouraged millions of taxpayers to cheat themselves. But it was a generic “short form.” I propose a special “short form” for the elderly because it will stop these people from cheating themselves.

This special “Senior 1040,” designed for use only by taxpayers with incomes under a certain level, would basically omit all the sections of the current forms which are causing the most problems to the elderly. The specifics can easily be determined by an analysis of 1968 and 1969 returns. Then, tax rates would be adjusted so that the taxpayers in this group are assessed approximately the same tax as if they had properly filed under today's more complicated set of rules.

In this way we could insure that all elderly taxpayers receive the benefits accorded them by retirement income credit—and abolish schedule R at the same time. By the same token, as long as income was under a certain level, the elderly taxpayer would not have to confront those complicated pension and annuity schedules. His double exemption would be incorporated within his lower tax rates and thus eliminate yet another minor step in proper tax reporting.

Many of our elderly have modest income from rental property or dividends and interest, or pension and annuities which exceed \$200. During their working years, they never had to concern themselves with filing estimates, because their withholding always equaled at least 80 percent of their tax. But now, after retirement, they are faced with another unfamiliar form—the 1040ES.

To make matters worse, many of them cash in their E bonds or sell their mutual funds in order to buy a retirement home in a sunny climate. Thus, the capital gains at the time of sale also forces the filing of a quarterly amendment to the estimate. This is another complication which is bound to create confusion and improper reporting. Therefore, if the taxpayers eligible to file the special "Senior 1040" could also be excused from filing estimates, another true service to them would be added.

SIMPLIFIED UNIVERSAL STATE RETURNS

A simplification of the Federal return, however, does not completely solve the problems of complexity, for the elderly taxpayer also must cope with a wide variety of State returns. This situation is compounded by the fact that many of them do move to another State upon retirement. In this context it would be helpful if the Treasury would recommend that a universal State return, basically identical to the Federal, be adopted by each State having a State income tax.

MR. ORTOL. Mr. Bloch, you are talking about the elderly and I assume the universal State return applies only to the elderly, but would you extend that and say it could apply to other taxpayers, too?

MR. BLOCH. A beautiful statement. This is your stepping stone for simplicity. There is a lot of criticism for something like this that it does not provide for this or that. But all of this could be incorporated in "Senior 1040." If this works, you are one step in the right direction of complete simplification.

Many suggestions are being made today in all areas which propose new techniques and programs to help our elderly citizens. This has also been true in the field of taxation. In fact, it has even been suggested that the IRS create a free tax preparation service solely for use by the elderly taxpayer.

This idea, in my opinion, would be overloaded with problems. It would mean additional cost to the Government, and would subject the Service to charges of discrimination among the various classes of taxpayers. It could further have the strange result of having a return prepared by a government official and then audited by a government official.

TAX CREDIT FOR TAX PREPARATION ASSISTANCE

My own recommendation in this regard is a simple one. Those elderly citizens who file the new "Senior 1040" should be given a credit by law of up to \$10 for professional help in the preparation of their

income tax returns. This credit should be directly deducted from the amount of tax due in the year of preparation.

It appears evident that the major tax problems confronting the aged are primarily confined to those of lower income and education, and are caused by the complexities of the very reporting forms which are designed to give them a tax saving. While the subject of tax reform in general is extremely complex, the specifics of tax overpayment by the elderly is only complex in its implementation. A dramatic simplification here would appear to benefit all concerned.

I want to thank the committee for allowing me the privilege of speaking out on this subject, for I truly feel that many of the elderly taxpayers who visit our offices can ill afford to pay for the help they so desperately need. I hope the committee feels I have been constructive.

Thank you.

Mr. ORIOL. Thank you very much, Mr. Bloch. We certainly feel you have given a very helpful statement for the record and we appreciate your coming here today.

One question I would like to ask about the "Senior Short Form" and this proposal that a credit of up to \$10 be given for professional help—two questions, in fact.

How did you arrive at the \$10 figure? The second question, how does that compare roughly with what older persons are now paying for the consultation needed under present circumstances?

Mr. BLOCH. It is a good question. Basically our problems come in charging these older people. It is sad. If you would sit in our office and see an older man come in trembling possibly with papers, "What do I do with this and what do I do with that?" He has probably a very small income, but still according to the law he must file a return.

We have trouble charging these people and in a few cases we make charity cases. We just can't charge some of these people. It is criminal. The \$10 perhaps may not be an adequate charge. Of course, it depends on the type of service they are seeking.

A certified public accountant, of course, his fee would probably be \$50 to prepare a typical return for a senior citizen. Our average fees for this probably run about \$15. Actually I realistically named a figure which is probably a meaningless figure, but I wanted to illustrate one point that it probably should be kept low because these returns can be prepared for a nominal amount without too much trouble.

If I could explain my thinking in arriving at this problem, because I don't see the problem here. If you analyze what problems there are, let's take this over-65 segment and divide them into two groups.

First of all, you have got the wealthy or well-to-do. These people need tax assistance and they have always had it and just by the nature of their income, they are more intelligent than the over-65 with \$3,000 or \$4,000 income. They are generally more intelligent.

They are intelligent enough to continue or in order to seek competent tax advice and they can well afford to pay for it. Therefore, I see your only problem is with the man who has an income of, say, \$5,000, probably not too intelligent, who can't afford to pay for tax help, and if he does it himself, is bound to make errors. He is bound to because—you are an intelligent man and I give you a sample of annuity or pension that this man is drawing, you would throw your hands up before you tried to figure it out.

You must go to the record books. Somebody before mentioned the little problem of tax-free covenant bonds. It is an interesting question. I don't think you received a very adequate answer.

This is income from bonds received prior to January 1, 1934. Look for the answer. Where do you find it? You don't find it in your instruction book.

The Government, the Treasury Department, issued a bluebook. You don't find it in the bluebook. It is not in there. The only place you can find it, you go to a tax library. It is obviously very unfair to put something like this on a tax return.

No one can fill out his own return with income from tax-free covenant bonds. At least not for the first time.

NEW FORM A "HODGEPODGE"

Mr. ORIOL. Mr. Bloch, may I ask what your reaction is to Commissioner Thrower's reference to a scare psychology as a factor in mistakes made as a factor in causing a need for consultants?

Mr. BLOCH. I don't think Commissioner Thrower meant what he said. I feel he is obligated to make a statement like that. First of all, I don't think he is responsible for what happened with this Tax Reform Act of 1969, because he wasn't in office during the formation of all of this. But the new form is a hodgepodge of jumping back and forth.

Mr. ORIOL. This is the form we have all filled out for today's deadline?

Mr. BLOCH. Right. I have many examples here. The schedule R that he is referring to, which he claims is no different than it was last year. True, it is not a different form, but the references are different. You don't refer to one section. You refer to this page and then this page and you are all mixed up.

If I can read something here somebody in our office prepared, on schedule R, line 17 on schedule R, which is right up there, enter here, and on schedule T, line 11, the amount shown on line 16 or line 8 whichever is smaller.

Here we go again. This is no problem assuming I have carried the correct figure from schedule T, line 6, to schedule R, line 9. That I have made the correct calculations on lines 9, 10, 11, and 12, schedule R, that I have carried the correct figures from schedule R, line 12, to schedule T, line 7; that I have made correct calculations on schedule T, lines 7, 8, and 9; that I have carried the correct figure from schedule T, line 9, to schedule R, line 13; that I have made the correct calculation on schedule T—if that is where I am now—lines 13, 14, 15, 16, and 17; that I carried the correct figure from schedule T, line 17, to schedule R, line 11, which is the smaller of the amounts shown on either line 16 or line 18, schedule T.

Gentlemen, this is complex and it is a matter, if you have done your own return and I trust you have by today, of going back and forth, and to follow the instructions is very bad, too, because in doing this you tear the pages out of the book and then you put them over here and you have to refer to some instructions and you can't find the instructions.

There possibly should be an instruction booklet, but the way these instructions are done, it is real hodgepodge and it may be true that anything done to simplify the tax return would hurt our business, no doubt about it.

This Tax Reform Act is fantastic. It has put a lot of other people in the same business we are in. But in all honesty, in all fairness, the people that are writing the laws aren't close enough to the actual preparation. These people should work in a tax office and prepare 1,000 tax returns like each of our people do. Some prepare many more than a thousand tax returns in the one season. They would find out what is going on.

I can't sit up in a mighty castle and say, "This is fair and this is equitable and let's do it." Things don't work out that way. I will admit that the Tax Reform Act has made many things much more equitable and closed many loopholes, tightened many loopholes, but they honestly made tax reporting much more complicated.

Mr. ORIOL. We haven't yet seen the effects of the Tax Reform Act of 1969 on forms. You are projecting now?

Mr. BLOCH. Right. I am projecting that. Also there is no way of measuring how many people omitted schedule R or made a mistake in not using it. You can't measure this. People can give opinions.

Mr. ORIOL. What about adjustments to income, the little reference on page 1 now where on the old form you had a few lines that sort of cued you as to what was meant to be for all taxpayers, not just the elderly for this question. Do you think that caused an inordinate amount of confusion this year?

WHERE ARE THE "ADJUSTMENTS"?

Mr. BLOCH. The first time I saw that form, when I saw "less adjustments"—that is line 15B you are referring to—I knew that was trouble. We design our own forms, which are approved by Internal Revenue. We saw "less adjustments" and we show adjustments on schedule T, which is where they should be.

But the average taxpayer doesn't know what an adjustment is. He doesn't know that sick pay is adjustment. He can't find it. It could be a number of things. But you are absolutely right. It was poorly done.

Mr. ORIOL. There have been a number of references to advertising used by your firm this year. Would you care to comment on that, Mr. Bloch?

Mr. BLOCH. I think our advertising is good. Naturally we are in the business to get as many customers as we can and make as much money as we can. However, we charge fairly. We don't overcharge anyone. Our advertising does point out the complexity of the return, but I think it rightly does. I think we are doing the Internal Revenue Service a great favor in eliminating many errors in preparing correctly prepared returns, but we do point this out and I think you haven't seen anything yet.

You wait until the new tax forms come out, because next year's tax forms and the forms the year after that will be incorporating the Revenue Act of 1969. Remember, very little of the Revenue Act of 1969 pertained to 1969 returns.

But wait until you see capital gains for next year, the minimum income tax on all of these other things. The forms haven't started to become complicated yet.

Mr. ORIOL. It has been reported that the volume of your processed returns has increased from 5.3 million last year to more than 7 million this year. In view of what you have said, do you anticipate—

Mr. BLOCH. I think our growth this year is nothing compared to what our growth is going to be next year.

Mr. ORIOL. I am glad we are talking about this on April 15 while there is still time to do something about it for next year.

Mr. Bloch, with me is Mr. Affeldt, professional staff member; Mr. Halamandaris, professional staff member; and Mr. Miller. Do any of you have questions?

Mr. HALAMANDARIS. I would like you to pin down for us once again the statement you made earlier about your increased earnings this year.

Mr. BLOCH. I say our volume increased. I don't know what our profit will be, which is earnings. Our increase in sales, in revenues, gross revenues this year, the increase will probably exceed our total volume 2 years ago.

Mr. HALAMANDARIS. That is quite a startling statement.

Mr. BLOCH. In other words, we are preparing 1969 returns now and I am referring to our income from preparing 1967 returns 2 years ago.

Mr. HALAMANDARIS. Trying to solve the television credibility gap that Senator Moss tells us about, we have Internal Revenue telling us the forms are the same. On the other hand, we have your advertisement telling us that the new forms are more complicated. You don't take seriously Commissioner Thrower's accusation that you are resorting to scare tactics.

Mr. BLOCH. I have no quarrel with the forms this year. You probably had none with your own return. But you take the average elevator operator and throw that new return at him, and he is going to be confused. I ran into one girl last year who had the same problem with the surtax last year, a very simple thing; 7.5 percent of your tax goes to the surtax basically.

It is a very simple thing, but how many people had trouble correctly computing their surtax last year? I met one secretary in a television station and she didn't think it was so complicated. She took 7.5 of her income and added it onto her tax. She thought it was very simple.

INCREASE IN INCOME TAX SERVICES

Mr. HALAMANDARIS. Do you think there is a 1-to-1 relationship between new income tax form and proliferation of income tax services we see?

Mr. BLOCH. I think that is part of it. I think that is part of it that these other companies were smart enough to realize that these complexities were beginning and certainly they are looking for something this year, but a tremendous complexity next year.

I believe they are also looking at the industry that we are in and the multiple of which, for example, our stock sells for is possibly affecting their multiple and helping their stock to increase. I think this is certainly important.

Mr. HALAMANDARIS. In other words, you are saying the form is part of it, but on the other hand, they see you have a good thing going and they want to get in on it?

Mr. BLOCH. Yes. And really people are getting into this business that shouldn't, who are preparing returns in volume and going into it on a

big scale without properly leading up to it and I am sure the Service is going to be very unhappy when they see many of the errors that will result from this.

Mr. HALAMANDARIS. I have one more somewhat facetious question. I noticed your reaction a while ago when Senator Moss read it, so I am quoting the Washington Post, March 9, Peter Benchley, again:

To crown the confusion, the IRS decided to do away with the small quick Form 1040A and replace it with a bigger and more complicated return. "The Government opened the gates by eliminating the short form," said a gleeful Block executive, "our market just got flooded with 21 million more customers."

Do you have a comment, gleefully or otherwise?

Mr. BLOCH. I believe the Internal Revenue states there were 22 million card forms filed last year. Of course, our office has prepared none of these because we don't fill out the 1040A, we never did. We only use the big 1040.

I am sure we will not get 21 of the 22 million returns. It is fairly obvious. So I think that undoubtedly is an overstatement, but by the very nature of the people who fill these forms out, when they are confronted with the more complicated 1040 compared to the little 1040A which, if nothing else, because of its size makes it appear much simpler, just because of its size, rather than being spread out onto a large page, makes it appear much simpler. When they are faced with this plus the mailing by the Government of additional schedules and the references of jumping from one schedule to schedule 2 back to schedule T back to page 2 and so on to schedule B, many of these people are going to give up, throw their hands up in despair and give up trying to prepare their own return, and we have had literally many millions of these people come in. There is no doubt about it.

For example, in our offices two things stand out. First of all, our average fee is going up because of the complexities of the new forms. Many more schedules and many more forms.

Second, our fees are going down because of the influx of all of these 1040A filers coming in and so it is interesting. In examining our new returns, our new clients, our average fee is lower than it has been in past years, which means only one thing. We are getting many of these very simple tax returns in, so I think this is proof enough.

Mr. HALAMANDARIS. I could only wish the Treasury and IRS had stayed to hear your statement. I think it is excellent and I will pass on your suggestion about a specific form for the elderly to Senator Moss and other members of the committee and I know we will let IRS have a copy of your statement here today, because they should have the benefit of your remarks.

Mr. ORIOL. Have you discussed your "senior short form" with IRS?

Mr. BLOCH. Never. There was a basis of it in my testimony before the House Ways and Means Committee just about a year ago, but there it was lightly mentioned that the problem, in my opinion, really didn't exist for the entire over-65, but just that portion of it, the smaller income group.

Mr. ORIOL. We don't have time now, but we will put some questions to you in writing asking for details on your proposal.

Mr. BLOCH. Thank you. I will be of whatever assistance I can be. I prepared some additional notes that I would like to give to you.

Mr. ORIOL. We would like that for the record.

Mr. Affeldt?

Mr. AFFELDT. What types and how much income would entitle an elderly taxpayer to take advantage of your proposed "senior 1040"?

Mr. BLOCH. I knew someone was going to ask that question. I do not have the answer. I do not feel it is my place to come up with this answer. I believe, as I pointed out, by studying everything that goes into these 1040's prepared by senior citizens, filed by senior citizens under a certain income, the troublesome areas should be incorporated into a few tax rates, including the double exemption, including everything.

So I have not worked out the details. Frankly, I only heard I was supposed to testify, as you know, a few days ago and I really apologize for the text I delivered because I feel it could have been much better than it was.

Mr. ORIOL. Mr. Miller?

Mr. MILLER. No, thank you.

Mr. ORIOL. Mr. Bloch, we thank you for coming here on relatively short notice. It is an excellent statement and we will make sure that IRS and members of the committee receive it.

Mr. BLOCH. I appreciate that very, very much.

Mr. ORIOL. Dr. Benson is to be our final witness. I have just received word that we have only a few more minutes in this room, but we are very anxious to hear from Dr. Benson.

Mr. Burk, did you want to join Dr. Benson?

Mr. BURK. Bill, I want to make one comment in regard to Mr. Bloch's suggestion about the estimates. The most irate letters we get are from those people who are now forced to put in estimates, because they are getting more than \$200 of annuities, which is not subject to withholding, and particularly irate from those people who fail to put on in and are now being penalized 6 percent because they failed to put it in.

I think his suggestion to eliminate the requirement of estimate on these low-income people would be a marvelous help. Thank you very much.

Mr. ORIOL. Dr. Benson, you are former assistant dean of George Washington University Law School. Do you feel less sharp now than before you retired?

**STATEMENT OF CARVILLE D. BENSON, RETIRED ASSISTANT DEAN,
GEORGE WASHINGTON UNIVERSITY LAW SCHOOL**

Dr. BENSON. No, I don't.

Mr. ORIOL. Would you proceed, please.

Dr. BENSON. Thank you very much.

I appreciate the opportunity to be here. I am here as a retired person and a taxpayer, not as a tax expert. I am reminded of the story that Sears, Roebuck had a woman who went over their catalog and if she couldn't understand an item, it didn't go in, so I read the tax return and if it bothers me, then I feel that it is bothering other people, too.

There are two very simple points that I don't think have been made. First, on the packet that is sent out to all of the taxpayers, it is printed in blue ink. Blue ink is much less clear than black ink and as an example of this, on page 1040-2, it has reporting your income,

examples of income which must be reported, and then there is the list—wages, dividends, earnings, and so forth. And you run your eye down the column and you come to “dividends, worker’s compensation, social security.”

Then you know you have made a mistake somewhere, so you go back and see there is a subheading there, “examples of income which should not be reported.” At the top is examples of income which should be reported and in the middle of the column a subheading which you don’t pick up, “examples of income which should not be reported.”

The Internal Revenue Service has a separate little booklet on instructions, form 1040 instructions for preparing your income tax return, and this same page is reproduced exactly in the same type and is in black, and the subheadings stand out much better.

The second point is with respect to the instructions. Commissioner Thrower made the point of trying to get instructions across to people so that they would be able to follow the returns and on the new forms, the tax packet that went out, I think there is an improvement over the 1968 form in schedule A, the itemized deductions, and schedule B, the dividend and interest income.

Last year, the 1968 return, much too little space was given to these two items and you had to attach extra sheets, so if they gave you enough room for this, then it is very helpful. On the other hand, the instructions on the 1968 return were in a section all by themselves at the end of the return. This year the instructions are printed on the back of the sheets and it is very confusing.

Mr. ORIOL. And it is in blue ink, too.

Dr. BENSON. It is in blue ink; yes. And the page number is very difficult. It starts off with the cover and then 1040 form which has no number on it, that is 1040-1. The next sheet is the duplicate of 1040 and the back of that is 1040-2; the next is schedule A with no number, and the back of that is page A1, and the duplicate of schedule A itemized deductions and the back of that is A2.

The instructions are printed on the backs of all of the forms and exhibits and the instructions start on 1040-1. On 1040-2, general instructions. You go next to schedule A, itemized deductions, and the instructions for reporting 1040 which are run on page 1040-2, it says, “Continue on page 2,” so you go over past schedule A, schedule B1; then B2 is the duplicate.

When you finish that page, it says, “Continue on E2.” Then you go over a couple of more pages to E2 and then to R.

Mr. ORIOL. You are intimately familiar with that. How much time have you spent studying that?

Dr. BENSON. The great difficulty is in finding something. On the front page, the point was made, line 15B, less adjustments, see 1040-1.

Now where is 1040-1? Well, you look around and finally find 1040-1. There is an index inside the inside cover, but that doesn’t save the trouble you have if the instructions are in a separate section at the end. They can be looked at at the same time you are working on the form.

Here you can’t do that. When you tear out instructions or tear out your schedule of forms, then your instructions are gone. So those are my two points.

I think the color of the ink and the getting of the instructions together in one place.

Thank you.

Mr. ORIOL. Thank you very much.

May I ask, did you have a speciality in the school of law when you were dean there?

Dr. BENSON. It was not taxation.

Mr. ORIOL. We are really talking about communication though, and instructions.

Dr. BENSON. Yes; instructions.

Mr. ORIOL. Once again our thanks to the witnesses. Senator Williams commented before that he thought this had been a very productive hearing and since we do have a year to take some action before the next forms are due, perhaps we can do something.

Thank you very much.

(Whereupon, at 1:25 p.m., the committee adjourned, to reconvene at the call of the Chair.)

APPENDIXES

Appendix 1

FACT SHEET—TROUBLESOME PROVISIONS IN THE INTERNAL REVENUE CODE FOR ELDERLY TAXPAYERS*

(Prepared by Mr. David A. Affeldt, Counsel, U.S. Senate Special Committee on Aging, for Hearing April 15, 1970, on "Income Tax Overpayments by the Elderly," Washington, D.C.)

Retirement income credit.—Five types of income—pensions, annuities, rents, interest, and dividends—qualify for this 15 percent credit.

For a single person, the credit is 15 percent of the lesser of:

- (1) His qualifying retirement income, or
- (2) \$1,524 (\$2,286 for a joint return where both taxpayers are 65 or over) minus the total of nontaxable Social Security benefits and Railroad Retirement annuities and earned income (depending upon the taxpayer's age and the amount of any earnings he may have).

For example, if the taxpayer is under 62, he must reduce the \$1,524 figure by the amount of earned income in excess of \$900. For persons at least 62 years old but less than 72, this amount is reduced by one-half of the earned income in excess of \$1,200 to \$1,700, plus the total amount over \$1,700. Persons 72 and over are not subject to the earned income limitation.

In a typical example, it would be possible for a taxpayer to use four schedules (Schedule B for interest and dividends; Schedule E for rents, annuities and pensions; Schedule T for computation of his tax liability; and Schedule R for computation of the retirement income credit) and the basic Form 1040 to compute the credit.

Medical expense deduction.—Computation of the medical expense deduction on Schedule A (Itemized Deductions) is very complicated for many older Americans. First, the taxpayer is entitled to deduct one-half of his hospital or medical insurance premiums, up to \$150, without regard to the one percent (of adjusted gross income) rule for drugs and medicines or the three percent rule for medical and dental expenses. Then he determines the net amount he spent for drugs and medicines and subtracts one percent of his adjusted gross income (line 15c, Form 1040) from this amount. Any excess is carried forward with his excess medical insurance premiums to be added to his medical and dental expenses. From this total, the taxpayer subtracts three percent of his adjusted gross income. This net amount, if any, is added to the deduction for one-half of his medical insurance premiums, but not in excess of \$150.

Minimum standard deduction.—For taxpayers who do not itemize their deductions, the standard deduction is the larger of (1) ten percent of the taxpayer's adjusted gross income, but not in excess of \$1,000 or (2) the minimum standard deduction (\$200 for most returns plus \$100 for each exemption claimed) but not in excess of \$1,000. For example, a 65-year-old man and wife who are both blind and file jointly would be entitled to a minimum standard deduction of \$800 (\$200 for the couple plus \$200 for their regular exemption deduction, plus \$200 for the additional deduction because of age, and another \$200 because of blindness). However, many elderly taxpayers do not receive the full advantage of this provision because they fail to add the additional amounts for age or blindness.

*None of the items listed in this sheet refers to provisions of the recently enacted Tax Reform Act, with the exception of the minimum standard deduction which will be changed to a certain degree by the new \$1,100 low-income allowance.

Sale of personal residence by elderly taxpayers.—A taxpayer may elect to exclude from gross income part, or, under certain circumstances, all of the gain from the sale of his personal residence provided:

- (1) He was 65 or older before the date of the sale, and
- (2) He owned and occupied the property as his personal residence for a period totaling at least five years within the eight-year period ending on the date of the sale.

Taxpayers meeting these two requirements may elect to exclude their entire gain if the adjusted sales price (see definition below) of their residence is \$20,000 or less. If the adjusted sales price exceeds \$20,000, an election may be made to exclude part of the gain based on a ratio of \$20,000 over the adjusted sales price of the residence.

To begin this computation, the taxpayer subtracts his selling expenses (e.g. commissions in connection with the sale, advertising expenses, or legal fees) from the selling price of the residence. This gives him the amount realized from the sale. From this amount, he subtracts his adjusted basis in the residence (i.e. his cost plus any capital improvements made and minus any casualty loss or depreciation deductions allowed). This computation produces the total gain realized.

Then the taxpayer must determine his adjusted sales price—the amount realized minus any fix-up expenses. To qualify as fix-up expenses, they must:

- (1) Be for work performed during the 90-day period ending on the day the contract to sell was made,
- (2) Be paid within 30 days after the date of the sale,
- (3) Be otherwise nondeductible in computing taxable income, and
- (4) Not be capital expenditures or improvements.

If the adjusted sales price exceeds \$20,000, the gain which may be excluded from gross income is determined by multiplying the total gain realized by \$20,000 over the adjusted sales price. This amount is then subtracted from the total gain realized and produces the amount which the taxpayer may not elect to exclude from gross income.

These computations are figured on Form 2119 (Statement Concerning Sale or Exchange of Personal Residence), but the total taxable amount is carried over to Schedule D, Part 1 (Capital Gains). One-half of this amount is subtracted from the total subject to tax because of the 50 percent deduction for long-term capital gains. This net amount is then carried over to line 14, Form 1040.

Taxable portion of annuities.—As a general rule, the taxable portion of an annuity involves a three-step process. First, the taxpayer must determine his exclusion percentage, which is computed by dividing his expected return into his investment, which is the amount of premiums he paid. If the taxpayer has a fixed-period annuity, his expected return is computed by multiplying the fixed number of years or months for which payments are to be made by the amount of the payment specified for each such period. In the case of an annuity for life, the expected return is determined by multiplying the amount of annual payment by a multiple (from the annuity tables) that is based on the taxpayer's life expectancy as of the annuity starting date.

Secondly, an individual would multiply his annual annuity income by the exclusion percentage, which would equal the prorata return on his investment not included in income.

Thirdly, this amount is subtracted from the total annual annuity received, and the remainder would be taxable.

A special rule exists in instances where the annuitant will recover his investment within three years after receiving his first payment. In this case, the periodic amounts received are not taxable until the entire cost is recovered. Once the investment is recovered, the entire excess amount received is taxable.

However, computation of the expected return from an annuity is quite complicated and confusing for many untrained elderly taxpayers. In fact, the computation of the taxable portion of an annuity is quite troublesome even for the expert. For example, Edwin S. Cohen, Assistant Secretary of the Treasury, told a group of tax experts at a conference in New York:

"With all the experts gathered here this evening, I doubt that a quarter of them could readily calculate the taxable portion of the pension received by a widow of an employee under a contributory pension plan—and I will include myself among them."

Appendix 2

INFORMATION FROM INDIVIDUALS AND ORGANIZATIONS

ITEM 1. SPEECH BY ASSISTANT SECRETARY EDWIN S. COHEN, MARCH 18, 1970, NEW YORK CITY

A NEW DECADE FOR TAXES AND THE SEARCH FOR SIMPLIFICATION

It is a great pleasure to join this evening in saluting the Honorable Wilbur D. Mills for his years of dedicated service to the American people and for his devoted work in the betterment of our Federal tax structure. We are deeply indebted to him for his illustrious contributions and for the sterling leadership he has given on many urgent matters. It has been a privilege to have appeared before him, both in this past year in government and previously as an attorney, and to have worked with him in the development of the Tax Reform Act of 1969. He has been a good friend and counsellor to me and to legions of others, and we delight in expressing our gratitude to him this evening.

I am also grateful for the opportunity to salute those in the Bureau of National Affairs who have sponsored the Tax Management series for this past decade. I pay particular tribute to the editor-in-chief, Leonard Silverstein, and to the many contributing editors, who have produced such a valuable series of treatises on the Federal tax law. I found these works quite valuable not only in the practice of law, but also, for professor and students alike, during my five delightful years of teaching at the University of Virginia Law School.

This past decade of success of the Tax Management series leads me to ponder the growth of the Federal tax structure during that period and the ongoing development that will likely occur in this current decade of the 1970's. Where will our tax structure be ten years hence? What can we plan now to cope with the problems that will accompany this inevitable growth?

Since 1960 our Gross National Product has almost doubled. The Economic Report of the President for 1970 contains a projection of the growth of the economy through the year 1975. If we carry on to 1980 the same assumptions on which the 1975 forecast is based, then ten years from tonight we should find—

A Gross National Product of more than \$1.8 trillion, almost double the present level and almost quadruple the level of 1960.

Individual income tax revenues of some \$160 billion, as against some \$92 billion in the current fiscal year (including the surcharge).

Corporate income tax revenue of some \$75 billion, as against some \$37 billion (including the surcharge) at present.

Ninety million individual income tax returns, contrasted with less than 70 million returns under the present law—and contrasted with less than 10 million such returns when you, Mr. Mills, were first elected to Congress and when I began practicing law.

How best should we plan for the most massive tax structure in all of man's history?

I suppose that the most difficult task in government is to plan for the long-range future while attending to the myriads of daily problems that demand immediate solution. Nonetheless I think it urgent that we devote a major effort to molding the tax structure of the future as we deal with the demanding problems of the present.

The income tax, of course, is the backbone of our Federal system, providing more than 80 percent of the revenues aside from the trust funds. We may possibly find other revenues to supplement the income tax, or supplant part of it—the value added tax, for example, might find favor in the years ahead. But I think it safe to predict that those of us who may gather here ten years hence will still find the income tax furnishing the major support of our Federal government.

The year 1969 witnessed a major effort to improve the equity of the Federal income tax, culminating in the signing by President Nixon on December 30 of the Tax Reform Act of 1969. We at the Treasury have described it as a milestone in tax history—and I have no doubt that history will so regard it.

As I have listened to the comments and complaints of those who have studied the bill, I have heard many opinions that in one area or another we have gone too far or not far enough in the search for greater fairness in the tax system. This divergence of opinion should disturb no one. In time we shall surely change some of the 1969 provisions as experience and reflection guide us.

What has disturbed me above all in hearing the comments has been the uniform criticism of the complexity of the Federal income tax law, particularly after the 1969 Act. When I gave my first talk about the 1969 Act in January to the Association of the Bar in the City of New York, the question put to me that made the most lasting imprint was, "Whatever became of simplification?" And similar questions have been asked of me and have concerned me wherever I have gone.

I believe the American taxpayer is entitled to know whether or not the maximum effort has been made, consistent with other objectives, to simplify the income tax law. We at the Treasury are conducting a study to determine what can be done to simplify the law and its administration. We will report our findings to the Congress and to the American people. If we can simplify, let us do so; if we cannot, let us know the reason why; if we must choose between simplification and other objectives, let us know the choices and make the decision. Particularly with the massive enlargement of the tax structure we envisage in this decade, we must press forward with this inquiry thoroughly and speedily.

Now this emphasis on simplification may come with ill grace from one who, in a moment of perhaps ill-guided humor, dubbed last year's bill the "Lawyers and Accountants Relief Act of 1969." Despite the memory of that jovial aberration, I shall venture on.

Notwithstanding the complexities in the 1969 Act, I think it clear that we did achieve meaningful simplification for a great number of persons. Mainly through the low Income Allowance, some 7.6 million tax returns at the bottom of the economic scale that presently bear tax will no longer owe a tax and will no longer even have to be filed. This represents about 12 percent of all the tax returns that previously showed a tax due. Moreover, we significantly relaxed the withholding requirements so that large numbers of persons who owe no tax—college students working in the summer, for example—will not have to file returns to recover a refund of tax needlessly withheld. I would think this qualifies as a major simplification.

Moreover, the 1969 Act will permit some 11 million additional tax returns to use the standard deduction instead of having to itemize nonbusiness deductions. We estimate this will permit some 73 percent of all individual returns to be filed on that simplified basis as against some 58 percent today—again a major advance in the direction of simplification.

Yet so much more needs to be done. Let me illustrate with a reference to the reporting of pensions and annuities received by retired individuals. More than six million persons now receive such payments and the number constantly increases. We have made a survey of the accuracy with which recipients of Federal Civil Service pensions report these amounts on their tax returns. In one study, which included some moderately complicated situations, we found that 75 percent of the tax returns reported these amounts improperly. Not only so—and this is the startling aspect—two-thirds of those reporting incorrectly overstated their taxable income and paid too high a tax.

Why all this difficulty in reporting pensions and annuities? The causes are numerous. We tried at least two other simpler systems before discarding them for the present one in 1954. Now we have one that is theoretically more logical than those that preceded it but few taxpayers seem able to comprehend it. More important, however, the present system includes a large number of efforts at precise equity adjustments, which are the source of complication. The law undertakes to vary the tax result for the presence of disability, for inclusion of some death benefits, for a refund feature and the like.

The persons paying the pensions or annuities do not have sufficient information required by the present statute to inform the recipient or the Internal Revenue Service as to the amount of the payments that is subject to tax since so many variations are critical to the result. With all the experts gathered here this

evening, I doubt that a quarter of them could readily calculate the taxable portion of the pension received by a widow of an employee under a contributory pension plan—and I will include myself among them.

Another related illustration is the retirement income credit—a provision which affects two million taxpayers and itself requires a full page of Form 1040. We have evidence that as many as one-third of those eligible for the credit may not be claiming it because of its complexity. The complexity arises from a series of special qualifications and limitations designed to achieve more precise equity but which are obviously defeating this very same objective in the broad sense.

I use pensions and annuities and the retirement income credit merely as illustrations of the task before us to review the income tax law and regulations for the purpose of simplifying its operation for the millions of persons affected by it. I worry about simplicity not for the thousands who can afford expert advice on complex matters but for the millions who cannot and should not be required to do so. And I grow increasingly concerned as I look a decade ahead with our ever growing economy. I think we can develop simpler rules in many cases if we set simplification as one of our major targets.

Let me suggest another possible avenue to follow. In replying to the charges of complexity in the 1969 Act, I have pointed out that many of the provisions complained of deal with plans and documents, conceived by ingenious lawyers of advisors, that fit no normal mold. Among these I would list such latter day devices as subordinated convertible debentures, convertible preferred stocks with varying conversion ratios, debentures with warrants attached, sprinkle accumulation trusts, ABC transactions in minerals, restricted stock plans and a host of others that bring gleams to the eyes of the experts in the audience—and again I would in former days have included myself among them. But when the law moves, as it should, to make sure such devices are not used to disturb the fairness of the tax structure, I shed no tear because the solution in the statute is of necessity itself complex.

But I am concerned for those who use simple forms of documents in garden variety cases. It does seem to me that we could simplify life for the ordinary taxpayer and his lawyer if we could so design the statute and the regulations that we could state the Federal tax results that flow under specified normal conditions from the use of standard documents.

I have in mind such documents as an ordinary trust for a minor, a trust with a remainder to charity, a will that includes a marital trust for a widow, a customary form of temporary indebtedness from a corporation to its shareholder, a newly formed corporation designed to operate under Subchapter S with tax results similar to a partnership, etc. Save recently in the field of pension plans, the Service has not generally given public assurance of the tax results flowing from use of particular standard documents. I suggest that in cooperation with the bar associations and other professional organizations we in government should try to redesign the statutes and regulations to permit us to state with clarity the tax effects or using certain documents in standard situations.

I was recently challenged by a leading corporate executive who asserted that the 1969 Act in many particulars fostered standardization and was repressive to ingenuity. I pondered that remark long and thoughtfully, for I believe that this great nation was founded upon and has prospered from the ingenuity of its people. I would abhor any system that required use of stereotyped patterns. After all, I was raised on a steady regimen of Jeffersonian individualism.

Nonetheless, ingenuity must not be a passkey to tax inequity. Those who are ingenious cannot object if the tax law gives ready standard answers only to standard plans and lays down complex rules to govern unusual transactions.

We do have in the Internal Revenue Service a procedure for advance rulings as to the tax effects of particular transactions. This requires, however, an expensive allotment of scarce specialists. To the extent we can foster the use of standard documents with known tax results, so much the more can we use those able public servants to pass upon novel and trail blazing transactions. So much the more can our lawyers, accountants, and other advisers deal expeditiously with standard transactions and concentrate their skills on exceptional cases. So much the more can the masses of taxpayers comply with the requirements of the tax law without undue expense or delay.

In the years ahead advances in computer and other technology may also open up possibilities of administrative simplification. It may not be beyond the realm of possibility in the future for data about salaries, wages, dividends, interest, and personal exemptions for large numbers of persons to be reported by the

payers directly to the Internal Revenue Service, which would calculate the tax and issue a refund or bill to the taxpayer, if he were willing to use the standard deduction and had no other sources of income. But the possibilities in this regard depend upon technological advances, and while we are exploring these techniques, any gain in this regard as likely to be, as we say in the tax law, long-term.

I believe there are also major changes we can make in the coordination of the income tax system of the Federal Government with those of State and local governments. Much can be done in this regard to minimize differences in the calculation of taxable income and to coordinate the preparation, filing and audit of tax returns and the collection of taxes.

Beyond these possibilities would lie far greater simplification if we were willing to forego some of the exemptions, deductions, and allowances that have been adopted and maintained in the Federal tax law in the name of equity. Some of us have experimented with computer studies of greatly simplified systems that would achieve substantially the same distribution of the tax burden among the various income classes. They do so, however, at the sacrifice of many provisions—such as non-business deductions—that have been considered vital to home ownership, to charity and education, to fairness, or to the maintenance of incentives to desirable conduct. I do not by any means advocate tonight the adoption of changes so drastic, but I do believe the possibilities should be reviewed and debated for the public benefit. The choice between simplicity on the one hand and equity or incentives on the other is one that can be made only if the pros and cons are understood and weighed.

A primary difficulty, of course, is that a simplified rule enacted to replace a complex one will necessarily raise the tax of some affected persons and lower the tax of others.

There is a natural reluctance to make such a change. Perhaps this reluctance can be overcome if the effective date of the change is deferred for several years, permitting opportunity to adjust gradually to the new rules. This technique of deferring the effective date was employed to advantage in a number of important provisions of the 1969 Act, and it may be useful in eliminating complexities on a long-range basis as we look down the decade that confronts us.

We must always appreciate that complexity in our tax laws, as well as in other laws, stems in large part from the democratic processes upon which our nation is founded and which is its greatest strength. A law which will meld the diverse views of the members of the Committee on Ways and Means and the Committee on Finance, as well as the members of both houses of Congress, and those of the President and his Administration, will often be a compromise—and compromises are not easily forged with simplicity. We are a nation of checks and balances—and proudly so—and the tax laws will always reflect our system of government and the diverse interests of our people.

I do not despair of further simplification for the great masses of taxpayers. We have begun a new look at the problem in the Treasury and will report to the Congress and to the public. We trust our study will be productive. To the extent complexity must remain, at least we shall have identified the causes so that all will know and be aware of the reasons.

In this quest I shall bear constantly in mind the note from one of my former students who had worked with me on the projected revision and simplification of the Virginia income tax law. The note expressed confidence that I would so simplify the Federal law that the return could be printed on the back of a picture postcard. But, alas even this would not solve all our problems—whose picture would be on the other side?

ITEM 2: LETTER FROM THEODORE V. BRADLEY, ATTORNEY AT LAW,
TO SENATOR MOSS, DATED APRIL 17, 1970

MURPHYSBORO, ILL., April 17, 1970.

Senator FRANK E. MOSS,
Senate Office Building,
Washington, D.C.

DEAR SIR: I see an article in today's Post-Dispatch "Four Senators Complain about New Tax Form".

The tax forms have many bugs but the troubles go deeper than that. As to the forms:

Schedule B requires inclusion of capital gains in the upper left side then extraction on the lower left side, that juggling act is followed by the entering such gain on form "D" and from there a transfer is made to form 1040, the latter entry

is, of course, sound. Again as to Schedule B there is no direction or provision for showing what dividends are qualified and what are not qualified for exclusion.

At all places on the form for setting up depreciation the space for indicating method, such as straight line, which needs only S.L. is wider than needed, while the spaces for entries of dates, costs and past depreciation are crowded, causing jumbling.

On Schedule 1040 F the space for giving number of animals, etc., involved is broader than needed, while the space for dollars and cents is too crowded for large entries.

On Schedule R for computing retirement income, which is admittedly exceedingly intricate, the tax worker is further harassed by computing sur-tax on normal tax after retirement income credit, then jumping back to the full normal tax for adding with the surtax all in a one column computation. It seems that retirement credit limitation could be limited simply to the rule that retirement credit cannot be given to reduce taxes or tax basis below zero.

The tedious error producing set of calculations as outlined on the present form might be improved with an offset or inset short column.

The depreciation blocks in most all forms, particularly the partnership form, are too skimpy. The partnership form block for expenses of operation for no discernible reason, has a different order than that of Schedule "D". Such inconsistency interferes with smooth tax work. The method of determining cost of goods on the partnership form is dropped to the bottom from where the figure has to be brought back to the top of the form to be re-entered. This flash-back arrangement is disruptive.

As indicated above, the waste of time goes deeper than fault in arrangement and grouping on the forms. There is a terrific waste of time caused by the law as interpreted in compelling splitting of depreciation items even small items, on monthly basis as of the time the article is acquired. I once had an item that cost 11.00 and some odd cents, say \$11.27, it was durable and had at least 8 years life and it was bought in August. At that time the regulation called for 7% investment credit which credit was to be subtracted from the depreciation base so we came up with an adjusted base of \$10.48, then $10.48 - 8 = 1.31$ annual depreciation. $1.31 \times 5/12$ then gave us 55¢ for 5 months. After about a year and a half the regulations were changed so that 79¢ was to be added back and computation made, say to depreciate the 79¢ in 6 years and 7 months so as to terminate on the August 1st, 8 years after the article was put in use.

On large articles splitting on month may be justified but for small articles the time involves at fair wage or salary rates approaches and may surpass not only the amount of taxes but the value of the article involved. I suggest that any article costing less than \$100.00 bought prior to October 1st, may be set as of the first of the year. That any article costing less than \$500.00 can be set up on Jan. 1st, July 1st, or Jan. 1st of the next year, whichever is nearer. The above is an off-cuff suggestion, other parties might improve on the language, dates or figures.

The department has been hard nosed in pressuring small business men and women to go to accrual accounting if they use an inventory. This increases difficulty of record keeping and accounting. Moreover to compel a small business man to pay taxes on sales when he has not received and may never receive the money works a hardship on him. For he may have to borrow money to meet his wholesale bills and may also be forced to borrow to pay taxes on promises to pay years later.

There is great inconsistency between the tough attitude toward the small business man and the gracious leniency to the oil interests. Again to speak of investment credit, except to give a boost to sale in times of recession, the provision is inflationary and probably has contributed to the dangerous cheapening of our money.

The rule permitting capital gain at 50% on articles held only six months is adaptable to tax dodging and not justified as necessary to keep ones capital intact even in face of inflation. Prices do not double every six months.

One of the areas of bitterest dissent is the tendency of the non-allowance of travel costs to workers, particularly construction workers who drive 50 to 90 miles a day to odd work points, here, there and everywhere. These men resent the disallowance of these real work cost expenses when others get their meals and some live a bit lush because they stay overnight. Of course, what is reasonable depends on the circumstances. Still, driving to work is a work cost and eating is a cost anywhere, though with some differences.

The law and regulation requiring first a 1% of income cut out of drug expenses, then a 3% of income tax is work producing without basis and a general nuisance. People do not like the 1 and 3 percent provisions.

The surtax feature is work producing. If the country is going to require high taxes they may as well be set up in a single set of tables. Tax tables should be set up to \$12,000.00 at least so as to save time and errors.

It should be remembered that the income structure has caused such overhead accounting costs as to amount from 4% to 8% of the normal net profits of the business.

If Congress wants to learn the practical aspects of tax work they should interview practical tax workers such as Elmer Schneider of Murphysboro, Illinois or Powenski of the Treasury Department office at Herrin, Illinois. There are a lot of informed men who could give you help.

As the law stands now we have a confusion of credits and counter-credits. We permit a so-called earned income deduction then we add a surtax. These could both be eliminated by a new schedule of tax rates.

Very truly yours,

THEODORE V. BRADLEY,
Attorney at Law.

For the year January 1-December 31, 1969, or other taxable year beginning 1969, ending 19

First name and initial (If joint return, use first names and middle initials of both)	Last name	Your social security number
Present home address (Number and street or rural route)		Your occupation
City, town or post office, State and ZIP code		Spouse's social security number
Enter below name and address used on your return for 1968 (if same as above write "Same"). If none filed, give reason. If changing from separate to joint or joint to separate returns, enter 1968 names and addresses.		Spouse's occupation

Name and address of employer at time of filing

Your Filing Status— 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing joint return (even if only one had income) 3 <input type="checkbox"/> Married filing separate return and spouse is also filing a return. If this item checked give spouse's social security number in space provided above and enter first name here ▶	4 <input type="checkbox"/> Unmarried Head of Household 5 <input type="checkbox"/> Surviving widow(er) with dependent child 6 <input type="checkbox"/> Married filing separate return and spouse is not filing a return
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Your Exemptions

Check boxes for exemptions which apply

7a Yourself	Regular	65 or over	Blind	Enter number of boxes checked ▶
7b Spouse (applies only if line 2 or line 6 is checked)				

8 First names of your dependent children who lived with you

9 OTHER DEPENDENTS	(a) NAME—Enter figure 1 in the last column to right for each name listed (if more space is needed, use other side)	(b) Relationship	(c) Months lived in your home. See instructions, B-2.	(d) \$600 or more income?	(e) Support you furnished. If 100% write "ALL."	(f) Support furnished by dependent and others
					\$	\$

10 Total exemptions from lines 7, 8, and 9 above ▶

Your Income

11 Wages, salaries, tips, etc. (Attach Form W-2 to back. If unavailable, explain on back)	11	
12a Dividends [Total before exclusion] \$ [See item 2] 12b Less Exclusion \$ Balance ▶	12c	
13 Interest (Enter total here and if over \$100, also list in Schedule B, Part II)	13	
14 Other income: Total from attached schedules (check schedules used—C <input type="checkbox"/> , D <input type="checkbox"/> , E <input type="checkbox"/> , F <input type="checkbox"/>)	14	
15a Total [Add lines 11, 12c, 13 & 14] \$ 15b Less Adjustments [See 1040-1] \$ Adjusted Gross Income ▶	15c	

Your Tax and Surcharge

● If line 15c is \$5,000 or more, go to Schedule T, to figure tax and surcharge. (Omit lines 16 and 17.)
 ● Go to Sch. T to figure tax and surcharge if you itemize deductions; or claim retirement income credit, foreign tax credit, or investment credit; or if you owe self-employment tax or tax from recomputing prior year investment credit. (Omit lines 16 and 17.)
 ● If neither of above two items applies, go to Tax Tables instead of Sch. T. Complete lines 16, 17, & 18.

16 Tax from Tax Table (see tables on T-2 and T-3)	16	
17 Tax surcharge on line 16 (see T-1 for tax surcharge tables)	17	
18 Enter total of lines 16 and 17 OR amount from Schedule T, line 18, if applicable (check if from Tax Table A <input type="checkbox"/> , B <input type="checkbox"/> , C <input type="checkbox"/> ; Tax Rate Sch. <input type="checkbox"/> , Sch. D <input type="checkbox"/> or Sch. G <input type="checkbox"/>)	18	

Your Credits

19 Total Federal income tax withheld (attach Forms W-2 to back)	19	
20 Excess F.I.C.A. tax withheld (two or more employers—see R-2)	20	
21 <input type="checkbox"/> Nonhighway Federal gasoline tax, Form 4136; <input type="checkbox"/> Reg. Inv., Form 2439	21	
22 1969 Estimated tax payments (Include 1968 overpayment allowed as a credit)	22	
23 Total (add lines 19, 20, 21, and 22)	23	

Balance Due or Refund

24 If line 18 is larger than line 23, enter BALANCE DUE. Pay in full with return	24	
25 If line 23 is larger than line 18, enter OVERPAYMENT	25	
26 Line 25 to be: (a) Credited on 1970 estimated tax ▶ \$; (b) Refunded ▶ \$		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Sign here ▶ Your signature Date Spouse's signature (if filing jointly, BOTH must sign even if only one had income)	Signature of preparer other than taxpayer, based on all information of which he has any knowledge. Date Address 18-60389-1
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Please attach Copy B of Form W-2 to back

Please attach Check or Money Order here

We've combined Forms 1040 and 1040A:

There are nearly 75 million people who file income tax returns. They have different kinds of income, different kinds of deductions, credits, and exclusions. No one form can possibly suit all of them. That's why we have developed a new return system that takes the place of both the old Form 1040 and the old Form 1040A. It is a building-block system. You start with a basic one-page form (still called Form 1040). Nearly half of the taxpayers will need no other forms. The other half will add special schedules or forms only as they need them.

Attach Copy B
of Form W-2 here

How to Prepare Your Return

- Fill out the new Form 1040—whether or not you need to attach any schedules. Usually you can file a complete return on the one-page form, if:
 - All your income was from wages, dividends (not more than \$100), and interest (not more than \$100), AND you have no adjustments for:
 - Sick pay
 - Moving expenses
 - Employee business expenses
 - Payments as a self-employed person to a retirement plan, AND
 - You do not itemize deductions.
- Add the following schedule(s) as required—
 1. **Schedule A if you:**
 - Itemize deductions.
 2. **Schedule B if you:**
 - Have gross dividends and other distributions on stock in excess of \$100.
 - Have interest income in excess of \$100.
 3. **Schedule C if you:**
 - Have income (or loss) from a business (other than a farm) to include in line 14.
 4. **Schedule D if you:**
 - Have gains (or loss) from sales or exchanges of property to include in line 14.
 5. **Schedule E if you have income from:** (To include in line 14.)
 - Pensions or annuities
 - Rents or royalties,
 - Partnerships, estates or trusts, small business corporations, or miscellaneous sources.
 6. **Schedule F if you:**
 - Have farm income (or loss) to include in line 14.
 7. **Schedule G if you:**
 - Claim the benefits of income averaging.
 8. **Schedule R if you:**
 - Claim a retirement income credit.
 9. **Schedule SE if you:**
 - Report net earnings from self-employment.
 10. **Schedule T if you:**
 - Are subject to self-employment tax,
 - Are subject to tax from recomputing prior year investment credit,
 - Claim a retirement income credit
 - Claim investment credit
 - Claim foreign tax credit.

● Income adjustments—

Line 15b.—Your income can be reduced by the following adjustments:

- Sick pay (attach Form 2440)
- Moving Expenses (attach Form 3903)
- Employee business expenses (attach Form 2106)
- Payments to self-employment retirement plans (attach Form 2950SE).

● Rules for IRS computation of tax—

If line 15a is under \$5,000 and consisted only of wages subject to withholding and not more than \$200 of dividends, interest, and nonwithheld wages, and you are not claiming any adjustments on line 15b, you can have IRS figure your tax by omitting lines 16, 17, 18, 20, 21, 22, 23, 24, 25, and 26 (but complete line 19). If you are filing a joint return, show husband's income and wife's income separately in the space to the right of line 15c. Identify husband's income by marking (H) and wife's income by marking (W).

Note: If the IRS figures your tax and surcharge, the law does not permit the IRS to allow you the benefits of: (1) the retirement income credit, (2) head of household or surviving spouse status, and (3) minimum standard deduction, if you are married and filing a separate return. If you are entitled to any of these benefits, it is to your advantage to figure your own tax and surcharge.

Addresses of Internal Revenue Offices

If you are located in:	Send your return to:
Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee	Internal Revenue Service Center 4800 Buford Highway Chamblee, Georgia 30006
Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia	Internal Revenue Service Center 11601 Roosevelt Boulevard Philadelphia, Pennsylvania 19155
Indiana, Kentucky, Michigan, Ohio, West Virginia	Internal Revenue Service Center Cincinnati, Ohio 45298
Arkansas, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas, Wyoming	Internal Revenue Service Center 3651 S. Interregional Highway Austin, Texas 78740
Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington	Internal Revenue Service Center 1150 West 1200 South St. Ogden, Utah 84405
Illinois, Iowa, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Wisconsin	Internal Revenue Service Center 2305 E. Bannister Road Kansas City, Missouri 64170
Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	Internal Revenue Service Center 310 Lowell Street Andover, Massachusetts 01812
Panama Canal Zone, American Samoa, Guam	Director of International Operations Internal Revenue Service Washington, D.C. 20225
Puerto Rico (or if excluding income under section 933)	Director of International Operations
Virgin Islands: Non-permanent residents	U.S. Internal Revenue Service Ponce de Leon Ave. and Bolivia St. Hato Rey, Puerto Rico 00917
Virgin Islands: Permanent residents	Department of Finance, Tax Division Charlotte Amalie St. Thomas, Virgin Islands 00801

U.S. citizens with foreign addresses (except A.P.O. and F.P.O.) and those excluding income under sec. 911 or 931: file with Director of International Operations, Internal Revenue Service, Washington, D.C. 20225.

If you claim more than two dependents on line 9, show the required information below. You may also use this space to explain a missing Form W-2.

**SCHEDULE T
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Tax Computation

1969

▶ If no entry is made on line 14, line 16, or line 17, keep this for your records
▶ If entry is made on line 14, line 16, or line 17, attach to form 1040

Name as shown on Form 1040

Social Security Number

1 Your adjusted gross income (from line 15c, Form 1040)		
<i>Note.</i> —If your adjusted gross income is less than \$5,000 and you choose to take the standard deduction instead of itemizing your deductions, omit lines 2, 3, 4, and 5. Find your tax in the appropriate table (A or B on T-2 or C on T-3). Enter tax on line 6 below.		
2 Enter on the line at the right the amount of your deduction figured under one of the following methods:		
a If you itemize deductions, enter the total from Schedule A, line 17		} Enter the larger of b(1) or b(2) on the line at the right. If your spouse files a separate return, determine your deduction in the same manner that she (he) has.
OR		
b Figure your standard deduction as follows:		
(1) Enter 10 percent of line 1 but do not enter more than \$1,000 (\$500 if married and filing separately)	\$	
(2) Enter the sum of: \$200 (\$100 if married and filing separately) plus \$100 for each exemption claimed in line 10 of Form 1040, but do not enter more than \$1,000 (\$500 if married and filing separately)	\$	
3 Subtract the amount on line 2 from the amount on line 1 and enter the balance here		
4 Enter number of exemptions claimed on line 10, Form 1040, Multiply this number by \$600, and enter the amount here		
5 Subtract the amount on line 4 from the amount on line 3 and enter the balance here. This is your taxable income. Figure tax on this amount by using the appropriate Tax Rate Schedule (I, II, or III) on T-1. Enter tax on line 6 below		
6 Tax		
7 If you claim the retirement income credit, enter amount from Schedule R, line 12, here		
8 Subtract line 7 from line 6		
9 Tax surcharge. If line 8 is less than \$735, find surcharge from tax surcharge tables on T-1. If line 8 is \$735 or more, multiply amount on line 8 by .10 and enter result here		
10 Total (Add lines 6 and 9)		
11 Retirement income credit from Schedule R, line 17 (attach Schedule R)		
12 Investment credit (attach Form 3468)		
13 Foreign tax credit (attach Form 1116)		
14 Total credits (add lines 11, 12, and 13)		
15 Income tax (subtract line 14 from line 10)		
16 Self-employment tax (attach Schedule SE)		
17 Total from recomputing prior-year investment credit (attach Form 4255)		
18 Total tax (add lines 15, 16, and 17). Enter here and on line 18, Form 1040 (make no entry on line 16 or 17, Form 1040). Attach Sch. T to Form 1040 only if you made an entry on line 14, 16, or 17 above		

Income Averaging.—If your income has increased substantially this year, it may be to your advantage to figure your tax before surcharge under the "averaging method." Obtain Schedule G from an Internal Revenue Service office for full details.

Alternative Tax.—It will usually be to your advantage to use the alternative tax if your net long-term capital gain exceeds your net short-term capital loss, or if you have a net long-term capital gain only, and you are filing (a) a separate return with taxable income exceeding \$26,000, or

(b) a joint return, or as a surviving husband or wife, with taxable income exceeding \$52,000, or (c) as a head of household with taxable income exceeding \$38,000.

Line 9—Tax Surcharge.—The rate for the calendar year 1969 is 10 percent. The tax surcharge is an addition to the regular income tax. See the Tax Surcharge Tables on T-1.

Credit for Foreign Taxes and Tax-Free Covenant Bonds.—You may claim these credits only if you itemize deductions.

To claim tax-free covenant bonds credit, enter the amount of credit above line 14, and write "covenant bonds" to left of the entry.

Line 16—Self-Employment Tax.—Enter amount shown on line 9, Part III, Schedule SE.

Line 17—Tax From Recomputing Prior Year Investment Credit.—Enter the amount by which the credit taken in a prior year or years exceeds the credit as recomputed due to early disposition of property. Attach Form 4255.

Instructions for Schedule A (Form 1040)—1969

Itemized vs. Standard Deduction.—Deductions may be itemized for medical and dental expenses, certain taxes, charitable and other contributions, interest expense, casualty losses, child care, and other items described here. If you take the standard deduction, you will get an amount equal to 10 percent of the income you report on line 15c of Form 1040, but not less than \$200 plus \$100 for each exemption claimed on line 10 of Form 1040 (subtract \$100 if married and filing separately). The maximum standard deduction is \$1,000 (\$500 if married and filing separately).

Medical and Dental Expenses

You can deduct, within the limits of lines 1, 3 and 7, the amounts you paid during the year (not compensated by hospital, health or accident insurance, or otherwise) for medical or dental expenses for yourself, your wife, or any dependent who received over half of his support from you whether or not the dependent had \$600 or more income.

If you pay someone for both nursing and domestic duties, you can deduct only the nursing cost.

You Can Deduct Payments To or For.—Physicians, dentists, nurses, and other professional practitioners; drugs or medicines; hospitals; transportation necessary to get medical care; eyeglasses, artificial teeth, medical or surgical appliances, braces, etc.; X-ray examinations or treatment; premiums on hospital or

medical insurance; and meals and lodging if part of cost of care in a hospital or similar institution.

You Cannot Deduct Payments For.—Funeral expenses and cemetery plot; illegal operations or drugs; travel ordered or suggested by your doctor for rest or change; premiums on life insurance; cosmetics.

Medical Care Insurance.—You can deduct an amount equal to one-half of the insurance premiums paid (but not more than \$150) without regard to the limitation on line 7. The other one-half, plus any excess over the \$150 limit, is deductible subject to the 3 percent limitation shown on line 7. The \$4 monthly payments for supplementary medical insurance under "Medicare" are deductible, but the hospital insurance benefits tax that is included as part of the social security tax and withheld from wages or paid on self-employment income is not deductible.

The 1 percent and 3 percent limitations (see lines 3 and 7) apply in all cases, regardless of your age, or the age of your wife or other dependents.

Taxes

You can deduct general State or local retail sales taxes if they are imposed directly upon the consumer, or if they are imposed on the retailer (or wholesaler in case of gasoline taxes) and the amount of the tax is separately stated by the retailer. In certain cases, you may also deduct State or local selective sales

or excise taxes, even though not part of a general sales tax (or tax similar to a general sales tax), if imposed at the general rate of that tax. Average general sales tax tables are provided.

If the amount you paid for your automobile tags is based on the value of the automobile, you can deduct the part based on the value of the automobile as personal property tax.

If you had any other deductible tax which does not fall in one of the five categories shown, describe the tax and enter below "Personal property."

Deduct business Federal taxes, or any taxes paid in connection with a business or profession in Schedules C, E, or F.

You Can Deduct.—Real estate taxes; State and local gasoline taxes; general sales taxes; State and local income taxes; and personal property taxes.

You Cannot Deduct.—Any Federal excise taxes on your personal expenditures, such as taxes on transportation, telephone, gasoline, etc.; Federal social security taxes; hunting licenses, dog licenses; auto inspection fees, tags, drivers licenses; water taxes; taxes you paid for another person; alcoholic beverages, cigarette, and tobacco taxes; or selective sales or excise taxes (such as those on admissions, room occupancy, etc.) even if they are separately stated or imposed on the purchaser, unless imposed at the same rate as the general sales tax.

In general, you cannot deduct taxes assessed for pavements or other improvements, including front-foot benefits, which tend to increase the value of your property.

State Gasoline Tax Table

You may figure the deduction for State tax on gasoline used in your car by using the following table that is based on information available as of August 15, 1969. If all or part of your mileage was driven in a four-cylinder (or less) car, the deduction for that mileage should be one-half of the table amount.

If you can establish that you paid a larger amount, you are entitled to deduct that amount. Find the rate of gasoline tax for your State in the list below. The rate of gasoline tax changed in 1969, find the deduction for mileage driven at each rate, and add the two amounts.

Alabama 7¢	Dist. of Col. 7¢	Kentucky 7¢	Montana 6.5¢	North Dakota 6¢	Tennessee 7¢
Alaska 8¢	Florida 7¢	Louisiana 7¢	after June 30, 7¢	after June 30, 7¢	Texas 5¢
Arizona 7¢	Georgia 5.5¢	after January 5, 8¢	Nevada 7.5¢	Utah 6¢	
Hawaii 7.5¢	Hawaii 5.5¢	Maine 7¢	Nevada 6.5¢	Oklahoma 6.5¢	after June 30, 7¢
California 7¢	Idaho 7¢	after June 30, 8¢	New Hampshire 7¢	Oregon 7¢	Vermont 8¢
9¢ from June 1	Illinois 6¢	Maryland 7¢	New Jersey 7¢	Pennsylvania 7¢	Virginia 7¢
to Sept. 1,	after July 31, 7.5¢	Massachusetts 6.5¢	New Mexico 7¢	Rhode Island 8¢	Washington 9¢
Colorado 6¢	Indiana 6¢	Michigan 7¢	New York 7¢	South Carolina 7¢	West Virginia 7¢
after May 31, 7¢	after March 31, 8¢	Minnesota 7¢	North Carolina 7¢	South Dakota 5¢	Wisconsin 7¢
Connecticut 7¢	Iowa 7¢	Mississippi 7¢	after June 30, 9¢	after June 30, 7¢	Wyoming 6¢
after June 30, 8¢	Kansas 5¢	Missouri 5¢			after June 30, 7¢
Delaware 7¢	after June 30, 7¢				

Nonbusiness Mileage Driven	RATE PER GALLON							Nonbusiness Mileage Driven	RATE PER GALLON						
	5¢	6¢	6.5¢ & 6.58¢	7¢	7.5¢	8¢	9¢		5¢	6¢	6.5¢ & 6.58¢	7¢	7.5¢	8¢	9¢
Under 3,000	\$7	\$9	\$9	\$10	\$11	\$11	\$13	10,000 to 10,999	\$38	\$45	\$48	\$53	\$56	\$60	\$68
3,000 to 3,499	12	14	15	16	17	19	21	11,000 to 11,999	41	49	53	57	62	66	74
3,500 to 3,999	13	16	17	19	20	21	24	12,000 to 12,999	45	54	58	63	67	71	80
4,000 to 4,499	15	18	20	21	23	24	27	13,000 to 13,999	48	58	63	67	72	80	
4,500 to 4,999	17	20	22	24	25	27	31	14,000 to 14,999	52	62	67	72	77	83	
5,000 to 5,499	19	23	24	26	28	30	34	15,000 to 15,999	55	66	72	77	83	100	
5,500 to 5,999	21	25	27	29	31	33	37	16,000 to 16,999	59	70	77	83	88	106	
6,000 to 6,499	22	27	29	31	33	36	40	17,000 to 17,999	63	75	82	88	94	113	
6,500 to 6,999	24	29	31	34	36	39	43	18,000 to 18,999	66	79	86	92	99	119	
7,000 to 7,499	26	31	34	36	39	41	47	19,000 to 19,999	70	84	91	98	104	125	
7,500 to 7,999	28	33	36	39	42	44	50	20,000 miles*	71	86	93	100	107	114	
8,000 to 8,499	29	35	38	41	44	47	53								
8,500 to 8,999	31	38	41	44	47	50	56								
9,000 to 9,499	33	40	43	46	50	53	59								
9,500 to 9,999	35	42	45	49	52	56	63								

* For over 20,000 miles, use table amounts corresponding to total mileage driven. For example, for 25,000 miles, add the deduction for 5,000 to the deduction for 20,000 miles.

Contributions

You Can Deduct Gifts to.—(a) Religious, charitable, educational, scientific or literary organizations, and organizations for the prevention of cruelty to children or animals, unless the organization is operated for personal profit, or a substantial part of its activities consists of propaganda or attempting to influence legislation.

(b) Fraternal organizations if the gifts are

to be used for charitable, religious, etc., purposes.

(c) Certain veterans' organizations.

(d) Governmental agencies that will use the gifts exclusively for public purposes, including civil defense.

Civil defense volunteers may deduct unreimbursed expenses paid for gasoline and other expenses of participation in official civil defense activities.

Contribution may be made in cash (checks, money orders, etc.) or property (not

services). If in property, give description of the property, date of gift, and method of valuation except for securities. In addition, for each gift valued at more than \$200, state any conditions attached to the gift; manner of acquisition and cost or other basis if owned by you less than 5 years; and attach a signed copy of appraisal, if any. Publication 561, Valuation of Donated Property, furnishes information and guidelines relative to appraisals

(Continued on A-2) **A-1**

(Continued from A-1)

of contributed property. A special rule is provided to determine the amount deductible in the case of a gift of depreciable property described in sections 1245 and 1250 of the Internal Revenue Code. (See instructions on D-1 for definition of sections 1245 and 1250 property.) Generally, a charitable deduction for a transfer of a future interest in tangible personal property is not allowed until the entire interest has been transferred.

The deduction for contributions may generally not exceed 20 percent of line 15c, Form 1040. An additional 10 percent is allowable for contributions to churches, a convention or association of churches, tax-exempt educational institutions, tax-exempt hospitals, certain medical research organizations, certain college or university endowment associations, and organizations referred to in paragraph (e) that are "publicly supported," as well as organizations referred to in paragraph (d) on A-1. Attach computation.

If your contributions exceed 30 percent of line 15c, Form 1040, consult an Internal Revenue Service office for a possible carryover deduction. If you have contributions carried over from a prior year or years, enter them on line 13, Schedule A, Attach computation.

If you supported a student in your home under a written agreement with a charitable or educational institution, you may be entitled to deduct as a contribution part or all of the amounts you spent to maintain him.

You Can Deduct Gifts To.—Churches, including assessments paid; Salvation Army, Red Cross, and CARE, United Funds and Community Chests; nonprofit schools and hospitals; certain veterans' organizations; Boy Scouts, Girl Scouts, and other similar organizations; and nonprofit organizations primarily engaged in research or education for the alleviation and cure of diseases and disabilities such as asthma, cancer, cerebral palsy, cystic fibrosis, diseases of the heart, diabetes, hemophilia, mental illness and mental retardation, multiple sclerosis, muscular dystrophy, poliomyelitis, tuberculosis, etc.

You Cannot Deduct Gifts To.—Relatives, friends, or other individuals; foreign organizations; political organizations or candidates; social clubs; labor unions; chambers of commerce; or propaganda organizations.

Interest Expense

You Can Deduct Interest On.—Such non-business items as your personal note to a bank or an individual; a mortgage on your home; a life insurance loan (if interest is paid in cash); and delinquent taxes; on Schedule A. Interest paid on business debts should be reported in the separate schedule in which your business income is reported. For additional information concerning interest expenses including "Points," see Publication 545, Income Tax Deduction for Interest Expense.

You Cannot Deduct Interest On.—Indebtedness of another person when you are not legally liable for payment of the interest; a gambling debt or other nonenforceable obligation; a life insurance loan, if interest is added to the loan and you report on the cash basis.

Do not deduct interest paid on money borrowed to buy tax-exempt securities or single-premium life insurance. Do not include such items as carrying charges and insurance, which are not deductible, and taxes that may be deductible but which should be itemized separately.

If interest charges are not stated separately on installment purchases of personal property (such as automobiles, televisions, etc.), you may deduct an amount equal to 6 percent of the average unpaid monthly balance.

Miscellaneous Deductions

Care of Children and Other Dependents.—Subject to certain limitations, expenses paid for the care of children and certain other dependents are deductible if the purpose of such care is to enable you to be gainfully employed or to actively seek gainful employment. To qualify for the deduction, you must be a woman or a widower (including a man who is divorced or legally separated under a decree and who has not remarried) or a husband whose wife is incapacitated or is institutionalized for at least 90 consecutive days or a shorter period if she dies.

Limitations.—This deduction is not to exceed a total of \$600 for one dependent or \$900 for two or more dependents and must be for the care of:

(a) dependent children under 13 years of age; or

(b) dependent persons (excluding husband or wife) physically or mentally incapable of caring for themselves;

For a married woman, the deduction is allowed if:

(a) she files a separate return because she has been deserted by her husband, does not know, and did not know his whereabouts at any time during the year, and has applied to a court to compel him to pay support or otherwise to comply with the law or a judicial order; or

(b) she files a joint return with her husband, in which case the deduction is reduced by the amount (if any) by which their combined income on Form 1040, line 15c, exceeds \$6,000. This limitation does not apply to expenses incurred while the husband is incapable of self-support due to mental or physical incapacity.

In case of a husband whose wife is incapacitated, the deduction is allowed if he files a joint return with his wife. Then, the deduction is reduced by the amount (if any) by which their combined income on Form 1040, line 15c, exceeds \$6,000. This limitation does not apply to expenses incurred if the wife is institutionalized for at least 90 consecutive days, or for a shorter period if she dies.

Do not deduct any child care payments to a person for whom you claim an exemption.

If the person who receives the payment performs duties not related to dependent care, you may deduct only that part of the payment which is for dependent care.

Attach Form 2441, or a statement setting forth all pertinent information.

Casualty Losses and Thefts.—You can deduct a net loss resulting from the destruction of your property in a fire, storm, automobile accident, shipwreck, or other losses caused by natural forces, limited to the amount in excess of \$100 for each loss. Damage to your car by collision or accident can be deducted if due to faulty driving, but cannot be deducted if due to your willful act or willful negligence. You can also deduct losses due to theft, but not losses due to mislaying or losing articles.

The amount of loss to be deducted is measured by the fair market value of the property just before the casualty, less its fair market value immediately after the casualty (but not more than the cost or other adjusted

basis of the property), reduced by any insurance or compensation received and the \$100 limitation. Attach a detailed explanation of each casualty.

You Can Deduct Losses On.—Property such as your home, clothing, or automobile destroyed or damaged by fire; property, including cash, which is stolen; property lost or damaged by flood, lightning, storm, explosion, or freezing.

You Cannot Deduct Losses On.—Personal injury to yourself or another person; accidental loss of cash or other personal property; property lost in storage or in transit; damage by rust, gradual erosion or deterioration; or animals or plants damaged or destroyed by disease.

Expenses for Education.—You may deduct expenses for education if they are not personal expenditures or do not constitute an inseparable aggregate of personal and capital expenditures and are for education which:

(a) Maintains or improves skills required in your employment or other trade or business, or

(b) Meets the express requirements of your employer, or the requirements of applicable law or regulations, imposed as a condition to the retention of your established salary, status, or employment.

Expenses incurred for education which: (a) is required in order to meet the minimum educational requirements for qualification in an employment or other trade or business; or (b) is part of a program of study being pursued which will lead to qualifying for a new trade or business, are personal expenses or constitute an inseparable aggregate of personal and capital expenditures, and, therefore, are not deductible.

The rules for reporting deductible education expenses are the same as those on E-2 for employee business expenses. (See Publication 508, Tax Information on Educational Expenses.)

Other.—You can deduct several other types of expenses under "Miscellaneous deductions."

If you work for wages or a salary, you can deduct your ordinary and necessary employee business expenses that you have not claimed on line 15b, Form 1040.

You can deduct all ordinary and necessary expenses connected with the production or collection of income, or for the management or protection of property held for the production of income.

If you are divorced or legally separated and are making periodic payments of alimony or separate maintenance under a court decree, you can deduct these amounts. Periodic payments made under either (a) a written separation agreement entered into after August 16, 1954, or (b) a decree for support entered after March 1, 1954, are also deductible. Such payments must be included in the wife's income. You cannot deduct any voluntary payments not made under a court order or a written separation agreement, lump-sum settlements, or specific maintenance payments for support of minor children.

You may deduct gambling losses only to the extent of gambling winnings.

You can deduct cost of safety equipment, tools, and supplies used in your job; dues to unions or professional societies; business entertainment; and fees to employment agencies for securing employment.

You Cannot Deduct Cost Of.—Travel to and from work or entertaining friends.

Instructions for Schedule B (Form 1040)—1969

Part I

Dividend Income

Line 1—Gross Dividends and Other Distributions on Stock.—If you own stock, you must report any payments (dividends) you receive out of the company's earnings and profits. Usually dividends are paid in cash, but if paid in merchandise or other property they are taxable at their fair market value.

If you received gross dividends and other distributions as a stockholder (including capital gain dividends and nontaxable distributions) in excess of \$100, list in line 1, Part I, Schedule B the gross amounts received. If \$100 or less, Schedule B is not required. Include gross amounts received either directly or through a nominee or other intermediary, as a member of a partnership or as a beneficiary of an estate or trust. If you received dividends through a nominee or other intermediary, list his name.

Dividends from mutual insurance companies which are a reduction of premiums are not to be included. So-called "dividends" paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions on deposits or withdrawable accounts are earnings (interest) and should be reported as interest.

Special rules apply to stock dividends, liquidations, stock rights, conversions and redemptions. They are discussed in Publication 550, Tax Information on Investment Income and Expenses.

Line 3—Capital Gain Distributions.—Enter on this line all capital gain dividends. Also include any amounts received as return of capital which exceed the cost (or other basis) of your stock.

B-1

even though such amounts are designated as nontaxable distributions by the paying corporations. The amounts included on this line must also be included in line 1, Part I, Schedule B, and reported on the appropriate lines of separate Schedule D.

Line 4—Nontaxable Distributions.—Enter on this line the total of nontaxable distributions (return of capital) not included in line 3. Amounts reported here cannot exceed the cost (or other basis) of your stock in paying corporations since amounts received in excess of cost (or other basis) are taxable as gains and must be reported on separate Schedule D as indicated in line 3, above. Any amount entered on line 4 must also be included in line 1, Part I, Schedule B.

Dividends Exclusion

You may exclude on Form 1040, line 12b, up to \$100 of dividends received from qualifying domestic corporations.

If a joint return is filed and both husband and wife have dividend income, each may exclude up to \$100 of dividends received from qualifying corporations. However, neither of them may use any portion of the \$100 exclusion not used by the other. For example, if the husband had \$300 in dividends, and the wife had \$20, only \$120 may be excluded.

Taxable dividends from the following corporations do not qualify for the dividends received exclusion:

(a) Foreign corporations, including your share from a controlled foreign corporation.

(b) So-called exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.

(c) Regulated investment companies except to the extent designated by the company to be taken into account as a dividend for these purposes.

(d) Real estate investment trusts.

(e) China Trade Act corporations.

(f) Corporations deriving 80 percent or more of their income from U.S. possessions and 50 percent or more of their income from the active conduct of a business therein.

Part II

Interest Income

You must report any interest you received or which was credited to your account (whether entered in your pass-book or not) and which you can withdraw. If you received interest in excess of \$100, list payers and amounts in Part II, Schedule B. Interest on bonds, debentures, notes, savings accounts, or loans is taxable, except on State and municipal bonds and securities. Interest received on tax refunds is taxable and must be included in your return.

If you own United States Savings bonds, the gradual increase in value of each bond is interest, but you need not report this interest until you cash the bond or until the year of final maturity, whichever is earlier. You may at any time elect to report each year the annual increase in value. However, if you do so, you must report in the first year the entire increase to date on all such bonds, and must continue to report the annual increase each year.

Interest on certain industrial development bonds issued after April 30, 1968, is taxable unless the bonds are part of an issue of \$1,000,000 or less and substantially all the proceeds are used (1) to acquire, construct, reconstruct or improve land or depreciable property or (2) to redeem all or part of a prior bond issue that was issued to acquire, construct, reconstruct or improve land or depreciable property. For bonds issued after October 24, 1968, a \$5,000,000 tax-exempt limitation may be applied in certain situations. The bond issuer will be able to tell you if the increased limitation applies.

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Sales or Exchanges of Property

- ▶ See instructions on D-1 and D-2.
- ▶ If you use this schedule, attach it to Form 1040.

1969

Name as shown on Form 1040

Social Security Number

Part I—CAPITAL ASSETS—Short-term capital gains and losses—assets held not more than 6 months

a. Kind of property. Indicate security, real estate, or other (Specify)	b. Description (Examples: 100 sh. of "Z" Co., 2 story brick, etc.)	c. How acquired. Enter letter symbol (See instr.)	d. Date acquired (mo., day, yr.)	e. Date sold (mo., day, yr.)	f. Gross sales price	g. Depreciation allowed (or allowable) since acquisition	h. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	i. Gain or loss (f plus g less h)
1								
2 Enter your share of net short-term gain (or loss) from partnerships and fiduciaries								
3 Enter unused short-term capital loss carryover from preceding taxable years (attach statement)								
4 Net short-term gain (or loss) from lines 1, 2, and 3 *								

Long-term capital gains and losses—assets held more than 6 months (12 months or more for certain livestock)

5 Enter gain from Part II, line 3

--	--	--	--	--	--	--	--	--

Total long-term gross sales price

- 6a Enter your share of net long-term gain (or loss) from partnerships and fiduciaries
- 6b Enter your share of net long-term gain from small business corporations (Subchapter S)
- 7 Enter unused long-term capital loss carryover from preceding taxable years (attach statement)
- 8 Capital gain dividends
- 9 Net long-term gain (or loss) from lines 5, 6a, 6b, 7, and 8
- 10 Combine the amounts shown on lines 4 and 9, and enter the net gain (or loss) here
- 11 IF LINE 10 SHOWS A GAIN—Enter 50% of line 9 or 50% of line 10, whichever is smaller. (Enter zero if there is a loss or no entry on line 9.) (See reverse side for computation of alternative tax.)
- 12 Subtract line 11 from line 10. Enter here and in Part IV, line 1, on reverse side
- 13 IF LINE 10 SHOWS A LOSS—Enter here and in Part IV, line 1, the smallest of: (a) line 10; (b) line 3, Sch. T., (line 15c, Form 1040, if tax table used) computed without capital gains or losses; or (c) \$1,000 *

Part II—GAIN FROM DISPOSITION OF DEPRECIABLE PROPERTY UNDER SECTIONS 1245 AND 1250—assets held more than 6 months (see instructions on D-1 for definitions)



Where double headings appear, use the first heading for section 1245 and the second heading for section 1250.

a. Kind of property and how acquired (if necessary, attach statement of descriptive details not shown below—arts 1245 or 1250 to indicate type of asset)		b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale
1					
f. Depreciation allowed (or allowable) since acquisition		g. Adjusted basis (e less sum of f-1 and f-2)		h. Total gain (d less g)	i. Ordinary gain (lessor of f-2 or h) OR (see instructions)
f-1. Prior to January 1, 1962	f-2. After December 31, 1961				j. Other gain (h less i)
OR	OR				
Prior to January 1, 1964	After December 31, 1963				

- 2 Total ordinary gain. Enter here and in Part IV, line 2, on reverse side *
- 3 Total other gain. Enter here and in Part I, line 5; however, if the gains do not exceed the losses when this amount is combined with other gains and losses from section 1231 property enter the total of column j in Part III, line 1

Schedule D (Form 1040) 1969

Part III—PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property and how acquired (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowed) since acquisition	f. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	g. Gain or loss (d plus e less f)
1 Enter gain from Part II, line 3						
2 Enter your share of partnership and fiduciary gain (or loss) from property other than capital assets						
3 Net gain (or loss) from lines 1 and 2. Enter here and in Part IV, line 3.						

Part IV—TOTAL GAINS OR LOSSES FROM SALE OR EXCHANGE OF PROPERTY

1 Net gain (or loss) from Part I, line 12 or 13	
2 Total ordinary gain from Part II, line 2	
3 Net gain (or loss) from Part III, line 3	
4 Total net gain (or loss), combine lines 1, 2, and 3. Enter here and include in total on line 14, Form 1040.	

COMPUTATION OF ALTERNATIVE TAX—It will usually be to your advantage to use the alternative tax if the net long-term capital gain exceeds the net short-term capital loss, or if there is a net long-term capital gain only, and you are filing (a) a separate return with taxable income exceeding \$26,000, or (b) a joint return, or as a surviving husband or wife, with taxable income exceeding \$52,000, or (c) as a head of household with taxable income exceeding \$38,000.

1 Enter the amount from Schedule T, line 5	
2 Enter amount from Part I, line 11, on reverse side	
3 Subtract line 2 from line 1	
4 Enter tax on amount on line 3 (use applicable tax rate schedule on T-1)	
5 Enter 50% of line 2	
6 Alternative tax (add lines 4 and 5). If smaller than the tax figured on the amount on Schedule T, line 5, enter this alternative tax on Schedule T, line 6. Also check Schedule D box on Form 1040, line 13	

INSTRUCTIONS (References are to the Internal Revenue Code)

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY.—Report details in appropriate part or parts.

In column (c) of Part I and column (a) of Parts II and III use the following symbols to indicate how the property was acquired: "A" for purchase on the open market; "B" for exercise of stock option or through employee stock purchase plan; "C" for inheritance or gift; "D" for exchange involving carryover of prior asset basis; and "E" for other.

"Capital assets" defined.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business) but does NOT include—

- (a) stock in trade or other property of a kind properly includable in his inventory if on hand at the close of the taxable year;
- (b) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;
- (c) property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 167;
- (d) real property used in the trade or business of the taxpayer;
- (e) certain government obligations issued on or after March 1, 1941, at a discount, payable without interest and maturing at a fixed date not exceeding 1 year from date of issue;
- (f) certain copyrights, literary, musical, or artistic compositions, etc.; or
- (g) accounts and notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property referred to in (a) or (b) above.

Special rules apply to dealers in securities for determining capital gain or ordinary loss on the sale or exchange of securities. Certain real property subdivided for sale may be treated as capital assets. Sections 1236 and 1237.

If the total distributions to which an employee is entitled under an employee's pension, bonus, or profit-sharing trust plan, which is exempt from tax under section 501(a), are paid to the employee in one taxable year, on account of the employee's separation from service, the aggregate amount of such distribution, to the extent it exceeds the amounts contributed by the employee, shall be treated as a long-term capital gain. (See section 402(a).)

Gain on sale of depreciable property between husband and wife or between a shareholder and a "controlled corporation" shall be treated as ordinary gain.

Gains and losses from transactions described in section 1231 shall be treated as gains and losses from the sale or exchange of capital assets held for more than 6 months if the total of these gains exceeds the total of these losses. If the total of these gains does not exceed the

total of these losses, such gains and losses shall not be treated as gains and losses from the sale or exchange of capital assets. Thus, in the event of a net gain, all these transactions should be entered in Part I of Schedule D. In the event of a net loss, all these transactions should be entered in Part III of Schedule D, or in other applicable schedules on Form 1040.

- Section 1231 deals with gains and losses arising from—
- (a) sale, exchange, or involuntary conversion, of land (including in certain cases unharvested crops sold with the land) and depreciable property if they are used in the trade or business and held for more than 6 months.
 - (b) sale, exchange, or involuntary conversion of livestock held for draft, breeding, or dairy purposes (but not including poultry) and held for 1 year or more.
 - (c) the cutting of timber or the disposal of timber, coal, or domestic iron ore, to which section 631 applies, and
 - (d) the involuntary conversion of capital assets held more than 6 months.

See sections 1231 and 631 for specific conditions applicable. **Gain from disposition of depreciable property under sections 1245 and 1250—assets held more than 6 months (Part II).**—(Report any gain from such property held for 6 months or less in Part III.) Except as provided below section 1245 property means depreciable (a) personal property (other than livestock) including intangible personal property; (b) tangible real property (except for buildings and their structural components) if used as an integral part of manufacturing, production, or extraction, or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services, or used as a research or storage facility in connection with these activities; and (c) elevators and escalators.

Except as provided below section 1250 property means depreciable real property (other than section 1245 property).

See sections 1245(b) and 1250(d) for exceptions and limitations involving: (a) disposition by gift; (b) transfers at death; (c) certain tax-free transactions; (d) like-kind exchanges, involuntary conversions; (e) sales or exchanges to effectuate FCC policies and exchanges to comply with S.E.C. orders; (f) property distributed by a partnership to a partner; and (g) disposition of principal residence (section 1250 only).

Column f of Part II.—In computing depreciation allowed or allowable for elevators or escalators, enter in column f-1 depreciation prior to July 1, 1963, and in column f-2 depreciation after June 30, 1963.

(Instructions continued on D-2)

Schedule D (Form 1040) 1969

Part III—PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property and how acquired (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowed) since acquisition	f. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	g. Gain or loss (d plus e less f)
1 Enter gain from Part II, line 3						
2 Enter your share of partnership and fiduciary gain (or loss) from property other than capital assets						
3 Net gain (or loss) from lines 1 and 2. Enter here and in Part IV, line 3						

Part IV—TOTAL GAINS OR LOSSES FROM SALE OR EXCHANGE OF PROPERTY

1 Net gain (or loss) from Part I, line 12 or 13	
2 Total ordinary gain from Part II, line 2	
3 Net gain (or loss) from Part III, line 3	
4 Total net gain (or loss), combine lines 1, 2, and 3. Enter here and include in total on line 14, Form 1040	

COMPUTATION OF ALTERNATIVE TAX—It will usually be to your advantage to use the alternative tax if the net long-term capital gain exceeds the net short-term capital loss, or if there is a net long-term capital gain only, and you are filing (a) a separate return with taxable income exceeding \$26,000, or (b) a joint return, or as a surviving husband or wife, with taxable income exceeding \$52,000, or (c) as a head of household with taxable income exceeding \$38,000.

1 Enter the amount from Schedule T, line 5	
2 Enter amount from Part I, line 11, on reverse side	
3 Subtract line 2 from line 1	
4 Enter tax on amount on line 3 (use applicable tax rate schedule on T-1)	
5 Enter 50% of line 2	
6 Alternative tax (add lines 4 and 5). If smaller than the tax figured on the amount on Schedule T, line 5, enter this alternative tax on Schedule T, line 6. Also check Schedule D box on Form 1040, line 18	

INSTRUCTIONS (Continued from D-1)

Column i of Part II, section 1250 property only.—If held for more than 6 months, but not more than 1 year, enter the smaller of (1) column h, or (2) column f-2.

If held for more than 1 year, enter the result of multiplying the smaller of (1) column h, or (2) column f-2 less the amount of depreciation computed for the same period using the straight line method,

by the percentage obtained by subtracting from 100%, one percentage point for each full month held in excess of 20 months.

Where substantial improvements have been made within the preceding 10 years, see section 1250(f).

Basis.—In determining gain or loss use cost, except as specially provided. The basis of property acquired by gift after December 31, 1920, is the cost or other basis to the donor in the event of gain, but, in the event of loss, it is the lower of either such donor's basis or the fair market value on date of gift. If a gift tax was paid with respect to property received by gift, see section 1015(d). Generally, the basis of property acquired by inheritance is the fair market value at the date of death. For special cases involving property acquired from a decedent, see section 1014.

Installment sales.—If you sold personal property for more than \$1,000 or real property regardless of amount, you may be eligible to report any gain under the installment plan if (1) there is no payment in the year of sale, or (2) the payments in the year of sale do not exceed 30 percent of the selling price. Such sales must provide for 2 or more payments in 2 or more taxable years. The election must be made in the year of sale even though no payment was received in that year. See section 453. For treatment of a portion of payments as "unstated interest" on deferred payment sales, see section 483.

Sale of personal residence.—Tax on a portion or all of the gain from the sale of your principal residence may be deferred if:

- (a) within 1 year after (or before) the sale, you purchase another residence and use it as your principal residence; or
- (b) within 1 year after (or before) the sale, you begin construction of a new residence and use it as your principal residence not later than 18 months after the sale.

If you sold property for \$20,000 or less on or after your 65th birthday which was owned and used by you as your principal residence for at least 5 of the last 8 years any gain on the sale need not be included in income. If the property was sold for more than \$20,000

part of the gain must be taken into income. See Publication 523, Tax Information on Selling Your Home.

Nonbusiness debts.—If a debt, such as a personal loan, becomes totally worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months. Enter such loss in column (i) and describe in column (b), Part I. This does not apply to: (a) a debt evidenced by a corporate security with interest coupons or in registered form and (b) a debt acquired in your trade or business.

Limitation on allowable capital losses.—If line 10, Part I, shows a net loss, the loss shall be allowed as a deduction, only to the extent of the smaller of (1) line 3, Schedule T (or line 15c, Form 1040 if tax table is used), computed without capital gains (losses), or (2) \$1,000. The excess of such allowable loss over the lesser of items (1) and (2) above is called "capital loss carryover." Any such carry-over loss may be carried forward indefinitely. Capital losses retain their character as either short-term or long-term when carried over to the succeeding year. To the extent the net capital losses are deducted from ordinary income, the net short-term capital loss must be considered as deducted first.

Losses in transactions between certain persons.—No deduction is allowable for losses from sales or exchanges of property directly or indirectly between (a) members of a family, (b) a corporation and an individual (or a fiduciary) owning more than 50 percent of the corporation's stock (liquidations excepted), (c) a grantor and fiduciary of any trust, (d) a fiduciary and a beneficiary of the same trust, (e) a fiduciary and a fiduciary or beneficiary of another trust created by the same grantor, or (f) an individual and a tax-exempt organization controlled by the individual or his family. Partners and partnerships see section 707(b).

Long-term capital gains from regulated investment companies.—Include in income as a long-term capital gain the amount you are notified on Form 2439 which constitutes your share of the undistributed capital gains of a regulated investment company. Include the tax paid by the company as shown on the Form 2439 with the amount claimed on Form 1040, line 21. Add to the basis of your stock, the excess of the amount included in income over the credit.

Losses on small business stock.—If you had a loss on section 1244 stock which would (but for that section) be treated as a loss from the sale or exchange of a capital asset, it shall be treated as a loss from the sale or exchange of an asset which is not a capital asset to the extent provided in that section.

Instructions for Schedule E (Form 1040)

Part I.—Pensions and Annuities

Amounts received from annuities, pensions, endowments, or life insurance contracts, whether paid for a fixed number of years or for life, may have a portion of the payment excluded from income. The following types come under this rule: (a) pensions where the employee has either contributed to its cost or has been taxed on his employer's contributions, and (b) amounts paid for a reason other than the death of the insured under an annuity, endowment, or life insurance contract.

General Rule for Annuities.—Generally, amounts received from annuities and pensions are included in income in an amount which is figured upon your life expectancy. This computation and your life expectancy multiple can be found in the regulations covering annuities and pensions. Once you have obtained the multiple it remains unchanged. It is not necessary to recompute your excludable portion each year. In making this computation you can get help from the Internal Revenue Service as well as from some employers and insurance companies.

Special Rule for Certain Types of Employees' Annuities.—A special rule applies for amounts received as annuity payments if part of the cost is contributed by the employer and if the amount contributed by the employee will be returned within three years from the date of the first payment received under the contract. If both of these conditions are met, then all the payments received under the contract during the first three years are to be excluded from income until the employee recovers his cost (the amount contributed by him, plus the contributions made by the employer on which the employee was previously taxed). Thereafter, all amounts received are fully taxable. This method of computing taxable income also applies to the employee's beneficiary if the employee died before receiving any annuity or pension payments.

Example: An employee received \$200 a month from an annuity. While he worked, he contributed \$4,925 toward the cost of the annuity. His employer also made contributions toward the cost of the annuity for which the employee was not taxed. The retired employee would be paid \$7,200 during the first three years, which amount exceeds his contribution of \$4,925. He would exclude from income all the payments received from the annuity until he has received \$4,925. All payments received thereafter are fully taxable.

Death Benefit Exclusion.—If you receive pension or annuity payments as a beneficiary of a deceased employee, and the employee had received no retirement pension or annuity payments, you may be entitled to a death benefit exclusion of up to \$5,000. (For details see Publication 524, Retirement Income and Retirement Income Credit.)

Part II.—Rent and Royalty income

Rents.—If you are not engaged in selling real estate, but receive rent from property you own or control, report the total in column 2, Part II, Schedule E. If you received property other than money as rent, report its fair market value.

In the case of buildings you can deduct depreciation. You can also deduct all ordinary and necessary expenditures on the property,

such as taxes, interest, repairs, insurance, agent's commissions, maintenance, and similar items. However, you cannot deduct capital investments or improvements, but must add them to the basis of the property for the purpose of depreciation. For example, a landlord can deduct the cost of minor repairs, but not the cost of major improvements such as a new roof or remodeling. You cannot deduct the value of your own labor.

If You Rent Part of Your House.—If you rent out only part of your property, you can deduct only that portion of your expenses which relates to the rented part. If you cannot determine these expenses exactly, you may figure them on a proportionate basis. For example, if you rent out half of your home and live in the other half, you can deduct only half of the depreciation and other expenses.

Do not report in column 2, Part II, Schedule E, room and other space rentals for which you rendered service to the occupant. Report the rentals received in separate Schedule C. If you are engaged in the business of selling real estate, you should also report rentals received in separate Schedule C.

Royalties.—Report in column 3 royalties from oil, gas or mineral properties, and royalties from copyrights and patents. However, if you hold an operating oil, gas, or mineral interest, report gross income and expenses in separate Schedule C. Under certain circumstances, amounts received on the disposal of coal and iron ore may be treated as the sale of a capital asset. (See Publication: 544, Sales, and Exchanges of Assets.)

If State or local taxes were withheld from oil or gas payments you received, report in column 3 the gross amount of royalty, and include the taxes withheld by the producer in column 5, other expenses.

Part III.—Partnerships, Etc.

Partnerships.—If you are a member of a partnership, joint venture, or the like, include in Part III, Schedule E, your share of the ordinary income (whether you actually received it or not), or the net loss for the taxable year which ends within or with the year covered by your return. However, losses are only allowed to the extent of the adjusted basis of your partnership interest at the end of the partnership year in which the losses occurred.

Items of income, deductions, etc., to be carried to your individual return are shown in Schedule K of the partnership return. You should enter on the appropriate lines and schedules of your return your share of income from the following sources:

Dividends from qualifying domestic corporations.

Salaries and interest paid by the partnership. Gains from the sale or exchange of capital assets and certain other property.

Also, include your share of the specially allocated income and deduction items.

The individual partner must include his distributive share of partnership income (or loss) from the operation of a trade or business which constitutes net earnings from self-employment on separate Schedule SE. Members of farm partnerships should complete Part II of Schedule SE first to figure self-employment tax. For further details see

Publication 541, Tax information on Partnership Income and Losses.

Small Business Corporations.—If you are a shareholder in a small business corporation which elects to have its current taxable income taxed to its stockholders, you should report your share of both the distributed and undistributed current taxable income as ordinary income in Part III, Schedule E, except that portion which is reportable in separate Schedule D as a long-term capital gain. Neither type of income is eligible for the dividends exclusion. Shareholders claiming a deduction for a net operating loss must attach to their return a computation of the adjusted basis of their stock in the corporation and the adjusted basis of any indebtedness of the corporation to the shareholders. See sections 1374 and 1376 and the regulations thereunder for limitation on deduction and required adjustments.

Estates and Trusts.—If you are a beneficiary of an estate or trust, report your taxable portion of its income, whether you receive it or not. You should enter your share of income of the following classes on the appropriate lines and schedules of your return:

Dividends from qualifying domestic corporations.

Gains from the sale or exchange of capital assets and certain other property.

You should include all other taxable income from estates and trusts in this Part. Any depreciation which is allocable to you on estate or trust property may be subtracted from estate or trust income so that only the net income received will be included in your return. You may get information regarding these items from the fiduciary.

Miscellaneous Income.—Report here certain types of income for which you cannot find a specific place on your return or related schedules. The source of income reported here must be identified in column (a). Report here amounts received as alimony, separate maintenance, prizes and awards; also, recoveries of bad debts and other items which reduced your tax in a prior year. A refund of State income tax should also be entered here. The general rule is that a refund of State income tax is income to the taxpayer if a deduction resulting in a Federal tax benefit was taken for a prior year. Taxpayers using the cash basis report the refund in the year received; taxpayers using the accrual basis report when the claim is allowed. If no claim is filed, report when the taxing authority notifies you of the overpayment.

Net Operating Loss.—If, in 1969, your business or profession lost money, or you had a casualty loss, or a loss from the sale or other disposition of depreciable property or real property used in your trade or business, you can apply the losses against your 1969 income. If the losses exceed your income, the excess is a "net operating loss." Generally it may be used to offset your income for the three years prior to and the five years following this year. The loss must be carried back to the third prior year and any remaining balance brought forward to each succeeding year. If a "carry-back" entitles you to a refund, use Form 1045 to claim a quick refund.

If you had a loss in a prior year which may be carried over to 1969, you should enter it as a "minus" figure under "Miscellaneous income." Attach computation.

IG-8038T-1

**SCHEDULE R
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Retirement Income Credit

▶ See instructions on R-1.

▶ If you use this schedule, attach it to Form 1040.

1969

Name as shown on Form 1040

Social Security Number

A. General Rule.—If separate return, use column B only.

If joint return, use column A for wife and column B for husband.

Did you receive earned income in excess of \$600 in each of any 10 calendar years before 1969?

(Widows or widowers see instructions on R-1)

If answer above is "Yes" in either column, furnish all information below in that column.

1 Retirement income for taxable year:

(a) For taxpayers under 65 years of age:

Enter only income received from pensions and annuities under public retirement systems (e.g. Fed., State Govts., etc.) included on Form 1040, line 15c

(b) For taxpayers 65 years of age or older:

Enter total of pensions and annuities, interest and dividends included on Form 1040, line 15c, and gross rents from Part II, column 2 of Schedule E

2 Maximum amount of retirement income for credit computation

3 Deduct:

(a) Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income

(b) Earned income received (Does not apply to persons 72 years of age or over):

(1) Taxpayers under 62 years of age, enter amount in excess of \$900

(2) Taxpayers 62 or over but under 72, enter amount determined as follows:

if \$1,200 or less, enter zero

if over \$1,200 but not over \$1,700, enter 1/2 of amount over \$1,200;

or if, over \$1,700, enter excess over \$1,450

4 Total of lines 3(a) and 3(b)

5 Balance (subtract line 4 from line 2)

6 Line 5 or line 1, whichever is smaller

7 (a) Total (add amounts on line 6, columns A and B)

If line 7(a) is less than \$2,286 and this is a joint return and both husband and wife are age 65 or over, complete the Alternative Computation in B below which may result in a larger credit.

(b) Amount from line 7 of part B below, if applicable

8 Tentative credit. Enter 15% of line 7(a) or 15% of line 7(b), whichever is greater

9 Amount of tax shown on Schedule T, line 6

10 Credit claimed for foreign taxes or tax-free covenant bonds

11 Subtract line 10 from line 9 (if less than zero, enter zero)

12 Enter here and on Schedule T, line 7, the amount on line 11 or line 8, whichever is smaller

13 Enter here the Tax Surcharge From Schedule T, line 9

14 Add lines 12 and 13

15 If line 10 is greater than line 9, enter excess here

16 Subtract line 15 from line 14 (if less than zero, enter zero)

17 Credit. Enter here and on Schedule T, line 11, the amount shown on line 16 or line 8, whichever is smaller.

	A	B
Did you receive earned income in excess of \$600 in each of any 10 calendar years before 1969?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
1 Retirement income for taxable year:		
(a) For taxpayers under 65 years of age:		
(b) For taxpayers 65 years of age or older:		
2 Maximum amount of retirement income for credit computation	\$1,524.00	\$1,524.00
3 Deduct:		
(a) Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income		
(b) Earned income received (Does not apply to persons 72 years of age or over):		
(1) Taxpayers under 62 years of age, enter amount in excess of \$900		
(2) Taxpayers 62 or over but under 72, enter amount determined as follows:		
if \$1,200 or less, enter zero		
if over \$1,200 but not over \$1,700, enter 1/2 of amount over \$1,200;		
or if, over \$1,700, enter excess over \$1,450		
4 Total of lines 3(a) and 3(b)		
5 Balance (subtract line 4 from line 2)		
6 Line 5 or line 1, whichever is smaller		
7 (a) Total (add amounts on line 6, columns A and B)		
7 (b) Amount from line 7 of part B below, if applicable		
8 Tentative credit. Enter 15% of line 7(a) or 15% of line 7(b), whichever is greater		
9 Amount of tax shown on Schedule T, line 6		
10 Credit claimed for foreign taxes or tax-free covenant bonds		
11 Subtract line 10 from line 9 (if less than zero, enter zero)		
12 Enter here and on Schedule T, line 7, the amount on line 11 or line 8, whichever is smaller		
13 Enter here the Tax Surcharge From Schedule T, line 9		
14 Add lines 12 and 13		
15 If line 10 is greater than line 9, enter excess here		
16 Subtract line 15 from line 14 (if less than zero, enter zero)		
17 Credit. Enter here and on Schedule T, line 11, the amount shown on line 16 or line 8, whichever is smaller.		

B. Alternative Computation (after completing lines 1 through 7(a) above)

This method available if:

- a. You are married and filing a joint return;
- b. Both husband and wife are 65 or over, AND
- c. Either one, or both, received earned income in excess of \$600 in each of any 10 calendar years before 1969.

Furnish the information called for below for both husband and wife even if only one answered "Yes" in column A or B above.

1 Retirement income of both husband and wife from pensions and annuities, interest, and dividends included on Form 1040, line 15c, and gross rents from Part II, column 2 of Schedule E

2 Maximum amount of retirement income for credit computation

\$2,286.00

3 Deduct:

(a) Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income

(b) Earned income received (Does not apply to persons 72 or over):

if \$1,200 or less, enter zero

if over \$1,200 but not over \$1,700 enter 1/2 of amount over \$1,200; or

if over \$1,700, enter excess over \$1,450

4 Total of lines 3(a) and 3(b)

5 Total (add amounts on line 4, columns A and B)

6 Balance (subtract line 5 from line 2)

7 Enter here and on line 7(b) of part A above, the amount on line 6 or line 1, whichever is smaller

	A—WIFE	B—HUSBAND
1 Retirement income of both husband and wife from pensions and annuities, interest, and dividends included on Form 1040, line 15c, and gross rents from Part II, column 2 of Schedule E		
2 Maximum amount of retirement income for credit computation		
3 Deduct:		
(a) Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities), and certain other exclusions from gross income		
(b) Earned income received (Does not apply to persons 72 or over):		
if \$1,200 or less, enter zero		
if over \$1,200 but not over \$1,700 enter 1/2 of amount over \$1,200; or		
if over \$1,700, enter excess over \$1,450		
4 Total of lines 3(a) and 3(b)		
5 Total (add amounts on line 4, columns A and B)		
6 Balance (subtract line 5 from line 2)		
7 Enter here and on line 7(b) of part A above, the amount on line 6 or line 1, whichever is smaller		

Instructions for Schedule R (Form 1040)—1969

Retirement Income Credit

You may qualify for this credit, which is generally 15 percent of retirement income, if you received earned income in excess of \$600 in each of any 10 calendar years—not necessarily consecutive—before the beginning of your taxable year.

The maximum amount allowed any one individual as a credit against his income tax is \$228.60 (15% × \$1,524). The maximum allowable credit on a joint return where both husband and wife show \$1,524 on part A, line 6, columns A and B, is \$457.20.

The term "earned income" means wages, salaries, professional fees, etc., received as compensation for personal services actually rendered. It does not include any amount received as an annuity or pension. If you were engaged in a trade or business in which both personal services and capital were material income-producing factors, a reasonable allowance as compensation for the personal services you rendered, not in excess of 30 percent of your share of the net profits of such business, shall be considered as earned income.

Both husband and wife may take the retirement income credit if both qualify and both have retirement income. If you are a surviving widow

(widower) and have not remarried, you may use the earned income of your deceased husband (wife), or you may combine his (her) earned income with yours to determine if you qualify for the credit.

Retirement income for the purpose of the credit means—

(a) In the case of a person who is not 65 before the end of his taxable year, only income received from pensions and annuities under a public retirement system (one established by the Federal government, a State, county, city, etc.) which is included in income in his return:

Disability annuities received by Federal employees prior to normal retirement age that exceed the sick pay exclusion do not qualify as retirement income.

(b) In the case of a person who is 65 or over before the end of his taxable year, income from pensions, annuities, interest, rents and dividends that are included in gross income in his return. (Gross income from rents for this purpose means gross receipts from rents without reduction for depreciation or any other expenses. Royalties are not considered rents for this purpose.)

Except as provided in the "Alternative computation," the amount

of the retirement income used for the credit computation may not exceed \$1,524 reduced by: (a) Any amount received and excluded from income as a pension or annuity under the Social Security Act and Railroad Retirement Acts (but not supplemental annuities) and other tax-exempt pensions or annuities. Line 3(a), General Rule and Alternative Computation, must reflect the gross amount of social security benefits before deduction of any amounts withheld to pay medicare insurance premiums. This reduction does not include (1) that part of a pension or annuity which is excluded from income because it represents, in effect, a return of capital or tax-free proceeds of a like nature, or (2) amounts excluded from income received as compensation for injury or sickness or under accident or health plans. (b) Certain adjustments for earned income.

Alternative Computation. — The maximum amount of retirement income to be used in figuring the credit for retirement income is \$2,286 for taxpayers who file joint returns (both 65 years of age or over) but who would otherwise be limited to \$1,524 because either the husband or wife did not have earned income in excess of \$600 in each of any 10 prior calendar years.

If you meet these requirements, also complete the Alternative Computation to determine which computation results in the larger credit.

FORM 2119 (Rev. Feb. 1965) U.S. Treasury Department Internal Revenue Service	STATEMENT CONCERNING SALE OR EXCHANGE OF PERSONAL RESIDENCE (Attach this schedule to your income tax return Form 1040)	Taxable year
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Name and address of taxpayer

1. Date former residence sold 2a. Date new residence bought b. If new residence was constructed for you, date construction began c. Date you occupied new residence d. Were both the old and new properties used as your principal residence? Yes No e. Were any rooms in either residence rented or used for business purposes at any time? (If "Yes," explain on separate sheet and attach.)	f. If you were married, do you and your wife (husband) have the same proportionate ownership interest in your new residence as you had in your old residence? (If "No," see the Consent on other side.) Yes No 3a. Were you 65 or older on date of sale? (If you answered "Yes," see Note below.) Yes No b. If you answered "Yes" to 3a, did you use the property sold as your principal residence for a total of at least 5 years (except for short temporary absences) during the 8-year period preceding the sale? Yes No c. If you answered "Yes" to 3b, do you wish to elect to exclude gain on the sale from your gross income? Yes No
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COMPUTATION OF GAIN AND ADJUSTED SALE PRICE

4. Selling price of residence (Do not include selling price of personal property items)	
5. Less: Commissions and other expenses of sale (from Schedule I on other side)	
6. Amount realized	
7. Less: Basis of residence sold (from Schedule II on other side)	
8. Gain on sale (line 6 less line 7). If line 7 is more than line 6, there is no gain, and no further entries should be made on this form.	
9. Fixing-up expenses (from Schedule III on other side)	
10. Adjusted sales price (line 6 less line 9)	

If you answered "No" to question 3a or 3c, complete only lines 11 through 14.
 If you answered "Yes" to question 3c, complete lines 15 through 17, or 15 through 20, whichever is applicable.

COMPUTATION OF GAIN TO BE REPORTED AND ADJUSTED BASIS OF NEW RESIDENCE—GENERAL RULE

11. Cost of new residence	
12. Gain taxable this year (line 10 less line 11, but not more than line 8). If line 11 is more than line 10, enter zero. Enter here and in column i, line 1, or line 5, Part I of Schedule D (Form 1040), whichever is applicable	
13. Gain on which tax to be deferred (line 8 less line 12)	
14. Adjusted basis of new residence (line 11 less line 13)	

COMPUTATION OF EXCLUSION, GAIN TO BE REPORTED AND ADJUSTED BASIS OF NEW RESIDENCE—SPECIAL RULE
 (For use of taxpayers 65 years of age or over who checked "Yes," in 3(c) above.)

15. If line 10 above is \$20,000 or less, the entire gain shown on line 8 is excludable from gross income. If line 10 is over \$20,000, determine the portion of the gain excludable as follows:	
a. Divide amount on line 10 into \$20,000	
b. Portion of gain excludable (multiply amount on line 8 by figure on line 15a) enter result here	
16. Portion of gain not excludable (line 8 less line 15b)	
17. Cost of new residence. If a new personal residence was not purchased, enter "None," and do not complete the following lines. The amount shown on line 16 should then be entered in column i, line 5, Part I of Schedule D (Form 1040)	
18. Gain taxable this year (line 10 less lines 15b and 17, but not more than line 16). If line 17 plus line 15b is more than line 10, enter zero. Enter here and in column i, line 5, Part I of Schedule D (Form 1040)	
19. Gain on which tax to be deferred (line 16 less line 18)	
20. Adjusted basis of new residence (line 17 less line 19)	

NOTE: Special provision available if you were 65 or older on the date of the sale or exchange of your principal residence. If you met the age requirement and owned and used the residence disposed of as your principal residence for a total of 5 years out of the 8 years preceding the

sale, you may elect to exclude part or all of the gain from such sale. If a joint return is filed only the husband or wife need meet the age requirement. You are only eligible for the exclusion once. This is true regardless of your marital status at the time the election is made.

**CONSENT OF HUSBAND AND WIFE TO APPLY SEPARATE GAIN
ON SALE OF OLD RESIDENCE TO BASIS OF NEW RESIDENCE**

NOTE: The following Consent need not be completed if there was no gain on the sale of the old residence. If, however, there was a gain, and if the ownership interests of the husband and wife in the old and new residences were not in the same proportion, the separate gain on the sale of the old residence will be separately taxable to the husband or wife unless this Consent is filed.

	HUSBAND'S PORTION	WIFE'S PORTION
Adjusted sales price of old residence (From line 10).....	\$	\$
Cost of new residence (From line 11 or 17).....	\$	\$

The undersigned taxpayers, husband and wife, consent to have the basis of the joint or separate interest in the new residence reduced by the amount of the joint or separate gain on the sale of the old residence which is not taxable solely by reason of the filing of this Consent.

SIGNATURE OF HUSBAND	DATE
SIGNATURE OF WIFE	DATE

SCHEDULE I—COMMISSIONS AND OTHER EXPENSES OF SALE (Line 5)

This includes sales commissions, advertising expenses, attorney and legal fees, etc., incurred to effect the sale of the old residence. Enter the name and address of the payee and the date of payment for each item.

ITEM EXPLANATION	AMOUNT
	\$

SCHEDULE II—BASIS OF OLD RESIDENCE (Line 7)

This includes the original cost of the property to the taxpayer, commissions, and other expenses incurred in its purchase, the cost of improvements, etc., less the total of the depreciation allowed or allowable (if any), all casualty losses previously allowed (if any), and the nontaxable gain (if any) on the sale or exchange of a previous personal residence.

ITEM EXPLANATION	AMOUNT
	\$

SCHEDULE III—FIXING-UP EXPENSES (Line 9)

These are decorating and repair expenses which were incurred solely to assist in the sale of the old property, and which are not ordinarily deductible in computing taxable income nor taken into account in computing the basis of the old residence or the amount realized from its sale. Fixing-up expenses must have been incurred for work performed within 90 days before the contract to sell was signed, and must have been paid for not later than 30 days after the sale.

ITEM EXPLANATION	DATE WORK PERFORMED	DATE PAID	AMOUNT
			\$